

# KAMEHAMEHA SCHOOLS ANNUAL REPORT

July 1, 2008 - June 30, 2009

## KAMEHAMEHA SCHOOLS' OUTREACH CONTINUES TO GROW

*More than 44,400 learners served in fiscal year 2009 by the legacy of Princess Pauahi*

Despite a global economic recession that deflated Kamehameha Schools' endowment by \$2.2 billion, Kamehameha continued to extend its reach into the Hawaiian community by serving more than 44,400 learners through its preschools, campus programs, community education programs, scholarships and collaborations with community partners.

The number of learners served represents a 16 percent increase over the previous year as Kamehameha completed the fourth year of its 10-year Education Strategic Plan.

"Year four of the Education Strategic Plan was to be the start of our evaluation phase, yet we continued to increase our reach to learners, parents and caregivers," said Kamehameha Schools CEO **Dee Jay Mailer**.

"As we move forward into year five of the plan, we will continue to measure the impact of our educational programs and services in order to improve and assure that we are moving our mission forward."

Kamehameha Schools' educational trust spending totaled \$258 million, including \$97 million (\$83 million in direct spending) on community outreach programs.

Trust spending was at 3.4 percent, down from 4.1 percent the previous year as Kamehameha took prudent measures to moderate spending during volatile economic times without compromising programs.

As of June 30, 2009, the fair market value of the Kamehameha Schools endowment was \$7.2 billion.

Since the inception of the Education Strategic Plan in 2005, Kamehameha Schools has now spent more than \$1.2 billion on trust spending including its campus and community outreach education programs.

Educational highlights for the fiscal year included:

- More than 1,500 students served in 84 Kamehameha preschool classrooms at 31 sites across the state
- More than 1,600 Pauahi Keiki Scholarships (PKS) awarded totaling \$10 million at 144 non-Kamehameha Schools preschools
- The awarding of 240 PKS Kindergarten Scholarships totaling \$1.2 million for Hawaiian students to attend other private schools
- Support for 17 Hawaiian-focused public charter schools totaling \$7.8 million in per-pupil funding
- \$18.2 million awarded to more than 2,700 students for post-high scholarships

Since the inception of the Education Strategic Plan in 2005, Kamehameha Schools has now spent more than \$1.2 billion on trust spending including its campus and community outreach education programs.

- More than \$29 million awarded in preschool and post-high scholarships representing an increase of nearly 23 percent over the previous year
- The education of approximately 5,300 students on three Kamehameha Schools campuses located at Kea'au, Hawai'i; Pukalani, Maui; and at Kapālama, O'ahu
- The adding of eight new sites to the Literacy Instruction & Support program where Kamehameha teachers go into the public schools with high concentrations of Hawaiian students. There are now 21 sites serving 218 K-3 classrooms.

"To achieve Ke Ali'i Pauahi's goals, we have to reach both inside and outside Kamehameha Schools' walls," said Chris Pating, Kamehameha vice president of Strategic Planning and Implementation. "Going forward, Kamehameha Schools will continue to focus on extending its outreach efforts in the areas of early childhood education and literacy improvement."

Organizational highlights for the year included:

- The unveiling of the Kaiāulu o Kaka'ako Master Plan in November of 2008. The plan calls for transforming 29 acres of Kamehameha's Kaka'ako lands into a vibrant, pedestrian-friendly and environmentally friendly sustainable urban village. The project received the blessing of the Hawai'i Community Development Authority in September of 2009.
- A May 2009 Gold Award of Excellence for the Kamehameha Schools Distance Learning program. The award recognized Kamehameha's program as one of the top ten distance learning programs in the country.

"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."



Hoaliku Drake Preschool student Jacquelynn Griep-Lima is one of the 1,500 students served by Kamehameha preschools in fiscal year 2009.

# KAMEHAMEHA SCHOOLS STEPS UP TO FACE ECONOMIC CHALLENGE

It is easy to see the fiscal year that ended June 30, 2009 as one of deficit. Certainly, it was challenging.

