

Kamehameha Schools Annual Report

JULY 1, 2005 - JUNE 30, 2006

"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."

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



Historic Graduation Highlights Fiscal Year 2006

Learners served by Kamehameha programs up 26 percent;
Endowment grows to \$7.66 billion

By every standard, fiscal year 2006 - from July 1, 2005 to June 30, 2006 - was a time of exceptional performance for Kamehameha Schools.

Significantly, the first-year objectives of the institution's Education Strategic Plan, approved in June of 2005, were exceeded as the number of children and families impacted by Kamehameha Schools campus and community programs increased by 26 percent - from 22,400 to more than 28,000 students.

An additional 15,000 learners were served through one-time programs that are intended to introduce students to high-impact Kamehameha programs.

Kamehameha's educational spending totaled \$221 million for the year, bringing the institution's cumulative total to more than \$1.1 billion expended on educational programs and services since 2002.

Strong performance in the year's financial activity - real estate, stocks and other equity investments - netted a 17 percent total return, increasing the fair value of Kamehameha's Endowment by \$897 million.

At the end of the fiscal year, Kamehameha's Endowment had an overall fair value of \$7.66 billion, growing steadily from a mark of \$5.54 billion in June of 2003.

The year's signature achievement was the celebration of the first graduating classes at Kamehameha Schools campuses on Maui and Hawai'i. A total of 281 seniors from KS Maui and KS Hawai'i were members of the historic class of 2006, some of them students since the schools first opened temporary facilities in 1996.

Combined with the larger enrollment on O'ahu's Kapālama campus, Kamehameha Schools can now expect to add more than 700 graduates from three islands to its alumni rolls each year.

Other highlights of the year included:

- The July 2005 start of the revitalization of the Royal Hawaiian Shopping Center, the single largest real estate investment in Kamehameha's portfolio. The first significant upgrade of the center in its 26-year history is targeted for completion at the end of 2007;

- The September 2005 hiring of **Christopher J. Pating** to the newly created position of vice president of Strategic Planning and Implementation. Pating is charged with implementing the Education Strategic Plan and overseeing Kamehameha's long-range strategic planning efforts;
- The October 2005 establishment of the Ho'okahua Department, headed by former Kapālama Performing Arts department head **Randie Fong**. Ho'okahua is tasked with facilitating and initiating efforts to foster *nohona Hawai'i*, or a Hawaiian way of life, throughout the Kamehameha system;
- The December 2005 hiring of **Lynn Maunakea** to her role as vice president and executive director of the Ke Ali'i Pauahi Foundation, a support organization to Kamehameha Schools tasked with developing new and diverse sources of income to support the educational needs and goals of people of Hawaiian ancestry;
- And the April 2006 appointment of Kamehameha Schools Maui headmaster **Dr. Rod Chamberlain** to the newly created position of vice president for Campus Strategies. Chamberlain will lead the alignment, coordination and implementation of campus-based strategies related to the Education Strategic Plan.

Fiscal year 2006 will be remembered for historic graduation ceremonies on Maui and Hawai'i, a remarkable Endowment performance, and a faculty, staff and administration that brought Pauahi's gift of education to more Hawaiian learners and continued to fulfill the mission of Kamehameha Schools.



Kamehameha Schools celebrates historic graduation ceremonies on Maui and Hawai'i.



KAMEHAMEHA
SCHOOLS

Annual Report
Fiscal Year 2006

Contributors

- Lilinoe Andrews
- Marsha Bolson
- Ann Botticelli
- Neil Hannahs
- Ed Kalama
- Kimo Kaleiwahea
- Pat Kaneshiro
- Bruce Lum
- Janet Na
- Shawn Nakamoto
- Teri Ng
- Kekoa Paulsen
- Jodi Kaneaiakala-Shim
- Reid Silva
- Thomas Yoshida
- Michael Young

A Challenging and Exhilarating Year

by the Trustees of Kamehameha Schools

Aloha kākou,

The period between July 2005 and June 2006 was both challenging and exhilarating for all of us at Kamehameha Schools.

We made tremendous strides in our educational outreach and in the stewardship of our assets while a broad cross-section of the community joined us to protect the preference policy that is critical to our mission.

Our staff, under the leadership of CEO Dee Jay Mailer, has worked tirelessly to implement the vision for Kamehameha outlined in the 2000 Strategic Plan and the 2005 Education Strategic Plan.

