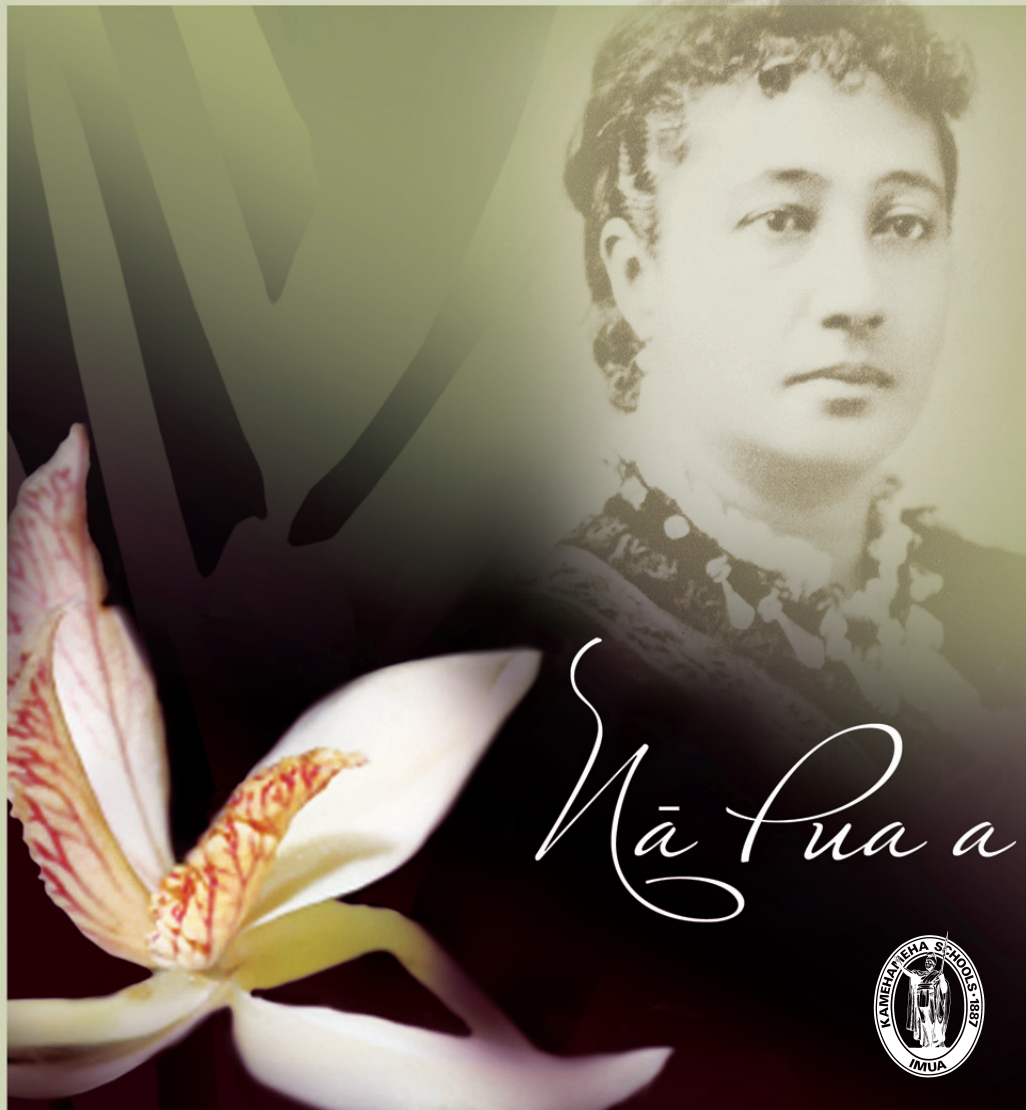


KAMEHAMEHA SCHOOLS ANNUAL REPORT JULY 1, 2003 - JUNE 30, 2004



# *Nā Pua a Parahi*





## THE LEGACY OF A PRINCESS

Princess Bernice Pauahi Bishop was the great-granddaughter and last direct royal descendant of Kamehameha I. During her lifetime, she witnessed a rapid decline of the Hawaiian population. With that decline came a loss of Hawaiian language, religion, customs and most of all...spirit.

Despite the dire condition of her homeland and its people, the princess envisioned a brighter future for Hawaiians. With the support of her husband Charles Reed Bishop, Princess Pauahi articulated her vision in her last will and testament.

She placed more than 375,000 acres of inherited Kamehameha lands in a perpetual endowment with one purpose: to create schools to improve the capability and well-being of Hawaiians.

In 1887, three years after her death, Princess Pauahi's vision became reality with the opening of the Kamehameha School for Boys. Seven years later, the Kamehameha School for Girls was established. In the years that followed, students acquired the skills and knowledge necessary to weather the changes brought about by western civilization, helping Hawaiians find their place in the new society.

Today, 117 years since its founding, Kamehameha Schools has grown into a statewide educational system with an endowment valued at more than \$6 billion. The system includes more than 30 preschool sites; K-12 campuses on Hawai'i, Maui and O'ahu and a broad range of educational outreach programs.

## *Nā Pua a Pauahi*

Our annual report theme, *Nā Pua a Pauahi* (The Flowers of Pauahi), refers poetically to Princess Pauahi's beneficiaries and is inspired by the saying *mohala i ka wai ka maka o ka pua*—unfolded by the water are the faces of the flowers. The phrase is a way of saying that flowers thrive where living conditions are good. Flowers are an affectionate metaphor for children in the Hawaiian language, and water is a sign of abundance. As Princess Pauahi had no children of her own, we are reminded of her profound love for and generosity toward all Hawaiian children and their families: beneficiaries of her legacy.



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### The Tamarind Tree

The flowers, leaves and pods pictured throughout this report are from the tamarind tree, which held great significance in Princess Pauahi's life. In accordance with ancient Hawaiian custom, Bernice Pauahi's placenta, or *'iwe*, was buried immediately after her birth and a tree was planted over it. The tree protected the *'iwe* from being desecrated and was considered the child's property. A tamarind sapling (*wī 'awa'awa*), was chosen for this auspicious purpose. The tamarind thrived, as did Pauahi.



Dee Jay Mailer

### A MESSAGE FROM OUR CHIEF EXECUTIVE OFFICER

In January 2004, my dream of returning home to Hawai'i and to Kamehameha Schools became a reality. Since then, I have had the honor of serving as the chief executive officer of this incredible institution—an institution full of hope, promise and possibilities for *nā pua a Pauahi*—Pauahi's children.

In my short time here, I have had the privilege of meeting many of Pauahi's children—beaming with pride and so ready to conquer the world. We are happy to share their stories and accomplishments with you through this report.