As with other large educational endowments, our portfolio was jarred by the shockwaves emanating from the global economic crisis. As you will read in this annual report, our Endowment returned a net loss of nearly 21 percent for the year, but remains on track from a long-term perspective.

In fact, our 10-year return is in striking distance of our long-term goal of exceeding inflation by 5 percentage points (1 percent for growth, 4 percent for spending), allowing us to protect Pauahi's assets and extend our reach over the long term.

In the midst of the economic turbulence, however, were significant and heartening gains.

- Four years into our Education Strategic Plan, Kamehameha Schools served 44,400 learners and their families through our campus and community programs and collaborations.
- We doubled the outreach of our successful Literacy Instruction and Support program, providing classroom support for keiki and their parents in 218 classrooms and 21 public schools.
- Our preschool graduates demonstrated the value of early education and parent involvement, performing in the top tiers of their classes as they reached their third-, fifth- and seventh-grade levels – whether they attend private schools or public schools.

Most impressive of all is the way our 'ohana joined hands and hearts to ho'omau, never losing sight of our mission to improve the capability and well-being of Native Hawaiians through education.

Most impressive of all is the way our 'ohana joined hands and hearts to ho'omau, never losing sight of our mission to improve the capability and well-being of Native Hawaiians through education.

Working together, staff, leadership and trustees trimmed budgets by a collective 10 percent, deferring long-planned capital projects and professional development opportunities to make sure that our educational commitments were fulfilled. Budgets were further reduced by maintaining 2008 salary levels and in some instances instituting pay reductions.

Our staff in Educational Support Services acted quickly to provide mid-year financial aid to haumāna whose families were affected by our declining local economy, while staff in our Commercial Real Estate Division worked with impacted tenants, whose economic vitality supports our educational mission.

As the year ended, we bid a fond "aloha" to trustee **Robert Kihune KSK '55**, who steered our ship with grace and devotion and we welcomed trustee **Micah Kāne KSK '87** who brings demonstrated knowledge of and commitment to Hawaiian well-being to our leadership.

We are now two-thirds of the way through our 2000-2015 Strategic Plan and have seen significant progress in achieving our goals. We have welcomed new expertise in land stewardship, water resource management and Hawaiian culture into our hale and we look forward to sharing that progress as we prepare to begin the next generation of planning to keep our trust operating solidly into perpetuity.

As we review the year that has passed, we are reminded of Pauahi's example.

Faced with the adversity that had befallen our people, Pauahi acted to restore Native Hawaiians to robust health. Her vision and spirit are alive in the haumāna ready and anxious to learn.

They are alive in the staff who practice ethical and prudent stewardship of our valuable resources, and who come to work every day with our mission in their hearts, no matter how great the challenge before us.

Me ka ha'aha'a,

#### Trustees

- J. Douglas Ing KSK '62
- Corbett A.K. Kalama
- Micah A. Kāne KSK '87
- Diane J. Plotts
- Nainoa Thompson

#### CEO

- Dee Jay Mailer KSK '70

## Kamehameha Schools Board of Trustees



J. Douglas Ing, Micah Kāne, Diane Plotts, Corbett Kalama and Nainoa Thompson.

## Kamehameha Schools Chief Executive Officer Team



**Dee Jay Mailer**  
Chief Executive Officer



**Kirk O. Belsby**  
Vice President for Endowment



**Ann Botticelli**  
Vice President for Community Relations and Communications



**D. Rodney Chamberlain, D.Ed.**  
Vice President for Campus Strategies



**Michael J. Chun, Ph.D.**  
President and Headmaster  
KS Kapālama



**Lee Ann DeLima**  
Headmaster  
KS Maui



**Randie Fong**  
Director, Hawaiian Cultural Development



**Stan Fortuna, Ed.D.**  
Headmaster  
KS Hawai'i



**Darrel Hoke**  
Director, Internal Audit



**Sylvia Hussey**  
Vice President for Educational Support Services



**Michael P. Loo**  
Vice President for Finance and Administration



**Kalei Stern**  
Vice President and Executive Director  
Ke Ali'i Pauahi Foundation



**Christopher J. Pating**  
Vice President for Strategic Planning and Implementation



**Colleen I. Wong**  
Vice President for Legal Services



“Whether they are middle school students moving through the Enrichment pipeline or they are Kamehameha Scholars in public high schools preparing for college and career opportunities, we’re seeing that students possess a greater sense of self-esteem, a greater sense of engagement in the learning process and a greater sense of Hawaiian identity when they receive Pauahi’s gift.”