Our results are worth cel-

ebrating: a 26 percent increase in the number of Hawaiian children served by our legacy, a 17 percent return for the Endowment and a land strategy that looks beyond financial return to incorporate and honor our values as a Hawaiian institution.

Even more exciting, this focused, strategically aligned effort continues. Clearly, the momentum is building.

On the legal front, we concluded the fiscal year with oral argument in support of our preference policy before a 15-judge panel of the 9th Circuit Court of Appeals in San Francisco. On Dec. 5, 2006 the panel issued an 8-7 rul-



A gathering of more than 10,000 turned out to support Kamehameha's preference policy during a march to Mauna'ala on Aug. 6, 2005.

Kamehameha Schools Board of Trustees



Robert K.U. Kihune



J. Douglas Ing



Constance H. Lau



Nainoa Thompson



Diane J. Plotts

ing that our policy is a permissible remedy for an indigenous people

who have been disadvantaged in their own homeland.

The ruling was not unanimous, but all of the judges – even those who dissented – acknowledged the validity of our mission.

And so we take a moment to celebrate what has been accomplished, but keep our sights on continued fulfillment of our mission and of our founder's vision.

I mua!

Fulfilling Pauahi's Wishes For Her People

by Dee Jay Mailer, Chief Executive Officer on behalf of the CEO Team

Kamehameha Schools exists to build strength and hope through education for generations of Native Hawaiians to come.

That was the dream of our founder Princess **Bernice Pauahi Bishop**. In fiscal year 2006, Kamehameha Schools took significant steps toward fulfilling her wishes.

Our first-year objectives of our Education Strategic Plan have been met by tireless Kamehameha Schools faculty, staff, alumni and community members. We are pleased to report that we are well-

positioned to accomplish the initiatives in the second year of our plan.

Kamehameha Schools was blessed with an outstanding financial performance in fiscal year 2006, which will serve us well as we move forward in our work with our people and our communities. The students on our campuses, in our preschools and in our outreach programs are thriving thanks to the strength of our Endowment.

We have learned that the best way to extend our resources is

to work together with our many community partners. Kamehameha Schools has teamed with many dedicated organizations in pursuit of our common goals, and we thank them for their efforts.

Yet none of our accomplishments would be possible without the skill, enthusiasm and commitment of very talented Kamehameha Schools faculty and staff. Their devotion and loyalty to the dream of our founder is unmatched. The proof of their hard work? Thousands of students, par-

ents and alumni who exercise their values and potential every day by serving others.

It is our *kuleana* to carry out the wishes of our princess. It is our *kuleana* to serve our communities and stakeholders, and it is our *kuleana* to improve the well-being of our Hawaiian people through education.

We are honored to have the privilege.

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
Head of Educational Support Services



Michael P. Loo
Vice President for Finance and Administration



Lynn C.Z. Maunakea
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

Focusing on Education

Kamehameha Schools sees significant progress over the first full year of the Education Strategic Plan

Launched in June 2005, Kamehameha's Education Strategic Plan refines the institution's educational focus with a primary objective of creating long-term intergenerational change for Hawaiians.

Along with the establishment of three strategic priorities, the plan guides institutional resources to children in predominantly Hawaiian communities and includes a long-range goal of increasing by 150 percent learners served over the next 10 years.

Fiscal year 2006 saw the first measurable effects of the plan, with Kamehameha Schools clearly hitting the mark with its educational goals.

The number of children and families impacted by Kamehameha campus and community programs increased 26 percent - from 22,400 to more than 28,000 - and an additional 15,000 learners served through one-time programs intended to introduce students to high-impact KS programs.

"We are right on target," said Christopher Pating, Kamehameha's vice president for Strategic Planning and Implementation. "We need to continue to keep everyone focused on the agenda of serving Native Hawaiian families."

First priority targets prenatal to 8 years of age

Quality early education is key to future success in school and often, in life. Kamehameha's early education programs are founded on the belief that children learn best with the help of their parents, teachers, peers and through experience with their physical and social environment.

Kamehameha's first strategic priority sets a clear direction

to serve Native Hawaiian children from ages 0-8 and the 'ohana who care for them. In fiscal year 2006, Kamehameha Schools:

- Served more than 6,000 children - an increase of 1,600 over the previous year - through KS center-based preschools, preschool scholarships, literacy instruction and various educational collaborations
- Awarded 622 preschool scholarships through the Pauahi Keiki Scholars program, an increase of 80 percent over the previous year while financial awards doubled to \$3 million

Second priority sustains momentum from grade 4 through post high school

Kamehameha's second strategic priority focuses on programs and services that support children through critical transition periods during their educational journeys, and assists the efforts of post-high schoolers studying for careers needed in building strong Hawaiian communities.