These successes were possible through the continued support of our students, staff, parents, alumni and the community. You have stood by us through troubles and triumphs, through sadness and exultation—never once wavering in your commitment to Pauahi's children, to the *'āina* (land) that sustains us and to the extraordinary mission entrusted to us by our princess.

With this in mind, I invite you to journey through this review of our 2004 fiscal year. I hope you will be excited and impressed with our progress, and encouraged and energized by our plans for the future. Please know that we at Kamehameha Schools remain *'onipa'a* (steadfast) in our commitment to Pauahi's vision to create educational opportunities to improve the capability and well-being of Hawaiians. It has been a remarkable year—please read on and see if you don't agree!

### 2004 Fiscal Year Highlights

#### Extending Our Educational Reach

Kamehameha extended educational opportunities to more Hawaiians than ever before during the 2003-2004 fiscal year. Combined enrollment at our Kapālama, Hawai'i and Maui K-12 campuses stood at 4,854 students—an increase of more than 400 students over the previous year. Our educational outreach programs made important strides as well.

Statewide preschool enrollment increased by more than 100 students to total 1,397. Outreach through our Extension Education Division was up by nearly 1,500 learners to 27,345. To extend our reach even further, Kamehameha supported 12 community-based charter schools serving 1,410 students—700 more than were served the year before.

#### Strengthening the Endowment

Extending our educational reach can only happen if our endowment resources are secure and growing. In fiscal year 2004, the market value of our endowment increased by \$678 million over the previous year, to \$6.2 billion. Revenue for the trust increased by \$295 million, to \$839 million. This strong, stable income stream enabled us to continue to expand our educational reach to more Hawaiians. In accordance with our spending policy, Kamehameha Schools invested \$221 million in educational programs, including the financing of \$60 million in capital projects—an increase of about \$1 million over fiscal year 2003.

#### Easing the Financial Burden for Families

Fulfilling our educational mission includes easing the financial burden of education for needy families. During the 2004 fiscal year, Kamehameha Schools awarded more than \$20 million in financial aid and scholarships to 7,746 recipients. The awards included about \$14.8 million in post-high school scholarships to Kamehameha and non-Kamehameha students, \$4 million in financial aid to Kamehameha students in grades K-12, and \$1.5 million in financial aid and scholarships

to Kamehameha and non-Kamehameha preschoolers. In our continued efforts to extend educational opportunities to more Hawaiians, we helped Alu Like, Inc. create a \$320,000 financial aid fund to provide much-needed tuition assistance to 1,500 public summer school students.

### **Cultivating Community Collaborations**

During the 2004 fiscal year, Kamehameha Schools cultivated many community collaborations to help extend our educational reach to the community—some of them are featured in this report. They include a partnership with the University of Hawai‘i College of Education to prepare teachers to tackle the unique learning needs of Hawaiian children, and a collaboration with the Hawai‘i Association for the Education of Young Children to help non-Kamehameha preschools through the national accreditation process.

### **Defending Our Landowner Rights**

Kamehameha Schools continued to oppose the forced sale of land because it violates our rights as a property owner and negatively impacts our asset values and earning potential, critical to the fulfillment of our mission. In March 2004, Kamehameha Schools prevailed in its legal challenge to the City and County of Honolulu’s condemnation of land beneath the Kāhala Beach Apartments. Circuit Judge Eden Elizabeth Hifo dismissed the condemnation, making it the second time the city’s attempt to condemn this property has failed. We are grateful to

the many members of the Kamehameha ‘ohana (family) who helped convey our message of opposition by sharing heartfelt written and oral testimony before the City Council.

### **Protecting Our Preference Policy**

In June 2003, Kamehameha Schools’ policy of giving preference to applicants of Hawaiian ancestry to the extent permitted by law was challenged in federal court by a non-Hawaiian student who was denied admission to the schools. In November 2003, Federal District Judge Alan Kay upheld our preference policy in the case of Doe vs. Kamehameha Schools. He stated that Pauahi’s intent was to educate Hawaiian children first, and that our policy seeks to correct educational and societal imbalances suffered by Hawaiians since the overthrow of the Hawaiian monarchy in 1893.

In August 2003, our preference policy was challenged once again by a non-Hawaiian student in the case of Mohica-Cummings vs. Kamehameha Schools. After vigorous discussion, our trustees made the difficult decision to settle the case, granting the student admission to the schools’ Kapālama Campus. The settlement means that Judge Alan Kay’s ruling in Doe vs. Kamehameha Schools is the only one remaining for appeal, giving us the greatest chance to preserve Pauahi’s legacy.

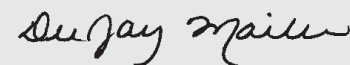
As we fought to defend our admissions policy, we were heartened to receive an

outpouring of support from the community including submission to the court of amicus briefs, testimonials, and thousands of petitions signed by nearly 85,000 Hawaiians and non-Hawaiians.

As this report goes to press, we all await a decision on the Doe vs. Kamehameha Schools case by three 9th circuit court judges. And we continue to do what Pauahi would have done...pray and push forward on our mission.

If Pauahi were here today, she would see that her legacy lives on in many wonderful ways. She would also see that our work here is not yet done. With the *kōkua* (help) of leadership, staff, students, parents, alumni and the community, we are working to fulfill Pauahi’s vision to nurture her beloved children by providing educational opportunities to help Hawaiians thrive. And thriving they are...in the classroom, on our lands, and in the community. But there are many more flowers that have yet to unfold—and in time they will, nourished by the legacy of our princess. So, our work continues...and to this I say, “*Imua (forward) Kamehameha!*”

*‘O wau iho nō me ka ha‘aha‘a*  
Humbly yours,



Dee Jay Mailer



Kamehameha Schools trustees Douglas Ing, Constance Lau, Nainoa Thompson, Diane Plotts and Robert Kihune beneath a tamarind tree on Kamehameha's Kapālama Campus. The empty bench is in loving remembrance of Princess Pauahi, who would spend hours sitting in the shade of her favorite tamarind tree counseling her people.

## OUR LEADERSHIP TEAM

In accordance with the will of Princess Pauahi, the governance of Kamehameha Schools rests with a board of five trustees. Each trustee is equally vested with the fiduciary responsibility of carrying out Princess Pauahi's will. The primary role of the board is to set strategic direction and policy, and they do so with great personal commitment and love for our Princess and her vision. Our trustees are nominated by a court-appointed search committee and appointed by the State Probate Court. The day-to-day management of Kamehameha Schools rests with a board-appointed chief executive officer who heads the executive leadership team.