– Nolan Malone, director, Research & Evaluation

## STUDIES SHOW KAMEHAMEHA COMMUNITY OUTREACH PROGRAMS HAVING POSITIVE IMPACT ON LEARNERS

Encouraging results are emerging reflecting the impact Kamehameha Schools is having in improving the well-being of Native Hawaiians four years into the organization’s Education Strategic Plan.

These impact findings are the results of the 2008-09 “evaluation phase” of the education plan, which included collaborative assessments of how effectively programs achieved their intended outcomes. Activities featured formal studies, directed data gathering, research projects and ongoing program monitoring.

Through consistent monitoring, review and assessment, Kamehameha’s Research & Evaluation group found the schools’ three-pronged approach to its education programs highly effective.

This approach involves the simultaneous engagement of haumāna, their parents and educators working collaboratively to achieve educational success.

Kamehameha’s Community-based Early Childhood Education (CBECE) division successfully demonstrated this model for researchers.

Combining developmentally appropriate content for young keiki with active participation opportunities for parents while supporting staff members in their professional development endeavors, CBECE set the stage for strong long-term impact among former Kamehameha Schools’ preschool students.

Kamehameha currently operates 31 preschools on five islands enrolling approximately 1,500 children. A preschool tracking study commissioned by Research & Evaluation showed promising results.

“Kamehameha preschool alumni actually fared in the top levels of math and reading at third grade, fifth grade and seventh grade in public schools,” said Dr. Nolan Malone, director of Research & Evaluation.

“This shows a sustained effect of how Kamehameha preschools helped to improve the outcomes of Native Hawaiian children in the public schools,” Malone added.

Other community education programs showed exceptional

results as well.

Kamehameha’s Enrichment Division, which channels students through its Explorations Series, received high marks from student learners.

*continued on page 5*

### Numbers Served Through Kamehameha Schools Programs and Collaborations

		FY 05-06	FY 06-07	FY 07-08	FY 08-09
SP1	Children Prenatal to 36 months	104	329	464	1,528
SP1	Center-based preschools	1,439	1,467	1,485	1,532
SP1	Preschool age children	1,094	1,845	1,924	2,879
SP1	K-3 grade in public schools	3,375	1,600	1,952	3,581
SP2	Supporting 4-12 grades, post-high and charter schools	12,043	14,235	15,993	15,833
SP3	Campuses	5,298	5,354	5,372	5,353
SP1-3	Caregiver training and support; support for families and caregivers of children PN-12 – community	4,686	10,776	10,989	13,695
<b>TOTAL NUMBER OF HAWAIIANS SERVED</b>		<b>28,039</b>	<b>35,606</b>	<b>38,179</b>	<b>44,401</b>

SP1 – Strategic Priority 1 of the KS Education Plan  
 SP2 – Strategic Priority 2  
 SP3 – Strategic Priority 3

## The Education Strategic Plan

Based on the Kamehameha Schools Strategic Plan 2000-2015, Kamehameha’s Education Strategic Plan offers a framework to create long-term, intergenerational change for Native Hawaiians via education.

The Education Strategic Plan advances Kamehameha Schools’ mission and features three strategic priorities. The first is to “Optimize and Build” for young learners ages prenatal to 8; then “Sustain the Educational Momentum” for learners in grade 4 through post-high school; the third priority is to “Innovate and Optimize” on Kamehameha campuses.

To read the plan in its entirety, please visit: [www.ksbe.edu/annualreports](http://www.ksbe.edu/annualreports).

