

Kamehameha Schools Annual Report

JULY 1, 2006 - JUNE 30, 2007

"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."

bequeath
remainder of my
whenever situated with
named. Their heirs and assigns
to hold upon the following trusts,
namely: to erect and maintain in
the Hawaiian Islands two schools, each
for boarding and day scholars, one for
boys and one for girls, to be known as,
and called the Kamehameha Schools.
Bernice F. Bishop



Educational Spending and Number of Learners Served Rise in Fiscal Year 2007

Kamehameha Schools Endowment Grows to More Than \$9 Billion

A \$29 million increase in educational spending led to even more Hawaiian learners benefiting from Pauahi's gift of education in fiscal year 2007 as Kamehameha Schools continued to honor the memory of its founder and accomplish its mission.

Kamehameha's educational spending jumped 13 percent to a total of \$250 million over the fiscal year. Since the schools' Education Strategic Plan was approved in June 2005, Kamehameha Schools has spent \$471 million on educational programs, services and collaborations.

Most remarkable about Kamehameha's educational expenditures for the year was a 37 percent rise in spending on community-based programs, to a total of \$78 million.

That amount included \$7.6 million of a total \$8.7 million awarded in

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one-time grants to various educational endeavors including \$4.8 million to Hawaiian-focused Department of Education charter schools and \$3.9 million to fund Family and Children Learning and Resource Centers planned for development as part of four affordable and transitional housing community clusters, helping to address the challenge of homelessness on O'ahu's Leeward Coast.

An additional \$18 million was awarded in preschool and post-high scholarships and another \$17.6 million

was invested in agreements with more than 60 community organizations to further serve Hawaiian learners.

Kamehameha also experienced growth in the number of learners served, up 27 percent for the year from 28,000 to nearly 36,000.

"Last fiscal year was an incredible year, where everyone at Kamehameha Schools found ways to reach out to Hawaiian communities," said **Dee Jay Mailer**, chief executive officer of Kamehameha Schools. "From our students and families, to our staff and alumni, all minds were seeking ways to extend Pauahi's legacy – it was amazing."

"This fiscal year, the seeds of that work are sprouting as we work alongside of incredibly dedicated people in their communities to change the quality of education. While so much more is to be done, we can't help but feel rewarded by the accomplishments of our people every day. Maika'i loa!"

Kamehameha enjoyed significant progress during the year in managing its assets as real estate, stocks and other equity investments boosted the fair value of the institution's Endowment by \$1.39 billion to nearly \$9.06 billion, a one-year total return of 22.3 percent.

This is the third consecutive year that Kamehameha Schools has realized a strong investment performance. In 2005, a 12.9 percent return brought a jump of \$600 million to an Endowment fair value of \$6.8 billion, while 2006 saw a 17 percent return, adding \$897 million to a fair value of \$7.66 billion.

"Endowment's overall success is a result of prudent investment and land management and a talented and dedicated management and support team," said Kirk Belsby, Kamehameha's vice president of Endowment.

Other highlights for the year included:

- The May 2007 resolution of the "John Doe" lawsuit seeking to overturn Kamehameha's admissions policy. By resolving the four-year-old legal challenge, Kamehameha Schools preserved and protected its right to offer admissions preference to Native Hawaiians.
- The February 2007 appointment, effective April 1, 2007, of Corbett Kalama to replace Constance Lau as a Kamehameha Schools trustee. An executive vice president with First Hawaiian Bank, Kalama is the son of a kumu hula, a respected paddler and parent of three Kamehameha Schools graduates. He has brought a strong business acumen and Hawaiian cultural background to Kamehameha's boardroom.
- The December 2006 selection of **Lee Ann Johansen DeLima '77** as the new headmaster for Kamehameha Schools Maui. DeLima had served as acting headmaster since April of 2006 when Dr. Rod Chamberlain was appointed Kamehameha's vice president of Campus Strategies. With Kamehameha Schools since 1999, DeLima has previously served KS Maui as principal of grades K-8, middle school principal and interim high school principal.
- The August 2006 start of the \$23 million renovation of Windward Mall in Kāne'ohe. One of the top ten assets in Kamehameha's Hawai'i Core Real Estate portfolio, Windward Mall is the third largest shopping center in the state. The renovation, completed in August 2007, included interior upgrades, new escalators, new flooring and carpets, enhanced landscaping and exterior artwork.



