Kamehameha Schools Continuing to Serve More Hawaiians

Numbers Served, Educational Spending Rise in Fiscal Year 2008

Fulfilling the dream of founder Princess Bernice Pauahi Bishop, Kamehameha Schools served more than 38,100 Hawaiian keiki and their families during the fiscal year ending June 30, 2008, an increase of 7.2 percent over the previous year.

Adopted in 2005 and based on the Kamehameha Schools Strategic Plan 2000-2015, Kamehameha’s Education Strategic Plan (ESP) strives to increase the capability and well-being of Hawaiians by creating sustainable change over generations through education.

The education plan calls for Kamehameha Schools to increase the number of Hawaiians served by the organization’s programs, services and collaborations by 150 percent over the 10-year duration (2005-2015) of the plan. Over the first three years of the ESP, Kamehameha Schools has seen a 70 percent increase in the number of learners it serves.

Chief Executive Officer Dee Jay Mailer said that Kamehameha Schools has surpassed the aggressive educational outreach target set for the initial three-year ramp-up phase of the ESP.

Since the inception of the ESP in 2005, Kamehameha Schools has spent nearly three quarters of a billion dollars – $744 million – on its campus and community-based education programs.

“We are extremely proud of the work of the Kamehameha Schools staff and community collaborators who work hard every day to realize Pauahi’s vision and offer our ‘ohana multiple opportunities to thrive through education,” Mailer said. “By supporting educational efforts in our communities, we hope to strengthen education where our people live, which benefits all who live there. It is our hope that collaborating with other schools, both public and private, will help to strengthen Hawai‘i’s entire educational system.”

Despite a year that marked the beginning of a national recession that has devalued most investment portfolios, Kamehameha Schools delivered $273 million in educational spending, a 9.2 percent increase over the previous fiscal year.

Kamehameha’s spending policy targets annual spending on education at 4.0 percent of the rolling five-year average of its endowment. Spending on education in fiscal year 2008 was at 4.1 percent.

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At 16 Hawaiian-focused charter schools and another $4.1 million in other charter school assistance through Kamehameha’s Public Education Support Division.

Thanks to Hawai‘i’s strong real estate market and rising energy costs, Kamehameha’s total endowment fair value rose from $9.05 billion in fiscal year 2007 to $9.44 billion as of June 30, 2008, a rise of 4.1 percent.

However, Kamehameha Schools is not immune to the U.S. economic downturn that has unfolded since June 2008. Unaudited figures for the first four months of fiscal year 2009 saw a sobering drop in the trust’s total endowment fair value as it fell 18 percent, to $7.7 billion.

“Despite the challenges we are all facing in this state and around the world, Kamehameha Schools will preserve our effective campus, early education and community educational programs,” Mailer said. “We will do what is needed to sustain effective services to our keiki and our communities for as long as it takes to bring us through the turmoil.”

Other highlights for the year included:

- The June 2008 selection of executive director Kalei Stern ’89 to head the Ke Ali‘i Pauahi Foundation. Stern is leading the charitable support organization of Kamehameha Schools into a new chapter of advancing educational opportunities to more Hawaiians.
- The May 2008 establishment of the Pauahi Keiki Scholars Kindergarten program. The three-year pilot program provides need-based tuition assistance to Hawaiian keiki entering kindergarten at private schools throughout Hawai‘i.
- The June 2008 completion of the $115 million revitalization of the Royal Hawaiian Center in Waikiki. Culture and history now play a significant role in the center’s identity, as the facility sits on Hele‘umo, an area where Hawaiian royalty lived and vacationed under the shade of more than 10,000 coconut trees.
- The April 2008 conceptual approval of the award-winning North Shore Plan, which strives for a reinvigoration of Kamehameha Schools’ lands on the North Shore, and addresses agricultural, residential, educational, sustainability and alternative energy initiatives.

“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.”
As you will read in this Annual Report, the fiscal year that ended June 30, 2008, was full of accomplishment, driven by our dedicated and focused staff and the blessing of a prolonged period of economic prosperity.

By any measure we had a great year, thanks to the continued strong performance of our Endowment portfolio, which ended the year valued at $9.4 billion.

However, there has been little time for any of us to savor a job well done.

We have all seen and felt the effects of the rapid and dramatic downturn in the world economy. Kamehameha Schools was not immune. In a few short months, our endowment’s value fell to an estimated $7.7 billion.

Educational endowments across the country are grappling with substantial declines in value, and the world economy is expected to remain unsteady for quite some time.

While our destination of improved capability and well-being for more Native Hawaiian children hasn’t changed, our leadership and staff are adjusting course, guided by the wisdom our ancestors gained by observing the changing winds: when one doesn’t know what to expect, it is better to be prepared.