## Community Collaborators Helping Kamehameha Schools Achieve Its Mission

In fiscal year 2009, Kamehameha Schools invested \$16.8 million in collaboration efforts with more than 45 community organizations located statewide to offer Native Hawaiians multiple opportunities to thrive through education.

The top six collaborators were Alu Like, Hawaiian-focused charter schools, the Hawai’i state Department of Education, INPEACE, Kanu O Ka ‘Āina Learning ‘Ohana and the University of Hawai’i.

“We know Kamehameha Schools cannot reach every Native Hawaiian student and their families on our own, so it’s important that we support our community partners who can, with much needed funding and in-kind support,” said Kamehameha CEO Dee Jay Mailer.

*continued on page 5*

“We learn from them every day, and they, in turn, help us move our mission forward.”

– Dee Jay Mailer, Kamehameha CEO

# LONG-TERM INVESTMENT STRATEGY HELPS KAMEHAMEHA WEATHER ROUGH FINANCIAL YEAR

by Kirk Belsby,  
Vice President for Endowment

What a fiscal year it was from mid-2008 to 2009!

We witnessed a 45 percent decline in the stock market (S&P 500) from July 2008 to the trough in March 2009, and were staggered at the collapse of a legion of banking firms, including Lehman Brothers, Merrill Lynch, Countrywide Mortgage and too many other others to mention.

While a healthy bounce in the stock market then quickly retraced some of the losses, the S&P 500 still recorded a net 26 percent decline over the fiscal year from July 1, 2008 to June 30, 2009.

A more poignant perspective on the events of this past fiscal year may be found in the oft quoted phrase “May you live in interesting times.” Little-known about this particular Chinese proverb is its placement as the first of three curses of increasing severity!

So, if watching half of your 401(k) evaporate overnight and feeling the pain of a substantial portion of your home equity disappear was not enough punishment, heed the two successor curses.

The second curse, “May you come to the attention of those in authority,” certainly sounds like



The newly renovated Pā'ina Ko'olau Food Court at Windward Mall recently received an honorable mention in the People's Choice Best Installation Contest by 3Form. Voters said they loved how the design duplicated the vibrant colors and natural elements found throughout the ahupua'a of He'eia. The Pā'ina Ko'olau Food Court was designed by Karen Sakamoto of Next Design, who selected the acrylic panels as an alternative to glass because they are made with 40 percent recycled content.

the proposed financial regulations that we are now watching unfold in the halls of Congress. The third and final curse is a bit less ominous – “May you find what you are looking for.”

To me, however, it sounds a lot like another proverb which tells us to “be careful what you wish for.”

The Kamehameha Schools Endowment was certainly not immune to the past year's events

One key benchmark that gives us confidence in our long-term strategy is the fact that even after the worst economic decline since the Great Depression we netted a return of 7.2 percent from 1999 through 2009, which is reasonably close to our long-term goal of consumer price index (rate of inflation) plus 5 percent.

as the overall portfolio value declined from \$9.4 billion in 2008 to \$7.2 billion at fiscal year-end in June 2009.

While we have certainly enjoyed a bounce in value since last summer, we still expect a long climb uphill to recapture lost values. As we critically analyze our performance, we are satisfied that our diversified approach to asset allocation and risk mitigation allowed us to beat benchmark returns during the long bull market, while maintaining liquidity and asset security during this recent fiscal crisis.

One key benchmark that gives us confidence in our long-term strategy is the fact that even after the worst economic decline since the Great Depression we

netted a return of 7.2 percent from 1999 through 2009, which is reasonably close to our long-term goal of consumer price index (rate of inflation) plus 5 percent.

Our Hawai'i real estate portfolio overall one-year returns reflected a net loss of 19 percent through fiscal year end, but achieved a much healthier 9.8 percent return over the past 10 years.

However, while we are now witnessing our financial securities portfolio recovering from a beating incurred in a lopsided one-round fight this past year, the Hawai'i real estate portfolio will likely remain in the ring for a couple more rounds these next few years.