In fiscal year 2006, Kamehameha Schools:

- Reached a total of 7,300 students through in-school, inter-session and summer programs
- Awarded \$12.6 million to 2,200 students for post-high education, with a new emphasis on selected fields of study and non-traditional students
- Helped support 2,400 students in Hawaiian-focused charter schools

Third priority addresses innovation on Kamehameha campuses

Kamehameha's third strategic priority focuses on the continued development of innovative instructional

and curricular models that build on a tradition of outstanding K-12 campus-based programs.

These programs serve as centers for educational innovation, excellence and outreach, in order to optimize the campus and community reach in support of the Education Strategic Plan.

"While continuing to provide a strong educational program for the nearly 5,300 K-12 students across our three campuses, we're improving our efficiencies in operational areas, aligning our systems, and also measuring the impact of our current campus outreach programs to determine how to build on good results," said Dr. Rod Chamberlain, vice president for Campus Strategies.

In fiscal year 2006, those results included:

- A historical three-island graduation of 722 seniors
- A 17 percent increase in campus enrollment of orphaned and indigent students
- The strengthening of Hawaiian language and culture curriculum and service learning practices
- Parent, family and caregivers programs that reached more than 4,500 adult learners - a



Kamehameha programs like Hi'ilani offer early childhood family education for families with children prenatal to 3 years of age.

key component of all three Kamehameha strategic priorities "Our strategic priorities have helped us become focused on our educational initiatives," Pating said. "As an educational organization, we really need to be specific, targeted and focused in what we do.

"We are to continue our efforts going into our second year as we strive to serve more Native Hawaiians than ever before."

For more information on the Education Strategic Plan, please visit www.ksbe.edu/annualreports.

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

Kamehameha Schools Community Collaborators

'A'oha hana nui ke alu 'ia - No task is too big when done together by all.

Kamehameha Schools is committed to addressing the diverse educational needs of the Hawaiian community. In fiscal year 2006, Kamehameha Schools rekindled and strengthened collaborations with others to maximize long-term impact within communities. The following is a partial list of community collaborators who entered into memorandum of agreements with Kamehameha Schools over the past fiscal year:

- 'Aha Pūnana Leo, Inc.
- ALU LIKE, Inc.
- Castle Foundation Partnership
- Chaminade University
- Department of Education, State of Hawai'i
- Farrington Community School for Adults

- Foundation for Excellent Schools
- Friends of the Leeward Coast Public Charter School
- Hakipu'u Learning Center
- Hawai'i Community College
- Hawai'i Restaurant Association
- Hina Malailena
- Ho'oulu Lāhui
- Hui Mālama Learning Center and Neighborhood Place of Wailuku
- Hui No Ke Ola Pono, Inc.
- Institute for Native Pacific Education and Culture
- Ka Huli o Hāloa
- Kāko'o Ka 'Umeke
- KALO, Inc.
- Kanu I Ka Pono, Inc.

- Kapi'olani Community College
- Kaua'i Community School for Adults
- Ke Ali'i Pauahi Foundation
- Ma Ka Hana Ka 'Ike Building Program
- Mana Maoli
- Maui Community College
- Myron B. Thompson Academy
- Papakōlea Community Development Corporation
- Queen Lili'uokalani Children's Center
- Tūtū and Me
- University of Hawai'i at Hilo
- University of Hawai'i at Mānoa
- Waipahu Community School for Adults

For more information on Kamehameha's community collaborators, visit www.ksbe.edu/annualreports.

Extraordinary Year for Kamehameha Schools Endowment

by Kirk O. Belsby
Vice President for Endowment

By all measures, fiscal year 2006 yielded returns that exceeded our own targets and peer benchmarks.

Kamehameha's Endowment team realized unprecedented financial, educational, environmental and cultural results as we managed the assets that comprise the legacy of Princess Bernice Pauahi Bishop, founder of Kamehameha Schools.

Robust capital markets and the repositioning of Hawai'i land assets in a rising real estate environment pushed financial returns for the year to \$897 million, raising the Endowment's overall fair value to \$7.66 billion.