### Board of Trustees

Nainoa Thompson, *Chair*  
 Diane J. Plotts, *Vice Chair*  
 Robert K.U. Kihune, *Secretary-Treasurer*  
 J. Douglas Ing, *Trustee*  
 Constance H. Lau, *Trustee*



Our Executive Leadership Team: Maui Campus Headmaster Dr. Rodney Chamberlain, Vice President for Legal Services Colleen Wong, Hawai'i Campus Headmaster Dr. Stan Fortuna, Interim Head of Educational Support Services Julian Ako, Kapālama Campus Headmaster Dr. Michael Chun, Chief Executive Officer Dee Jay Mailer, Vice President for Community Relations and Communications Ray Soon, Interim Head of Community Outreach Services Charlene Hoe, Vice President for Endowment Kirk Belsby and Vice President for Finance and Administration Michael Loo.

### Executive Leadership Team

#### Chief Executive Officer

Dee Jay Mailer

#### Vice Presidents

Kirk O. Belsby, *Endowment*  
 Michael P. Loo, *Finance and Administration*  
 Ray C. Soon, *Community Relations and Communications*  
 Colleen I. Wong, *Legal Services*

#### Education Heads

Julian Ako, *Interim Head, Educational Support Services*  
 D. Rodney Chamberlain, Ed.D., *Headmaster, Maui Campus*  
 Michael J. Chun, Ph.D., *Headmaster, Kapālama Campus*  
 Stan Fortuna, Jr., Ed.D., *Headmaster, Hawai'i Campus*  
 Charlene Hoe, *Interim Head, Community Outreach Services*



## *Implementing Our Strategic Plan*

In 1999, Kamehameha Schools embarked on a year-long planning effort that would lay the foundation for the extension of our educational reach to more Hawaiians; the creation of a strategic plan.

The collaborative planning process identified key issues, formulated strategies, and gathered valuable input from more than 4,000 Kamehameha stakeholders nationwide. The result was a set of strategic goals that define the educational, cultural and financial breadth and excellence that Kamehameha Schools is striving to achieve.



## OUR 15-YEAR STRATEGIC PLAN GOALS

*June 30, 2004 marked year four of Kamehameha Schools' 15-year strategic plan.*

- Kamehameha Schools will provide and facilitate a wide range of integrated, quality educational programs and services to serve more people of Hawaiian ancestry.
- Kamehameha Schools will work with families and communities in their efforts to meet the educational needs of people of Hawaiian ancestry.
- Kamehameha Schools will cultivate, nurture, perpetuate and practice *'ike Hawai'i* (all things Hawaiian including culture, values, history, language, oral traditions and literature).
- Kamehameha Schools will foster the development of leaders who focus on service to others.
- Kamehameha Schools will optimize the value and use of current financial and non-financial resources and actively seek and develop new resources.
- Kamehameha Schools will *mālama i ka 'āina*: practice ethical, prudent and culturally appropriate stewardship of lands and resources.
- Kamehameha Schools will continue to develop as a dynamic, nurturing, learning community.

## OUR FIVE-YEAR STRATEGIC IMPLEMENTATION PLAN

The Kamehameha Schools strategic plan laid a foundation for the extension of its educational reach to more Hawaiians. The strategic implementation plan builds upon that foundation by identifying priority goals that help speed us toward success.

### Progress Toward Our Priority Goals

Kamehameha Schools has made important progress toward its strategic plan goals thanks to the hard work and heartfelt dedication of its faculty and staff members. Following is a list of our priority goals, and the progress we have made since the inception of our strategic implementation plan on June 30, 2001.

### GOAL 1

Extend the reach in early childhood education

**Target:** Reach 10,000 *keiki* (children) from birth to four years old, by the end of fiscal year 2006.

**Progress:** By the end of fiscal year 2004, Kamehameha Schools had served approximately 3,800 additional preschoolers statewide.

- Preschool services were expanded to include more classrooms and extended day services at certain preschool sites.
- The Pauahi Keiki Scholars program was implemented to provide preschool scholarships to needy families.
- Non-Kamehameha preschools received assistance in achieving national accreditation through a collaboration with the Hawai'i Association for the Education of Young Children.

In addition to these programs, a significant focused community effort was identified in fiscal year 2004: Ho'omohala Kaiāulu will serve *keiki* from prenatal to eight years old.



It encompasses, as one of its services, the Hi'ilani Early Childhood Collaborative, which will offer parents and families training and support on how to optimize the development of their *keiki* during crucial growth years, from birth to three years old.

## GOAL 2

Extend the reach in K-12 education

**Target:** Reach 1,000 new students through K-12 collaborations, while maintaining the excellence of current programs.

**Progress:** By the end of fiscal year 2004 Kamehameha Schools had served approximately 7,000 new students statewide.

- Learners received academic counseling, literacy tutoring and enhanced learning opportunities through the Kamehameha Scholars, Literacy Enhancement and Enrichment departments.
- Students took part in summer programs focused on astronomy, writing, the arts and more, through the Kapalama Campus' Hi'ilei Center for Learning.
- Students studied service learning, writing and digital storytelling through the Office of Strategic Planning's Centers of Excellence.
- Public charter schools received funding, program and administrative support through Kamehameha's Ho'olako Like program and the Ho'okako'o Corporation.

## GOAL 3

Extend the reach in the area of career opportunities

**Target:** Serve 1,350 learners

**Progress:** By the end of fiscal year 2004, Kamehameha Schools had extended career opportunities to more than 4,200 learners nationwide.

- Youth and adults received career-focused education and training through the Career Education and Lifelong Learning department.
- Learners attained higher education with the help of career and technical education scholarships.
- Students benefited from internship opportunities in the fields of law, facilities design and research.

## GOAL 4

Enhance and engage community capacity for education

**Target:** 4,200 lifelong learners through educational options, and 8,200 learners through eco-cultural collaborations.

**Progress:** By the end of fiscal year 2004, Kamehameha Schools had extended its educational reach to nearly 117,000 learners in Hawai'i and around the world.

- Learners benefited from training, workshops, conferences and enhanced learning experiences through Kamehameha's Pauahi Leadership Institute; Community Learning Center at Nānākuli; and its

Health, Wellness and Family Education; Grants Assistance and Enrichment departments.

- Students had hands-on learning experiences on Kamehameha lands, through eco-cultural education programs like 'Āina Ulu.
- Global learners accessed educational opportunities through online and broadcast technology, made possible by the Distance Learning Department.

## GOAL 5

Enhance the Kamehameha Schools learning environment for students and their families

**Target:** No overall target specified

**Progress:** By the end of fiscal year 2004, Kamehameha Schools had verified the Hawaiian ancestry of nearly 22,800 program applicants through its newly created Ho'oulu Hawaiian Data Center. The center was created to eliminate barriers to Kamehameha programs and other programs that serve the Hawaiian population by providing ethnic and birth registry verification.



