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.

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- 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 Kapalama Performing Arts department head Randie Fong. Ho’okahua is tasked with facilitating and initiating efforts to foster nohana 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.

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;
Fiscal Year 2006
Annual Report

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 2003 Strategic Plan and the 2005 Education Strategic Plan.

Our results are worth celebrating; 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 ruling 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 must.

Kamehameha Schools Board of Trustees

Kamehameha Schools Chief Executive Officer Team

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

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

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

We are honored to have the privilege.
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 28,500 — 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 0-3 and the ‘alua 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, pre-school 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 scholars studying for careers needed in building strong Hawaiian communities.

In fiscal year 2006, Kamehameha Schools:
- Reached a total of 7,300 students through its school, intersession 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 rate 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 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.

Kamehameha Schools Community Collaborators

‘Aho 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 re-kindled 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
- Hikpu‘u Learning Center
- Hawai‘i Community College
- Hawai‘i Restaurant Association
- Hina Maliaena
- Ho‘oulu Lihui
- Hui Mālama Learning Center and Neighbor Hood Place of Wailuku
- Hui No Ke Ola Pono, Inc.
- Institute for Native Pacific Education and Culture
- Ka Huli o Häloa
- Ke Ali‘i Pauahi Foundation
- Kapi‘olani Community College
- Kanai’s Community School for Adults
- Ke Ali‘i Pauahi Foundation
- Ma‘a Ka Hana Ka ‘Ike Building Program
- Mana Maeli
- Māua Community College
- Myron B. Thompson Academy
- Papakōlea Community Development Corporation
- Queen Lili‘uokalani Children’s Center
- Tūtā 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.

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<tr>
<th>Kamehameha Schools programs and collaborations</th>
<th>FY 05-06</th>
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<tbody>
<tr>
<td>SP1 Children Prenatal to 36 months</td>
<td>104</td>
</tr>
<tr>
<td>SP1 Center-based preschools</td>
<td>1,439</td>
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<tr>
<td>SP1 Preschool age children</td>
<td>1,094</td>
</tr>
<tr>
<td>SP1 K-3 grade in public schools</td>
<td>3,375</td>
</tr>
<tr>
<td>SP2 Supporting 4-12 grades, post-high and charter schools</td>
<td>12,043</td>
</tr>
<tr>
<td>SP3 Campuses</td>
<td>5,298</td>
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<tr>
<td>SP1-3 Caregiver training and support; support for families and caregivers of children PN-12; community</td>
<td>4,686</td>
</tr>
<tr>
<td>Total number of Hawaiians served</td>
<td>28,039</td>
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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 Hawaii’s 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 by 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. The past three years have witnessed dramatic growth for the Kamehameha Schools Endowment in every relevant measure.

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

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