Overall, the portfolio returned more than 17 percent for the year, which exceeded our CPI + 5 percent return benchmark by approximately 7.7 percent and put Kamehameha Schools in the top 10 percent of a peer group of 100 nonprofit and master trust institutions.

Moreover, a peer survey that rated participants by risk ranked Kamehameha Schools in the bottom 10 percent of incurred risk. This relationship between return and risk is highly desirable as the Endowment works to achieve high, but stable growth.

The past three years have witnessed dramatic growth for the Kamehameha Schools Endowment in every relevant measure with the total value of the portfolio increasing by more than \$2 billion. While we will make every effort to sustain this growth, it's important to note that our results are influenced by larger capital and real estate market forces and cycles.

The wind has been at our back in recent years, and we're pleased that our values are rising higher than market benchmarks. Inevitably, the wind will turn and the

measure of our skills in adverse market conditions will be our ability to tuck to minimize losses in comparison with our peers.

Kamehameha's Endowment Team also manages several education collaborations, including 'Āina Ulu, a collection of eco-cultural education collaborations that served more than 15,000 participants in 2005-06. Since 'Āina Ulu's inception in 2001, in Waipā, Kaua'i, the program has grown from six students in a solitary summer program to thousands of participants statewide. This illustrates the resonance of this educational program model based on learning inspired by the land.

Regarding the environment, a third of our Hawai'i land now has stewardship management plans to give strategic guidance to our Mālama 'Āina program. Investment in conservation promotes the availability of resources to meet future needs. Kamehameha's stewardship efforts also heal our lands and resources, which in the Hawaiian worldview

represent the elder siblings that shaped Hawai'i's unique culture and values.

Kamehameha lands represent the legacy of Hawaiian royalty and are replete with sites or resources that hold extraordinary significance for understanding Hawai'i's past and perpetuating cultural practices into the future.

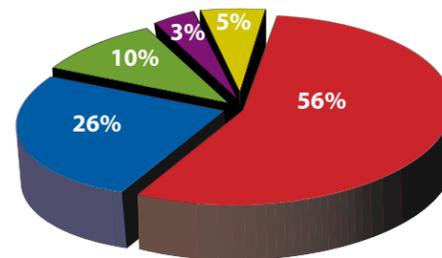
This fiscal year, we enhanced our understanding of the cultural history of our lands with the launch of the Land Legacy database, an informational inventory that includes 60,000 records.

The delivery of such wide-ranging results aligns with Endowment's strategic mandate to prudently increase the value of assets and achieve an optimal balance of

The past three years have witnessed dramatic growth for the Kamehameha Schools Endowment in every relevant measure.

Kamehameha Schools Trust Spending Fiscal Year 2006

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 2006 was 3.8 percent and allocated as follows:



Category	Amount
Campus-based Programs	\$124 million
Community Outreach Programs	\$57 million
Major Repairs & Capital Projects	\$23 million
Debt Financing	\$7 million
Other	\$10 million
Total Trust Spending	\$221 million

Kamehameha Schools Investment Returns and Benchmarks Periods ending June 30, 2006				
	One-year total return	*Three-year total return	*Five-year total return	*Since July 1, 1999 total return
Total Endowment	17.0%	15.1%	9.9%	9.8%
Blended Portfolio	11.1%	11.3%	7.4%	6.4%
CPI + 5%	9.3%	8.4%	7.7%	8.0%
+Large Endowment Fund Median	14.4%	14.7%	8.6%	9.5%

*Annualized
+Source: Cambridge Associates

cultural, economic, educational, environmental and community returns.

This mandate presents a unique, yet welcome set of challenges and has prompted Endowment to strive to become a global model for excellence in the management of indigenous peoples' real estate and financial assets.

A new three-year Endowment Operating Plan is rolling out in fiscal year 2007 that addresses internal architecture and processes that will further strengthen the Endowment.

We seek to gain a capabilities advantage by becoming the best in the business at what we do and I'm

A full copy of Kamehameha Schools' audited "Consolidated Financial Statements and Supplemental Schedules" for fiscal year 2006 is available at www.ksbe.edu/annualreports.

confident in the Endowment's ability to accomplish this ambitious agenda.

We all recognize that we are privileged to have this opportunity to serve such an extraordinary Trust and pledge our continued best efforts to contributing in significant ways to the accomplishment of the mission of Kamehameha Schools.



The renovation of the Royal Hawaiian Shopping Center, begun in July of 2005, features The Royal Grove at Helumoa.