## GOAL 6

Develop and reallocate Kamehameha Schools' resources to support educational reach

**Target:** No overall target specified

**Progress:** By the end of fiscal year 2004, Kamehameha Schools had developed the following policies and programs to support educational reach:

- A spending policy was implemented that sets a target of four percent of the five-year average market value of Kamehameha Schools' endowment to be spent annually on its educational mission. Kamehameha's Endowment Fund, from which educational spending is set, grew from approximately \$5.8 billion, to \$6.2 billion.
- Ke Ali'i Pauahi Foundation, a nonprofit support organization to Kamehameha Schools, became operational in 2001 and has raised \$2.2 million in contributions and provided \$687,000 in scholarships.
- Comprehensive policies were implemented that related to Hawai'i land, agriculture, conservation and water. The goal of the policies is to optimize the cultural, educational, economic, environmental and community benefits of Kamehameha land.

## GOAL 7

Collaborate with others to support and perpetuate 'ike Hawai'i

**Target:** No overall target specified

**Progress:** By the end of fiscal year 2004, Kamehameha Schools had served more than 176,000 learners in Hawai'i and throughout the world:

- Learners of all ages accessed information on Hawaiian culture, practices and traditions through the Hawaiian Cultural Center Project Web site.
- Learners took part in programs that perpetuate Hawaiian culture, language and history through the Hawaiian Studies Institute. The programs include tours of the Heritage Center located on Kamehameha Schools' Kapālama Campus.
- Educators of Hawaiians benefited from the research, resource and reference material made available through Kamehameha's Pauahi Publications department.
- Readers and researchers alike benefited from Kamehameha's collaborations on archival projects such as *Ka Ho'oilina*, the Hawai'i Newspaper Project, the Ulukau Hawaiian Electronic Library and the Polynesian Voyaging Society Archives.



## *Fulfilling Our Educational Mission*

Kamehameha Schools was founded in 1887 by the will of Princess Bernice Pauahi Bishop, great-granddaughter and last royal descendant of Kamehameha the Great. Our 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.

Our educational system consists of more than 30 preschools statewide; K-12 campuses on Hawai'i, Maui and O'ahu and an Extension Education Division which provides a wide spectrum of programs and services for learners of all ages. In addition to serving Hawaiians through our campus-based and community outreach programs, we are focused on forming community collaborations to extend our educational resources even further.



## EARLY CHILDHOOD EDUCATION

*Since its inception more than 20 years ago, the Kamehameha Schools preschool program has provided more than 11,000 keiki with their first school experience. Today, approximately 14 percent of all Hawaiian preschoolers in Hawai'i are directly served by Kamehameha Schools.*

Pauahi's littlest flowers blossomed at 33 Kamehameha Schools preschools statewide during the 2003-2004 school year. Kamehameha extended its educational reach to nearly 1,400 keiki in 77 classrooms on Hawai'i, Kaua'i, Maui, Moloka'i and O'ahu. This was an increase of more than 100 keiki over the previous year.

Parents play a critical role in nurturing these precious blossoms. In addition to making preschool more accessible to parents through scholarships and enhanced school hours, Kamehameha Schools continued to encourage family involvement in the children's learning. Read how Kamehameha keiki are sharing the story of Princess Pauahi with their families in a story on page 12.

## 2004 Fiscal Year Highlights

### Pauahi Keiki Scholars

The Pauahi Keiki Scholars Program helped spur preschool attendance among island keiki. Kamehameha awarded more than \$1.3 million in need-based preschool scholarships to 308 four-year-olds during the 2003-2004 school year. The annual scholarships may be used at Kamehameha-approved preschools or those accredited by the National Association for the Education of Young Children. Early Childhood Education (ECE) Division staff members reviewed more than 60 preschools statewide to ensure that they met quality standards.

### Extended Day Program

The ECE Division helped make preschool accessible for more families by expanding its Extended Day Program by 10 additional classes, raising the total number of extended day classes to 21. Longer preschool days allow working parents, or parents attending school, to better align their schedules with preschool hours of operation.

### Early Childhood Collaborative

Plans were approved for the implementation of the Hi'ilani Early Childhood Collaborative, a program that will work with parents to promote positive child health, development and school readiness among *keiki*, with a special focus on Hawaiian children. Kamehameha Schools will team up with local health and educational organizations to serve *keiki* from prenatal to three years old. The program will begin its efforts in the community of Waimānalo, O'ahu.

### Teacher Training

In its efforts to enhance overall early childhood education in Hawai'i, Kamehameha Schools opened its ECE teacher training workshops to more than 130 educators including faculty and staff of private preschools, the state Department of Education and the University of Hawai'i. The workshops included a special visit by two nationally renowned art educators, Sharon Mitchell and Lenore Blank Kelner. The sharing of resources opened doors to future educational collaborations.

### An Educational Collaboration

Kamehameha Schools teamed up with the Hawai'i Association for the Education of Young Children (HAEYC) to guide 39 non-Kamehameha preschools through the national accreditation process. Funding was provided for mentor training and accreditation resources for HAEYC's accreditation project. More than 1,000 *keiki* stand to benefit from this partnership when the schools' accreditations are achieved. Accreditation from the National Association for the Education of Young Children ensures that a preschool meets the highest of educational standards.

### Family Involvement

Family involvement continued to be an important component of the ECE program. Kamehameha Schools preschools held parent workshops on topics including nutrition, child management, and literacy enhancement. Parents were also encouraged to be involved in their children's learning. During the 2003-2004 school year, parents gave generously of their time and *mana'o* (thoughts) to a number of preschool activities, including making presentations to *keiki* on their careers and the contributions they make to the community.

### Parent Satisfaction Surveys

A recent Parent Satisfaction Survey by evaluators from Western Michigan University indicated that parents across all regions of the state expressed high levels of satisfaction with Kamehameha Schools preschool programs. The survey of more than 1,300 parents revealed that 100 percent of them feel comfortable and welcomed in their child's classroom. The survey also showed that 100 percent of parents feel like they are part of the teaching team when it comes to their child's learning.

### A Pauahi Book for Preschoolers

The ECE Division's Hawaiian Culture Committee sparked the creation of a picture book on the life of Kamehameha Schools founder Princess Bernice Pauahi Bishop. Kamehameha Schools preschools received classroom copies of the book, and *keiki* received copies to share with their families. The book was written by retired Kapālama teacher Julie Williams, illustrated by Kamehameha graphic designer Robin Yoko Racoma, and printed in-house. Kamehameha Schools Press will publish the book in hard cover format.

Auntie Julie read to the wide-eyed four-year-olds gathered around her at Kamehameha Schools' Waimānalo Preschool. She pointed to the picture of baby Pauahi.