We have re-evaluated our operational and educational spending to make sure that we are tightly aligned with the goals established in our Strategic Plan and our Education Strategic plan.

We will fulfill our educational commitments, which amount to more than $300 million this fiscal year, and continue those that have demonstrated a positive impact on the capability and well-being of our haumana.

We will maintain our commitment to financial aid for our families in need and continue to support increased learning through scholarships and support of excellent community collaborations. And we will continue initiatives that strengthen our endowment (both our lands and our financial assets), emphasizing the five values of education, economics, environment, culture and community.

Not too long ago, we were criticized for our conservative spending in the face of a rapidly increasing endowment value. Events globally and here at home have underscored the cyclical nature of the economy and the wisdom of our spending policy.

If we follow the path inherent in that lesson, we will – in perpetuity – be able to make Pua‘ali‘i’s vision our reality.

Me ke ha‘aha‘a,

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Kamehameha Schools
Will Continue to Fulfill Its Educational Commitments

Noho nā maka‘i a Kāne, laue i keā.
‘Olelo No'eau
When the winds of Kāne blow, carry your food along.

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Three years into the Education Strategic Plan, Kamehameha has expanded its programs, services and collaborations to serve more Native Hawaiians.

In fiscal year 2008, the number of learners served by Kamehameha Schools programs, services and collaborations rose to more than 38,100, a 70 percent increase since the Education Strategic Plan (ESP) was adopted in 2005.

These learners include the littles attending Kamehameha’s 31 preschools on five islands; Pa‘uahi Keiki Scholars attending non-KS preschools; kindergarten in a pilot program attending non-KS campus programs; KS students attending classes in campus programs on three islands; public school students attending Hawaiian-focused charter schools; KS-sponsored literacy programs; and charter schools.

To read the plan in its entirety, please visit: Kamehameha Schools’ website.
Kamehameha Endowment Grows to $9.44 Billion Before Market Collapse

Through October 2008, Endowment Value Estimated at $7.7 Billion

Kamehameha Schools’ Endowment Group (EG) truly outperformed the market for the fiscal year ending June 30, 2008.

The composite industry benchmark was approximately negative 2.0 percent for the 12-month period, while the EG returned 7.5 percent. This net 9.5 percent premium (the difference between our positive 7.5 percent return and the negative 2 percent market return) against the broader market allowed the Endowment to grow to an all-time high of $9.44 billion from the previous year’s $9.05 billion.

“Our portfolio was purposely constructed to be relatively defensive as our educational spending almost exclusively relies on the performance of the Endowment.”

I wish I could end the discussion on this high note, but unfortunately there is a very sobering second chapter to this story.

While we typically do not discuss interim financial year results, it would be less than transparent to omit a discussion on what has happened in the several months following June 30.

The summer of 2008 began with a widening of the subprime mortgage meltdown, and quickly spread across all sectors of Wall Street with the bankruptcy of Lehman Brothers in September, which was followed by the collapse of global equity markets in October.

To put the crisis into perspective, the U.S. stock market peaked in August 2007, and since then the Dow Jones Index has declined approximately 40 percent. Over the same period, the U.S. real estate market went into a tailspin in both commercial and residential sectors, declining at double digit rates previously unseen in such a short time frame.

Since the beginning of our new fiscal year on July 1, 2008, through Oct. 31, 2008, the EG has unofficially lost 18 percent in value to approximately $7.7 billion after organizational and educational spending.

These financial estimates are unaudited, but we have attempted to provide a reasonable proxy for valuation using reported quotes for publicly traded securities and estimates of value for illiquid assets such as real estate and private equity.

Given all this bad news, where does this leave Kamehameha Schools?

The good news is that despite a 40 percent drop in the stock market over the past 16 months, the corresponding decline in our Endowment value is less than 11 percent over the same time frame (keep in mind the

Endowment appreciated 7.5 percent in value during the first 12 months of this cycle before declining 18 percent in value in the last four months.

However, we do expect further declines in our illiquid portfolio (real estate and private equity) over the remaining fiscal year through June 2009 as forced liquidity by fund managers continues to be a major issue.

Nevertheless, our portfolio was purposely constructed to be relatively defensive as our educational spending almost exclusively relies on the performance of the Endowment.

Of paramount importance is the fact that we have sufficient liquidity and value in our portfolio to meet our needs, and we believe in the long-term recovery of the markets. Obviously we expect near-term fluctuations and continued volatility until confidence is restored to the credit markets, and we will continue to monitor the situation and manage accordingly.

On a more positive note, we have many successes here in Hawai‘i nei. The $115 million makeover of the Royal Hawaiian Center was completed in 2008 and it reopened to rave reviews. It has received several community recognition and design awards in the past several months, and it is once again a crown jewel of Waikīkī.