Maui Headmaster
Lee Ann DeLima



Kamehameha Schools Maui Outreach programs like Summer of Opportunity (left), Hūlili and Ka Lei o ka Lanakila contributed to the nearly 36,000 children and families served through KS programs in the community and on its campuses statewide.



Evolving Kamehameha Schools Continues to Honor Pauahi and Fulfill its Mission

We look back on another fulfilling year at Kamehameha Schools with gratitude to our staff and 'ohana for their dedicated commitment to serving the legacy of our founder, Ke Ali'i Pauahi.

While this Annual Report chronicles the significant milestones of the past year, it is important to reflect on the longer-term progress critical to Kamehameha's mission.

Indeed Kamehameha is in the process of significant transformation, and shall continue to evolve over time.

We continue to diversify and to refine the endowment portfolio, one that is far more sophisticated than the trust's holdings just five

years ago. Higher investment returns provide greater opportunities to increase and shape educational programs seeking to create sustainable, intergenerational change within our communities.

From subtle shifts in our campus programs to a dramatic increase in community programs and partnerships, Kamehameha's leaders press forward to align and benchmark our programs and to inspire action directly responding to the educational needs of our communities. Unabated is our sense of urgency to serve thousands more

of Kamehameha's intended beneficiaries.

In several significant ways, we are today a vastly different Kamehameha Schools.

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Such transformation could not have begun without a very strong team of leaders throughout the organization, dedicated to fulfilling Ke Ali'i Pauahi's vision, and would not have continued without a deep sense of shared values and goals across

all of Kamehameha's employees and 'ohana.

We wish to acknowledge their

contributions, and we extend our appreciation to the many individuals, committees, and groups who have worked so passionately to improve the capability and well-being of keiki throughout Hawai'i.

I mua Kamehameha!

Kamehameha Schools Board of Trustees

J. Douglas Ing
Nainoa Thompson
Diane J. Plotts
Robert K.U. Kihune
Corbett A.K. Kalama

Chief Executive Officer

Dee Jay Mailer

Kamehameha Schools Board of Trustees



J. Douglas Ing



Nainoa Thompson



Diane J. Plotts



Robert K.U. Kihune



Corbett A.K. Kalama

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



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Headmaster KS Hawai'i



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Vice President for Strategic Planning and Implementation



Colleen I. Wong
Vice President for Legal Services

On Target

According to plan, fiscal year 2007 sees Kamehameha Schools expand educational services, programs and collaborations to benefit more Hawaiian learners

A second-year review of Kamehameha Schools' ambitious 10-year Education Strategic Plan shows the organization clearly meeting its educational goals.

Using a mixture of innovation and collaboration, Kamehameha's second-year progress report for the period from July 1, 2006 to June 30, 2007 reveals a second consecutive strong year with educational service levels continuing to climb.

The numbers of Hawaiian children and families impacted by Kamehameha Schools programs and services grew by 27 percent, from 28,000 to nearly 36,000. In addition, more than 30,000 learners participated in one-time or intake programs such as the Land Legacy Education program called 'Āina Ulu that treats learners to education on Kamehameha lands.

Since approval of its education plan in June 2005, Kamehameha Schools has increased the number of Hawaiian learners it serves by nearly 60 percent, up from an original count of 22,400.

Featuring three strategic priorities, the goal of Kamehameha's Education Strategic Plan is to create sustainable and intergenerational impact through quality educational experiences. The plan's long-range goal is to increase the number of learners served by Kamehameha programs, services and collaborations by 150 percent – to 55,000 learners – by 2015.

"We're right on track as we implement our education plan," said Chris Pating, Kamehameha's vice president for strategic planning and implementation. "We've made great strides to better align our service offerings to capitalize on the strengths within our organization and better meet the needs of our keiki.

"In addition, we've developed wonderful collaborations with other service organizations that bring more targeted resources and services to our keiki across the state, specifically in predominantly Native Hawaiian communities."

In fact, fiscal year 2007 saw Kamehameha Schools invest more than



Kamehameha Schools awarded \$16.4 million in post-high scholarships to 2,200 students.