For the next 45 minutes, Julie Stewart Williams, retired Kamehameha elementary school teacher and author of the picture book, *Princess Pauahi*, kept her young audience engaged as she told them the story of their benefactor, Princess Bernice Pauahi Bishop.

As she read, she asked questions, and involved them in role-playing the story—a good strategy when dealing with squirming, wiggly *keiki*, as any veteran teacher of the very young knows.

Up until 2004, there had not been a book about Pauahi suitable for preschoolers. To bring Pauahi's story to life for them, the Early Childhood Education Division's Hawaiian Culture Committee approached Williams to author the book, and Kamehameha graphic designer Robin Yoko Racoma to provide its charming and colorful illustrations. The book was produced in-house and a copy was given to every four-year-old in Kamehameha Schools' preschool program.

"At Kamehameha Schools, we believe that preschoolers learn best with the help of their families," said ECE Regional Manager Māhealani McClellan. "Our hope is that each *keiki* will share Pauahi's story with their 'ohana."

This book is a simpler version of the original *Princess Pauahi* book written by Williams for upper elementary school students. "I left out a lot of things from the original book," said Williams. "The story can't be too long for the little ones."

But she did include the story of Pauahi's birthday surprise at the request of teachers. It tells of German sailors bringing a birthday cake with her name written in the center of the cake, and singing to her in German.

Some preschool classrooms celebrate Pauahi's birthday with a cake that has her name in the center, and now, they will have her story to read and re-enact every December 19.

ECE Division brings  
Pauahi's story to life  
for preschoolers

*"Bernice Pauahi! Born on a rainy day,  
December 19, 1831. A princess in the  
kingdom of Hawai'i. Great-grand-daughter  
of Kamehameha."*

- Excerpt from *Princess Pauahi*



Retired Kamehameha elementary school teacher Julie Stewart Williams reads to Waimānalo Preschool *keiki* from her picture book *Princess Pauahi*. The book project was coordinated by the Hawaiian Culture Committee of Kamehameha Schools' Early Childhood Education Division.



## KAMEHAMEHA SCHOOLS KAPĀLAMA CAMPUS (K-12)

*In 1887, Princess Pauahi's vision of educating Hawaiians became reality with the opening of the Kamehameha School for Boys on the current site of Bishop Museum. The school had an enrollment of 35 students. Seven years later, the Kamehameha School for Girls opened nearby. Between 1930 and 1955, the schools moved mauka to their current site.*

Kamehameha Schools' 600-acre Kapālama Campus is located in the verdant hills of Kapālama, O'ahu. Nearly 3,200 children, in grades K through 12, received Pauahi's gift of education at this campus during the 2003-2004 school year.

The campus cultivated the education of Hawaiians beyond its classroom walls, through far-reaching programs like the Kamehameha Schools Song Contest and the Hawaiian Cultural Center Project Web site. Another important way it extended its educational reach is through the development of community collaborations. Read how the campus teamed up with the University of Hawai'i to train teachers of Hawaiian children in a story on page 17.

## 2004 Fiscal Year Highlights

### Educational Collaboration

Eleven Kapālama Campus elementary school teachers served as mentors for student teachers from the University of Hawai'i College of Education's Kaho'iwai program. The program uses culturally relevant curriculum and teaching strategies to prepare *kumu* (teachers) to teach from a Hawaiian perspective. Graduates of the program are currently teaching at Hawaiian language immersion schools and public charter schools across the state.

### Service Learning

For the 10th year in a row, Kapālama Campus elementary school students raised more money than any other Hawai'i school, and was among the top fund-raisers in the nation, as part of the American Heart Association's Jump Rope for Heart educational fund-raiser. They raised \$55,000 in the 2003-2004 school year. Studies show that Hawaiians have among the highest rate of heart disease in the nation. Over the past two decades, the elementary school children have learned about heart-healthy habits and raised more than \$700,000 for this worthy cause.

### Talented Youth

Eighteen Kapālama fifth and sixth graders were honored as top scorers in the Johns Hopkins University Center for Talented Youth Talent Search—the highest number



of awards of any school in Hawai'i. The Baltimore-based center recognizes students with exceptional math and verbal reasoning abilities, and offers them unique learning opportunities. Five students will be attending summer enrichment programs at such learning institutions as Stanford University. Others participated in online Johns Hopkins writing courses.

### **New Leaders**

The Kapālama Campus elementary school welcomed two new leaders to its employee 'ohana—Principal Holoua Stender and Vice Principal Ronnie Kopp. Stender has been with the Kapālama campus for 25 years, most recently as vice principal of the elementary school. He replaced longtime Principal Kahele Kukea. Kopp is a former fourth-grade teacher who has been with the campus for over 23 years.

### **Interim Accreditation**

The Kapālama Campus middle school received approval of interim accreditation by the Schools Commission of the Western Association of Schools and Colleges (WASC) until June 30, 2007. The designation was achieved after an on-site visit to the campus by WASC committee members and the submission of a comprehensive accreditation report based on such criteria as curriculum, instruction, leadership, assessment and parent and community involvement.

### **National Merit Scholars**

The Kamehameha Schools class of 2004 yielded two National Merit finalists, two National Merit semi-finalists, and 18 National Merit commended scholars. Out of more than a million entrants into the prestigious scholarship program each year, only 50,000 students with the highest PSAT/NMSQT scores qualify for recognition in the program. National Merit Finalists rank among the top 15,000 students nationwide, semi-finalists rank among the top 16,000 students, and commended scholars rank among the top 34,000 students.

### **College Bound**

The Kamehameha Schools class of 2004 added 435 graduates to the schools' distinguished list of alumni. Fifty-four of those graduates earned honors diplomas, and 97 percent of them planned to pursue higher education. Since the schools' founding, the campus has graduated more than 20,000 young men and women. Kamehameha graduates have helped shape our society as leaders in many fields, including business, health, education, government, science, social services and culture and the arts.