We have also been recognized for our commitment to Hawaiian culture as our brethren in Kamehameha Investment Corporation managed the

Right: Cultural specialist Mahalani Pai points out the intricacies of the restored Hāpialii’s heiau in Keauhou. The ongoing restoration project, which also includes the restoration of the Ke‘elikōlani and Mākōle‘i’s heiau, earned Kamehameha Investment Corporation, the for-profit arm of Kamehameha Schools, a “Keep It Hawai‘i Koa Award” award from the Hawaii Tourism Authority.
A Very Different Kamehameha Schools

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that produce good results that can be sustained.

“It’s been challenging. For an organization as big as ours, it’s not easy to turn on a dime, but we are much more agile today than even two years ago. We better understand the educational climate from both indigenous and worldly perspectives and our staff are in every community, listening and responding to the issues that our Hawaiian people face. We can implement change faster and meet the needs of our community quicker, and that’s just very, very exciting.”

According to plan, Kamehameha Schools has aggressively increased its outreach over the past three years and now enters a four-year period where all programs will be evaluated for their impact in improving the well-being of Native Hawaiians. The expertise of the KS Research and Evaluation Division will help the organization do so.

“Research and Evaluation has always provided great data—now we need to use it to see how we’re doing and what we can do better, both within Kamehameha Schools and with our community partners,” Pating said. “That’s not an easy thing to do, but it’s critical if we are to wisely use our ali‘i’s resources in the best of ways.”

Our biggest reality—change and results take time. We’re all so excited about the hints of success we see that we get impatient for information that verifies that.

The days when Kamehameha Schools was known only as a one-campus program with terrific summer programs are now long past.

“But that’s critical in education—we don’t want to continue to do things that have little value, because a student’s well-being is too precious to waste on efforts that don’t bring success.

“The major challenge posed by our evaluation phase is getting it done without being too onerous in how we do so—because an evaluation should not be an audit,” said Dr. Nolan Malone, the director of Kamehameha’s Research and Evaluation Division.

“Instead, it is a collaborative assessment of how effectively a program is achieving its intended outcomes, and that requires the participation of all of our program leadership.

“Fortunately, we have tactical plans to follow that have been well thought out through input from many expert sources and data related to need and better practices. These plans both inform and guide our evaluation process, and that greatly enhances and expedites our ability to uncover the impact we’re making.

“Of course, there will be programs where we won’t find the results we want, but I suspect they’ll be few, because we have started out on the right foot by talking long and hard about how to best achieve goals. For most educational programs, the ultimate outcomes are not to simply improve skills, attitudes and knowledge, but to have transformational effects on students that impact the way they view the world and the way in which they carry themselves through life. This is why it’s so critical to know we’re making a difference.”

And while the past three years have been a tremendous challenge, Pating said looking back, he’s pleased with what Kamehameha has accomplished.

“I am most proud of seeing the growth of our organization,” he said. “All of us at Kamehameha Schools want us to be the best educational organization we can be, and to do those things that are in the best interests of those that Ke Ali‘i Pauahi asked us to serve well.”

Kamehameha Endowment

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restoration of two important heiau in Keauhou on the Big Island. These shoreline heiau, restored stone by stone, are now a strong visual and physical link to our heritage from the previous millennium.

Our agricultural land managers are making exciting progress on our lands in Kawaiola on the North Shore, O‘ahu. During 2008 we completed an overhaul of a significant portion of the original water distribution system which will now allow for guaranteed water delivery for productively farming 2,500 acres.

In summary, we all expect 2009 to be a difficult year.

There will be continued downward pressure on both the local and national economies and we will have to be ever more creative in crafting strategies and solutions to deal with each new challenge, but that will not prevent us from achieving our goals. E ho‘omau e mâlama i ka ‘aina.

Left: Kamehameha Schools Hawai‘i first grade teacher Nancy Fortuna celebrates her birthday with students during a story time activity. More than 700 seniors graduated from Kamehameha campus programs at Kapalama, Maui and Hawai‘i in fiscal year 2008, a year that saw orphan and indigent children comprise 28 percent of all entering campus students. Another 3,200 non-campus learners enrolled in campus-based summer programs.

Right: Students, from left, Elizabeth Kealoha, William Youtsey, instructor Mary Mendoza and Bradley Tolentino discuss an assignment in a basic skills class at Kamehameha’s Community Learning Center at Nānākuli.

The class is a part of the Kahua Pa‘a Program in Kamehameha’s Career and Post-High Counseling department. Through collaborations with Department of Education adult schools, the Kahua Pa‘a initiative assists out-of-school youth and adults earn their high school diplomas and prepare for post-high education and gainful employment in careers of choice.