\$17.6 million in agreements with over 60 community organizations statewide, providing services and program funding in predominantly Hawaiian

communities to expand quality educational opportunities. Kamehameha also increased its educational spending on community programs by 37 percent, to a total of \$78 million.

"We've fostered new and innovative collaborations, and our staff has worked tirelessly to identify and implement ways of increasing the number of people we serve," Pating said.

"In some cases, we've started new programs. We've filled excess capacity in some of our existing programs and added capacity to yet other programs. Finally, there's exciting internal collaboration occurring across Kamehameha Schools that has really fueled our ESP implementation

efforts, and that's how we are increasing the numbers of Hawaiians that we serve."

The first strategic priority of Kamehameha's education plan emphasizes early childhood education with a focus on learners age 0 to 8 and the families that care for these learners.

In fiscal year 2007, Kamehameha Schools:

- Served more than 8,800 keiki ages 0-8 through KS-centered preschools, preschool scholarships, literacy instruction and various educational collaborations
- Increased by 37 percent the number of scholarship awards to attend community preschools (850

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E kaupē aku nō i ka hoe a kō mai.

Put forward the paddle and draw it back.

Go on with the task that is started and finish it.

Kamehameha Schools Community Collaborators

Ho'okahi ka 'ilau like 'ana. Wield the paddles together.

Work together.

In fiscal year 2007, Kamehameha Schools aggressively implemented new programs, engaged in additional community collaborations and strengthened its relationships in predominantly Hawaiian communities.

Kamehameha Schools invested \$17.6 million in memorandum of agreements with more than 60 community organizations statewide, providing services and program funding to expand quality educational opportunities.

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.
- Alu Like, Inc.
- Assets School
- Big Brothers/Big Sisters of Honolulu, Inc.
- Bishop Museum
- Farrington Community School for Adults
- Foundation for Excellent Schools
- Friends of the Leeward Coast Public Charter Schools
- Good Beginnings Alliance
- Hawai'i Association for the Education of the Young
- Hawai'i Association of Independent Schools
- Hawai'i Arts Alliance
- Hawai'i Council on Economic Education
- Hawai'i Nature Center
- Hawai'i Pacific University
- Hawai'i State Department of Education
- Hawaiian Educational Council
- Ho'okāko'o Corporation
- Ho'oulu Lāhui
- Hula Preservation Society
- Institute for Native Pacific Education and Culture
- KAANA, Inc.
- Ka'ala Farm, Inc.
- Ka Huli o Hāloa
- Kaimukī Community Schools for Adults
- Kāko'o Ka 'Umeke, Inc.
- Kanu o ka 'Āina Learning 'Ohana
- Kanu I Ka Pono Inc.
- Kaua'i Community College
- Kawaihae'o Church
- Ke Ali'i Pauahi Foundation
- Konanui Farms
- Ma Ka Hana Ka 'Ike Building Program
- Makana o Liloa
- Making Dreams Come True, Valley of Rainbows
- Mana Maoli
- Maui Community College
- National Indian Education Association
- Native Hawaiian Chamber of Commerce
- Office of Hawaiian Affairs
- Pa'i Foundation
- Partners in Development
- Queen Lili'uokalani Children's Center
- Teach for America, Inc.
- University of Hawai'i at Hilo
- University of Hawai'i at Mānoa
- Waipahū Community School for Adults
- Windward Community College

Numbers served through Kamehameha Schools programs and collaborations			
		FY 05-06	FY 06-07
SP1	Children Pre-Natal to 36 months	104	329
SP1	Center-based preschools	1,439	1,467
SP1	Preschool age children	1,094	1,845
SP1	K-3 grade in public schools	3,375	1,600
SP2	Supporting 4-12 grades, post-high and charter schools	12,043	14,235
SP3	Campuses	5,298	5,354
SP1-3	Caregiver training and support; support for families and caregivers of children PN-12 – community	4,686	10,776
Total number of Hawaiians served		28,039	35,606



Kamehameha's 'Āina Ulu land-based educational program bridges the management of Kamehameha's lands with its educational mission.

Kamehameha Schools Endowment enjoys remarkable year

by Kirk O. Belsby, Vice President for Endowment

Fiscal year 2007 (July 1, 2006 to June 30, 2007) was another year of stellar performance for the Endowment Group of Kamehameha Schools. Building on the momentum of the past few years, we are hurtling forward on many successful fronts.