### **Song Contest**

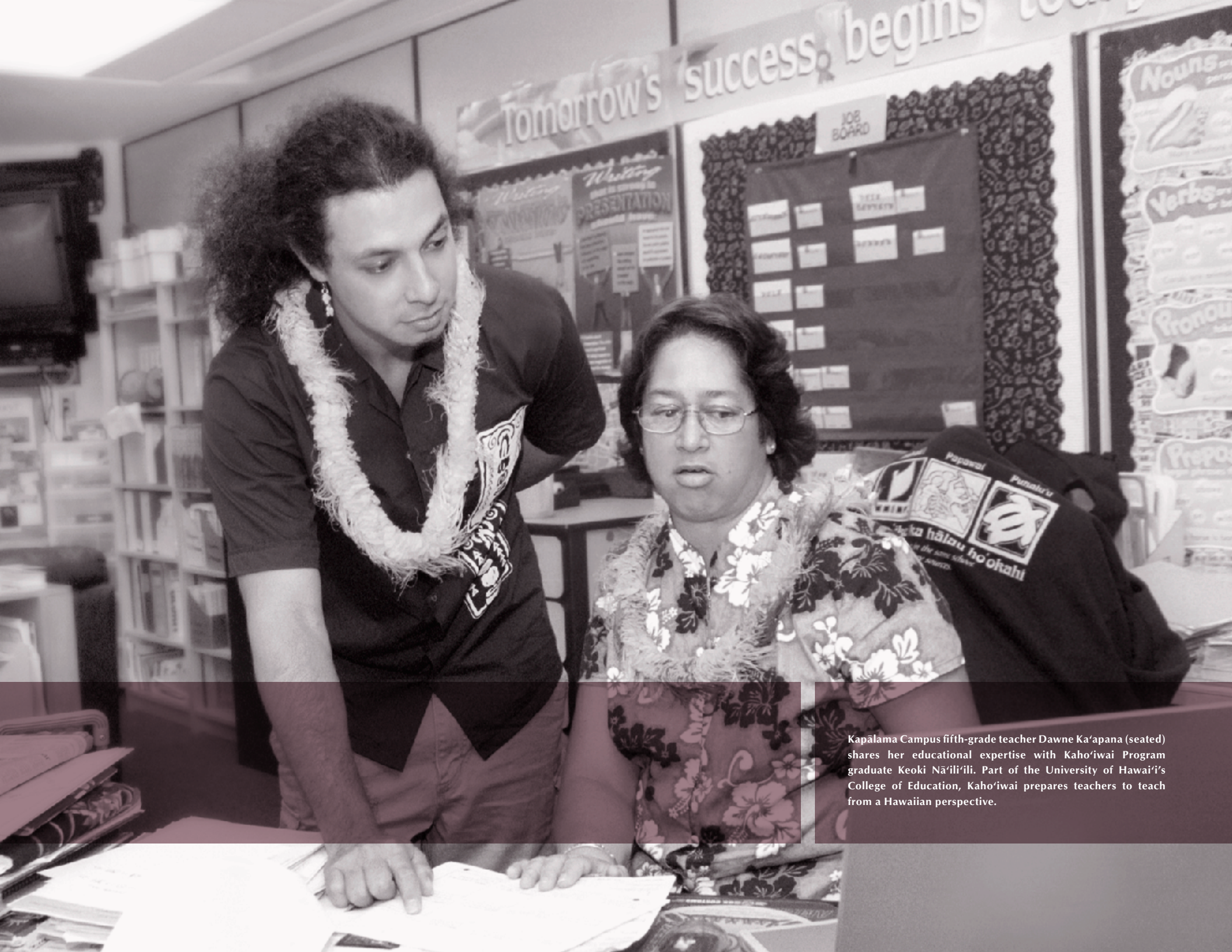
The 82nd Annual Kamehameha Schools Song Contest, honoring the works of Auntie Leila Hoho Ki'aha, showcased the musical talents of Kapālama high school students. The locally televised special is a highlight for the Kamehameha



community as well as the general public. This year, the special was televised locally and once again streamed live, on Kamehameha Schools' Web site, to the world. The Friday night broadcast was viewed by thousands of local residents as well as Hawaiians and non-Hawaiians in Kirkland, Washington through a pilot Internet broadcast coordinated with the Kamehameha Schools Northwest Alumni Region.

### **Hawaiian Cultural Center Project**

HCCP is laying the groundwork for the creation of a cultural facility at the Kapālama Campus. In its continued efforts to promote Hawaiian cultural education, practices and traditions, HCCP launched its Web site: <http://kaiwakiloumoku.ksbe.edu>. Entitled *Ka'iwakiloumoku* (an epithet given to King Kamehameha) the site features a wellspring of information on all things Hawaiian, including issues, events, health, history, music, literature and food.



Kapālama Campus fifth-grade teacher Dawne Ka'apana (seated) shares her educational expertise with Kaho'iwai Program graduate Keoki Nā'ili'ili. Part of the University of Hawai'i's College of Education, Kaho'iwai prepares teachers to teach from a Hawaiian perspective.

## A C O L L A B O R A T I O N F O R E D U C A T I O N

With an *oli kāhea* (entrance chant), they entered the Nu‘uanu Pali Lookout, preparing to see, with new eyes, the place where Kamehameha led the hard-fought battle of Nu‘uanu, defeating O‘ahu Chief Kalanikūpule and his warriors.

For the fifth and sixth grade students from Honolulu charter school Hālau Lōkahi, the lookout had become a living classroom. Integrating the disciplines of history, language arts and art, their teacher, Keoki Nā‘ili‘ili, instructed them to imagine the events of that historic day, reflect on their feelings as they stood on the ancient battleground, then draw the landscape and write a poem about the significance of the battle.

One might think that this was a special exercise, done only occasionally. In fact, it is an example of the way Nā‘ili‘ili and 19 other specially trained elementary school teachers teach Native Hawaiian students in Hawaiian language immersion schools, public charter schools and schools in Hawaiian communities.

The teachers are members of the first graduating class of the Kaho‘iwai program, a collaboration between the Kamehameha Schools Kapālama Campus, and the University of Hawai‘i College of Education. The program takes advantage of the vast educational resources at the Kapālama Campus, and is designed to reverse a hard fact—that Native Hawaiian children have not fared well in Hawai‘i’s public schools, both from a lack of qualified, tenured teachers, and the use of educational methods and curriculum that ignore Native Hawaiian language, culture and traditions.

“Our mission as teachers of Hawaiian children is to take the standard curriculum and adapt it to become something that is familiar and *pono* (appropriate) for Hawaiian children,” said Nā‘ili‘ili.

While Kaho‘iwai covers the same academic subjects as the UH College of Education’s core curriculum, the courses are taught by Native Hawaiians as much as possible. The student teachers are also mentored by Kapālama Campus elementary school teachers who incorporate *‘ike Hawai‘i* into their classroom curriculum.

Already, Kaho‘iwai is recruiting a new group of student teachers to join the ranks of these special teachers of Native Hawaiian children.

*“Our mission...is to take the standard curriculum and adapt it to become something that is familiar and pono...”*

– Keoki Nā‘ili‘ili  
Charter school teacher

Kapālama Campus teams up with UH to prepare teachers to tackle the unique needs of Hawaiian children



# K

## KAMEHAMEHA SCHOOLS HAWAI'I CAMPUS (K-12)

*The Kamehameha Schools Hawai'i Campus began serving Big Island children in a temporary Keaukaha facility in 1996. The school had an opening enrollment of 80 elementary school students. The permanent Hawai'i campus opened its doors to 144 elementary school students in 2001.*

The 312-acre Kamehameha Schools Hawai'i Campus is located in scenic Kea'au, eight miles south of Hilo. Nearly 830 of Pauahi's *keiki*, in grades K through 10, prospered in both mind and spirit here during the 2003-2004 school year—a 30 percent increase over the previous year.