*continued on page 5*

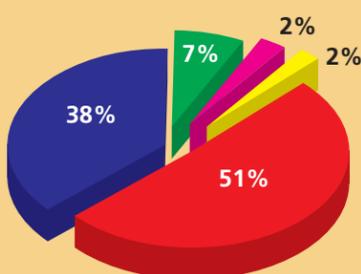


The \$900,000 improved Punalu'u Agricultural Water System will enable up to 8 million gallons of water a day for agriculture in Punalu'u in a manner which only takes what is needed while honoring native stream life like the 'o'opu, hihiwai and 'opae.

## Kamehameha Schools Trust Spending Fiscal Year 2009

Kamehameha Schools spending policy targets annual spending on education at 4.0 percent of the five-year average fair value of its Endowment. Spending in FY 2009 was 3.4 percent and allocated as follows:

Category	Amount
Campus-based Programs	\$131 million
Community Education and Scholarships	\$97 million
Major Repairs & Capital Projects	\$19 million
Other Programs and Support	\$6 million
Debt Financing and Other	\$5 million
<b>Total Trust Spending</b>	<b>\$258 million</b>



## Kamehameha Schools Investment Returns

Period ending June 30, 2009

	One-year total return	Three-year total return	Five-year total return	Ten-year total return
<b>Total Endowment</b>	<b>-20.9%</b>	<b>1.3%</b>	<b>6.5%</b>	<b>7.2%</b>
Endowment Fund Composite Benchmark	-25.2%	-5.4%	0.6%	2.7%
CPI + 5%	3.6%	7.1%	7.6%	7.6%
Large Endowment Fund Median <sup>+</sup>	-19.8%	-0.8%	4.8%	5.9%

<sup>+</sup> Source: Cambridge Associates

## Long-Term Investment Strategy Helps...

*continued from page 4*

Thus far we have held our own, but the weight of a sagging Hawai'i economy has obviously been detrimental to our tenant base, thereby placing downward pressure on rents and values.

Yet with all the troubling economic news we see in today's financial markets, there is much optimism in the Endowment division as we successfully continue to manage our asset base across four additional "currencies."

Our commitment to culture, education, environment and community has placed Kamehameha Schools as a leader in building and supporting sustainable communities in Hawai'i.

The 'Āina Ulu team hosted more than 38,000 community members as part of our place-based learning program. Further, Kamehameha's commitment to natural resources earned a national award from the U.S. Department of Interior for our participation in a watershed preservation partnership on Hawai'i island.

Our water resources group successfully restored water distribution systems in Kohala, Punalu'u, Kawaiiloa, and Kahoma. While the benefits of these actions will play out over several years, we already see much healthier stream flows and hundreds of acres of land that can now be farmed to produce food for our local communities.

On the commercial side, our retail experts completed the final phase of the rehabilitation of Windward Mall with a completely redesigned food court. Once a tired and outdated mall, it is now hopping with activity and has become a family favorite locale.

Within the urban core, our Kaka'ako Master Plan was embraced by the community and approved by the Hawai'i Community Development Authority – no small feat as we have all witnessed significant backlash against most every other major development plan proposed on O'ahu.

Our North Shore master plan was also completed and approved, with significant support in the local community. We believe that support for both plans was rooted in our commitment to responsible land stewardship, working with the community, and providing affordable housing at a time when it is most needed.

The Endowment division is firmly committed to the mission set forth by Princess Pauahi and we proudly accept our kuleana to provide the resources necessary to fulfill the bold plans of Kamehameha Schools.



“The results of the program evaluations have served to re-inspire our commitment to our mission.”

– Tony LeBron, director,  
Extension Education Division

## Community Outreach Programs Having Positive Impact

*continued from page 3*

The Explorations Series offers three summer boarding programs for haumāna in grades 5 through 8.

Students may participate in Ho'omāka'ika'i (Explorations), Ho'olauna (place-based education) and Kūlia I Ka Pono (leadership training). A study that evaluated the Enrichment offerings revealed high marks for the program.