In the August 2007 issue of the respected *Institutional Investor* magazine, Kamehameha's Endowment Group was praised for its growth and continuing progress in various challenging initiatives. "The transition over the past five years has been one of the most remarkable in the oversight of institutional assets," stated one particularly generous quote from the article.

It is in statements such as those from outside observers that we find inspiration and validation to continue our arduous journey.

To highlight financial returns, the fair value of Kamehameha's total endowment grew by \$1.39 billion during fiscal year 2007, increasing the overall endowment fair value to

\$9.06 billion as of year end, translating to a one-year total return of 22.3 percent.

The revenue was generated from a wide array of asset classes within our portfolio, attesting to a risk balanced approach to investing. The three largest asset classes in our portfolio - Hawai'i real estate, U.S.

equities, and international equities - had one year returns of 31.7 percent, 20.9 percent, and 26.5 percent, respectively.

Our returns were supported by particularly strong domestic and foreign equities markets, as well as a healthy local economy here at home in Hawai'i. While it appears that the tides may be ebbing within our domestic economy

given the recent news in the residential construction and subprime lending markets, we hope to weather any such storm better than most as we have constructed a financial portfolio that can act as defensive as offensive.

Looking forward to next year, our strategies may turn to minimizing negative impacts rather than maximizing the upside opportunities similar to the past few years.

Closer to home, the past year witnessed continued focus on the application of our five-value approach to strengthening our Hawai'i real

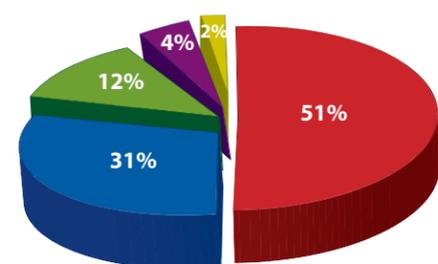
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A full copy of Kamehameha Schools' audited "Consolidated Financial Statements and Supplemental Schedules" for fiscal year 2007 is available at www.ksbe.edu/annualreports.

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Kamehameha Schools Trust Spending Fiscal Year 2007

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 2007 was 4.1 percent and allocated as follows:



Category	Amount
Campus-based Programs	\$127 million
Community Education	\$78 million
Major Repairs & Capital Projects	\$31 million
Debt Financing Interest	\$9 million
Other	\$5 million
Total Trust Spending	\$250 million



Windward Mall was revitalized with a \$23 million renovation.

Kamehameha Schools Investment Returns and Benchmarks Period ending June 30, 2007				
	One-year total return	*Three-year total return	*Five-year total return	*Since July 1, 1999 total return
Total Endowment	22.3%	17.3%	14.5%	11.3%
Endowment Fund Composite Benchmark	15.5%	12.1%	10.9%	7.5%
CPI + 5%	7.7%	8.2%	8.0%	7.9%
+Large Endowment Fund Median	20.2%	16.0%	13.6%	10.3%

*Annualized
+Source: Cambridge Associates



Students from Hālau Lokahi charter school participate in an October 2007 lei hili workshop presented by Pomai Kalahiki of Kamehameha's Enrichment department. Held at Kapālama's Keanakamañō Hawaiian Cultural Garden, the workshop was part of the National Indian Education Association Convention. Kamehameha Schools supported 14 Hawaiian-focused charter schools with 2,300 students and provided one-time funding allocations to 12 of the schools totaling approximately \$4.8 million in fiscal year 2007.

On Target...

Continued from page 4

keiki) and increased total financial awards from \$3 million the previous year to \$4.4 million

The second priority of the Education Strategic Plan calls for supporting children in grades four through post high school, sustaining the momentum created by Kamehameha's focus on early childhood education.

In fiscal year 2007, Kamehameha Schools:

- Educated more than 8,500 non-campus students through enrichment, campus outreach and summer school programs
- Awarded \$16.4 million to 2,200 students for post-high scholarships, serving both new graduates as well as continuing education students of all ages
- Supported 14 Hawaiian-focused charter schools with a total of more than 2,300 students and provided one-time funding allocations to 12 of the schools totaling approxi-

mately \$4.8 million

With traditional campus enrollment for grades K-12 now fixed each year at 5,400 at Kamehameha school sites at Kapālama, O'ahu and on Maui and Hawai'i, the increase in numbers of Hawaiian learners served is coming entirely from new community program beneficiaries.