Much of this prosperity was in the perpetuation of *'ike Hawai'i*, an emphasis throughout the Kamehameha Schools system. Hawai'i campus teachers integrated *'ike Hawai'i* into nearly every school subject in innovative ways, including experiential learning. Read how Hawai'i middle schoolers learned how to *mālama* (care for) the land using Moloka'i as their classroom in a story on page 20.

## 2004 Fiscal Year Highlights

### Campus Construction

The Hawai'i Campus celebrated completion of five new high school facilities during the 2003-2004 school year: a learning center, a science building, an administration/classroom building, a dining hall and a full-sized gymnasium.

### Collaborations for Education

The Hawai'i Campus continues to find ways of sharing its resources and combined expertise with others. During the 2003-2004 school year, the Hawai'i Campus opened the doors of its elementary school library to the faculty and students of Ke Kula 'O Nāwahioalani'ōpu'u Hawaiian immersion school. In another community collaboration, the campus shared the time and expertise of its teachers with the University of Hawai'i Teacher Training Program. Four Hawai'i Campus elementary school teachers also served as mentors to four UH student teachers, helping them to successfully complete their training.

### Theme Week

The Hawai'i Campus provided middle school students with the opportunity to explore careers in Business and Leadership, Arts and Communications, and Science and Technology through its annual Theme Week event. Twenty-two Hawaiian leaders spoke to students on possible career paths, opening their

eyes to a broad spectrum of possibilities. Speakers included Kamehameha Schools Trustee Nainoa Thompson and Lieutenant Governor Duke Aiona. Students also visited career opportunity sites throughout the community.

### **‘Ike Hawai‘i**

The perpetuation of *‘ike Hawai‘i* is an emphasis throughout the Kamehameha Schools system. The Hawai‘i Campus included as one of its *‘ike Hawai‘i* service learning projects, a trip to Moloka‘i for the entire eighth grade class. During their three-day journey of discovery, students learned from island *kūpuna* (elders) how to *mālama* the land using nature as a classroom.

### **Character Education**

Two programs were implemented to cultivate character education on the Hawai‘i Campus. A program entitled *Ke ‘Ano o Ka Liko Lehua o Kea‘au* (the nature of the children of Kea‘au) was developed for Hawai‘i Campus high schoolers. The program included lessons on goal-setting, decision-making, Christian education practices, pride in Hawaiian identity, traditional music of Kamehameha Schools, and organizational skills. The campus’ middle school developed a peer counseling program. Twenty-four students were trained in conflict resolution and peer counseling. In addition to helping their peers, the students facilitate

community-building activities, promote service learning, and serve as ambassadors of goodwill throughout the school.

### **High School Opens**

Ninth and tenth graders celebrated the opening of the campus’ new high school facilities. Sophomores were introduced to the school’s Career Academy program, which begins in their junior year. The program combines liberal arts and technical preparatory studies to provide students with both skill development and career orientation. Planned career academies include Arts and Communication, Business and Leadership, Engineering and Design, Health and Wellness, Science and Natural Resources, and Social and Government Services.

### **Career Academy Summer Institute**

The Kamehameha Schools Hawai‘i Campus held a hands-on institute to prepare high school teachers for the planned launch of the campus’ Career Academy program. In addition to acquainting teachers with the academy design and curriculum, the institute featured field trips to area colleges to discuss future collaborations and career shadowing opportunities with Big Island community members. The field trips helped teachers gain real-world perspective on their areas of focus.



### **Hō‘ike 2004**

The school year culminated with this exceptional performing arts *hō‘ike* (show) that highlighted the song, dance and drama talents of Hawai‘i Campus high schoolers. More than 1,800 parents, community leaders and school dignitaries attended the event which paid tribute to the school’s home district of Puna. In addition to highlighting the talent of high schoolers, Hō‘ike brought to life another example of perpetuating *‘ike Hawai‘i*.

When 93 middle school students from the Kamehameha Schools Hawai‘i Campus landed at tiny Moloka‘i airport, it was the beginning of an unforgettable Hawaiian cultural adventure to an island some of them had never seen. The journey of discovery would allow them to serve the community and to learn valuable life lessons from *kūpuna* who live close to the land.

The interisland trek was part of the middle school’s curriculum that seeks to perpetuate *‘ike Hawai‘i* by integrating them into school subjects such as math, English, economics, history and geography.

The odyssey actually began six months before they arrived on Moloka‘i. The students developed plans to raise funds to pay for their airfares—by selling Big Island Candies crunch bars and washing cars. The three-day Moloka‘i experience would have greater meaning because they had earned it themselves.

And what an experience it turned out to be!

Nothing could have been more powerful for these young people than putting their hands to the task of caring for the land as they learned from Moloka‘i *kūpuna* about their *kuleana* (responsibility) for the land.

Walter Ritte, Jr. taught them about caring for the whole *ahupua‘a* (land division from mountain to ocean) as they helped Keawa Nui build a stonewall near the edge of the fishpond.

As they cleaned up the beach at Hui Mālama o Mo‘omomi, Mac Poepoe explained why healthy oceans are important to sustain life.

In a nearby garden, where they mulched soil and tended to plants, Moke Kim taught them about medicinal plants and organic gardening.

“On this small island, our students were able to see more clearly their need and responsibility to *mālama*—care for the land and our people,” said middle school teacher Cathy Ikeda. “They went to Moloka‘i to serve the community, but Moloka‘i taught them a lesson about *kuleana* they will never forget.”

Student Mailani Ahuna summed it up in her reflections on the journey, “The bridge between generations was built and will stand strong thanks to the knowledge being passed on to future generations. We are the future!”

Hawai‘i Campus  
middle schoolers nurture  
the *‘āina* using nature  
as their classroom

*“On this small island, our students  
were able to see more clearly their need  
and responsibility to mālama ~ care for  
the land and our people”*

– Cathy Ikeda  
Middle school teacher



Hawai'i Campus students Colton Collins, Mailani Ahuna and their classmates learn from Moloka'i *kūpuna* how to care for the land like their ancestors. The experience is part of the perpetuation of *'ike Hawai'i* emphasized throughout the Kamehameha Schools system.