“We're seeing that more than 90 percent of the students are fully engaged in this process and very satisfied with it,” Malone said. “Almost all expect to come back to the program in its other offerings. This program is allowing students who don't attend Kamehameha campuses to feel engaged and included as part of the Kamehameha Schools 'ohana.”

“The results of the program evaluations have served to re-inspire our commitment to our mission,” said **Tony LeBron KSK '71**, director of Kamehameha's Extension Educational Services division.

“While we are most pleased that we are on track toward our stated goals, there is still much we can do to improve program effectiveness and efficiency and we look forward to this challenge.”

Research & Evaluation noted that many haumāna in Kamehameha programs pursue supplemental educational experiences to enhance their learning beyond the formal school day. These experiences are leading to increased educational goals and

career aspirations.

“Whether they are middle school students moving through the Enrichment pipeline or they are Kamehameha Scholars in public high schools preparing for college and career opportunities, we're seeing that students possess a greater sense of self-esteem, a greater sense of engagement in the learning process and a greater sense of Hawaiian identity when they receive Pauahi's gift,” Malone said.

“This has a residual effect of allowing them to walk through classrooms or workplaces with a greater sense of self and higher confidence to enable them to do even better.”

Strong family support further complements the high quality curriculum offered in courses, especially in programs such as those used by Kamehameha's Distance Learning department.

A study that looked at the 'Ike Hawai'i Distance Learning program showed learning taking place by entire family groups not just individual students.

“Those young people say that when they take the course, they actually have family members sitting around them at the computer,” Malone explained. “The family is actually taking the course together, engaging the topics and talking about Hawaiian culture, leadership, history and language in really meaningful ways.”

Distance Learning offers 'Ike Hawai'i courses for high school students, while the department's

A'o Makua program offers courses for adults and the A'o Kumu initiative offers courses for educators.

“We are very pleased and excited about the growth and impact Kamehameha's distance learning programs are having on all of our learners,” said Terry Kelly, director of Kamehameha's Program Support Division.

“It has been our dream to contribute to the creation of a virtual Hawaiian learning community — reaching learners of all ages and living in all parts of the world.”

To learn more about Kamehameha's Research and Evaluation group and its studies, please visit [www.ksbe.edu/spi](http://www.ksbe.edu/spi).



## Collaborators Helping Kamehameha Schools

*continued from page 3*

“I am so thankful for the wealth of expertise and aloha that our community partners possess. We learn from them every day, and they, in turn, help us move our mission forward.”

The following is a partial list of community collaborators who entered into agreements with Kamehameha Schools over the past fiscal year:

- 'Aha Pūnana Leo, Inc.
- 'Ahahui 'Ōlelo Hawai'i
- Alu Like, Inc.
- Awaiaulu

- Big Brothers, Big Sisters of Honolulu, Inc.
- Big Brothers, Big Sisters of Maui, Inc.
- Bishop Museum
- Hawai'i State Department of Accounting and General Services
- Department of Education
- Edith Kanaka'ole Foundation
- Friends of the Leeward Coast PCS
- 'Aha Pūnana Leo, Inc.
- Good Beginnings Alliance
- Hau'ula Ice Breakers
- Hawaiian Educational Council

- Hawaiian Learning Center
- Ho'okūlōkahi
- Ho'oulu Lāhui
- Hui Maui Ola
- Institute for Native Pacific Education and Culture (INPEACE)
- Ka Huli o Hāloa
- KAANA, Inc.
- Kāko'o Ka 'Umeke
- Kanu I Ka Pono, Inc.
- Kanu o ka 'Āina Learning 'Ohana
- Kawaiaha'o Church
- Ke Ali'i Pauahi Foundation
- Makana o Liloa

- Māna Maoli
- Nā Kamalei
- Paepae O He'eia
- Partners in Development Foundation
- Pa'i Foundation
- Queen Lili'uokalani Children's Center
- Teach for America, Inc.
- University of Hawai'i System
- Waipā Foundation