But that doesn't mean Kamehameha isn't focusing on the third strategic priority of its education plan – developing innovative instructional models at its campus-based programs.

"Our schools are on a continuous journey of improvement," said Dr. Rod Chamberlain, Kamehameha vice president for campus strategies. "The results of fiscal year 2007 have set a strong foundation for our work to achieve the vision for our campuses as places of innovative learning, serving, living culturally and spiritually, graduating students who have and always will contribute greatly to the strength of the Hawaiian people in

this world. And one of the most exciting aspects of the last school year was the increased collaboration among the campuses."

Those collaborations included:

- Enriching the curriculum through cross-campus conversations to serve increased numbers of indigent and orphan students at Kamehameha campuses at Kapālama, O'ahu and on Hawai'i and Maui
- Enhanced programs that increased student learning in Hawaiian language and culture
- Expanded teaching strategies that promoted student learning and improved student growth in areas such as writing and instructional technology by fine-tuning instructional practices

"This is the second completed year of our Education Strategic Plan, and we still have a lot of implementation challenges," Pating said. "Kamehameha Schools is a big ship and it requires tremendous energy to coordinate the efforts of more than 1,800

employees across the entire state.

"But even with these challenges, our KS 'ohana has risen to the challenge and gone above and beyond to implement our education plan. Everyone is working very hard to positively impact our Hawaiian people and we are all pulling on the paddle at the same time."

For more on Kamehameha's educational efforts, please visit the Community Education Implementation division's Web site at (<http://exten.sion.ksbe.edu/content/>).



Kamehameha provided \$4.4 million to 850 keiki in community preschools through its Pauahi Keiki Scholars program.

Kamehameha Schools Endowment...

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estate portfolio. Utilizing economic, educational, cultural, environmental, and community based themes, Pauahi's land legacy is thriving ever more.

The Royal Hawaiian Shopping Center is nearing the completion of a \$115 million makeover, and we look forward to a grand reopening in 2008. The Kāne'ohe and Kailua communities have been delighted by the family-friendly rehabilitation of Windward Mall, which was presented the "Shopping Center of the Year" award for 2007 by the Retail Merchants of Hawai'i.

With the purchase of the Varsity Theatre in June 2007, we now have a critical mass of land area assembled

that will support a mixed-use development capable of serving as a commercially desirable gateway to the University of Hawai'i at Mānoa.

Further, the planned development of a 400,000 square-foot life science facility in Kaka'ako continues, and was aided during the past legislative session when Kamehameha Schools and its development partner obtained enabling legislation for the High Tech Development Corporation (a state of Hawai'i sponsored entity) to master lease 60,000 square feet. The life science facility at project completion will ultimately house more than 1,000 employees.

Both projects will hopefully lead to stronger ties with UH-Mānoa and will foster the growth of a larger science and technology based workforce. Our ultimate goal is to purpose our land to not just provide an eco-

nomic return, but to also provide opportunities for our children to have access to broader educational opportunities and living wage jobs that will allow them to stay in Hawai'i and raise their own families.

On Hawai'i island, the renovation of the Keauhou Beach Hotel is ongoing. More importantly, restoration on two adjacent heiau ma kai has begun, with completion scheduled in early 2008. Their physical and spiritual impact on the landscape is already clearly visible, and one can see them as a beacon and sentinel of Hawaiian culture at the birthplace of Kauikeaouli, Kamehameha III.

The 'Āina Ulu land-based educational programs continued to thrive this past year as thousands of learners were exposed to our land legacy on approximately 39,000 dedicated acres. Further, more than

120,000 acres are presently subject to conservation programs within the Mālama 'Āina program to preserve the pristine nature of our lands and waters.

And finally, the historical and cultural knowledge of our lands grows each year as we continue to populate our land legacy database through our cultural historians.

The Endowment Group is exercising its mandate to serve the mission of Kamehameha Schools by growing the size of its asset base, protecting the cultural and historical wahi pana, and providing new opportunities by linking our land portfolio to education and jobs.

We embrace this kuleana and commit to ho'omau the legacy of Princess Pauahi.