## KAMEHAMEHA SCHOOLS MAUI CAMPUS (K-12)

*The Kamehameha Schools Maui Campus began serving island keiki in a temporary Pukalani facility in 1996. The school had an opening enrollment of 80 elementary school students. The permanent Maui campus opened its doors to 152 elementary school students in 1999.*

The 180-acre Kamehameha Schools Maui Campus sits on the gentle slopes of Maui's spectacular dormant volcano, Haleakalā. Nearly 830 of Pauahi's children in grades K through 10 flourished at her Maui campus during the 2003-2004 school year—a 41 percent increase over the previous year.

One area of education in which this campus has made exceptional strides, is the teaching of service leadership, a practice fostered throughout the Kamehameha Schools system. The campus operates on the belief that service leadership should not only be a lesson, but a lifestyle. Students, faculty and teachers are encouraged to *kōkua* their communities through service projects. Read how Maui high schoolers lived a lesson in servant leadership by helping a homeless family build the home of their dreams in a story on page 25.

## 2004 Fiscal Year Highlights

### Campus Construction

Several construction projects were underway on Maui's high school campus, including a stadium, a full-sized gymnasium, two career academy buildings, an administration/student center building, and a maintenance building. Construction on the projects were slated for completion during the 2005 fiscal year.

### Service Learning

One of the goals of Kamehameha Schools is to foster the development of leaders who focus on service to others. To this end, the Maui Campus students and staff took part in more than 20 community service projects to *kōkua* their neighbors in the Maui community and beyond. Projects included helping Maui families build their houses through Habitat for Humanity, helping residents clean and repair their homes in Kalaupapa, Moloka'i, and raising more than \$39,000 for organizations such as the American Heart Association.

### In-Service Days

The campus set aside six days throughout the year for in-service activities for faculty and staff. The days were dedicated to building a sense of community among the Maui Campus *'ohana*, learning more about Hawaiian culture, connecting with fellow private school teachers and learning new technology skills. The campus



also used the in-service days to begin the self-study process necessary for accreditation by the Western Association of Schools and Colleges.

### **Summer of Opportunities**

The Maui Campus initiated its Summer of Opportunities program in 2003. Community response to the program was excellent, with an enrollment of 645 Kamehameha students and 274 non-Kamehameha students. The summer program offered a broad spectrum of courses, including math, language arts, technology, sports, Hawaiian culture and the arts. The Summer of Opportunities was staffed by teachers from the Kamehameha Schools faculty as well as the Maui community.

### **Collaborations for Education**

The Maui Campus carried on its commitment to supporting the greater Maui community by hosting several educational conferences. The campus lent its facilities, and the time and effort of its faculty and staff members to events including: the Maui Educational Technology Conference, the Maui County Parent Community Network Conference and the Maui County Middle School Conference.

### **New Leader**

The Maui Campus welcomed a new member to its leadership team during the 2004 fiscal year. Dr. Paul Prevenas joined the campus in August 2003, as elementary school principal. Prior to joining

the Kamehameha Schools 'ohana, Prevenas served as superintendent to the Brookings-Harbor School District in Oregon.

### **High School Opens**

Ninth and tenth graders celebrated the opening of the campus' new high school facilities. Sophomores were introduced to the school's Career Academy program, which begins in their junior year. The program combines liberal arts and technical preparatory studies to provide students with both skill development and career orientation. Academies include: Arts and Communication, Business and Leadership, Information and Technology, and Science and Natural Resources.

### **Laptop Program**

In its efforts to integrate technology into the school curriculum, the campus introduced an innovative wireless computer laptop program for ninth and tenth graders. The pilot program empowers students with the high-tech tools they need to succeed in their academic endeavors, including Internet access from anywhere on campus. A parent component was integrated into the program through a special Parent Laptop Night, an event that encouraged families to share the computers and to master all of their capabilities.



Maui Campus Chaplain Kalani Wong (center right), homeowner Maddie Kaeo (center left) and students celebrate with prayer the completion of the Kaeo family home. Students helped build the home as part of a service learning experience through Habitat for Humanity.

## TEENS UNDER CONSTRUCTION

There are many ways “to know God and to make God known.” The students of the Kamehameha Schools Maui Campus high school Christian club, Teens Under Construction, chose this simple declaration as their mission.

Getting to know God is the foundation of their Christian practice which they strengthen through Bible studies and worship. Making God known is the manifestation of their practice through action, which includes leading worship and undertaking service learning projects. Involving students in service projects that focus on others is also a Kamehameha Schools strategy for developing future leaders.

One such project is Habitat for Humanity, the nonprofit, nondenominational Christian housing organization that builds simple, decent, affordable houses, working in partnership with families who lack adequate shelter. Twelve members of the club signed up to help one of these families.

The family in need was Maddie Kaeo and her two young grandchildren, Kūpono and Kūlani, who had been homeless for a long time. Now, the family has a home of their own on Hawaiian Homelands in Waiohuli.

“Our job was to help prepare the drywall, then texture and paint the walls and ceiling,” said Kahu Kalani Wong, the Maui campus chaplain. “The students had to learn how to use the tools and master the techniques needed to get the job done.”

In the end, the students put in 200 work hours over five weekends spanning a two-month period. It was an experience they will not soon forget.

For junior James Carvalho-Apo, “It was fun learning how to do construction work, and great knowing that I was improving someone’s life.”

Classmate Chelsie Van Buren said, “It gives you a good feeling when you’re able to help somebody, especially without expecting anything in return.”

Club President Awapuhi Dancil agreed. “It was fulfilling because you’re helping someone. The look on Maddie’s face was great every time she saw her house getting closer to reality.”

*“It gives you a good feeling when you’re able to help somebody, especially without expecting anything in return.”*

– Chelsie Van Buren  
Maui Campus high school student

Maui Campus  
high schoolers help  
build homes and  
dreams through  
servant leadership



## EXTENSION EDUCATION

*Kamehameha Schools' Extension Education Division (EED) is charged with extending Kamehameha Schools' educational reach to those not served by our campus-based programs. The division traces its roots to the late 1960s. EED encompasses nine departments which provide programs and services for keiki to kūpuna.*

More than 27,000 learners of all ages benefited from the outreach of the Extension Education Division during fiscal year 2004, an increase of 1,500 over the previous year. The increase was due to the establishment of nine major programs to extend the reach of Kamehameha Schools into communities in Hawai'i and on the continental US.

A key to EED's program expansion was the division's successful collaboration with community organizations to deliver more services to Hawaiians. In addition to existing partnerships with agencies such as the Queen Lili'uokalani Children's Center and Alu Like, Inc., the division leveraged its resources through collaborative agreements with 17 organizations. Read how one EED department used a long-standing collaboration to help an orphan realize her dreams of a higher education in a story on page 28.

## 2004 Fiscal Year Highlights

### Career Education and Lifelong Learning

This department enhances economic self-sufficiency and sustainability for Hawaiian youth and adults through career-focused education and training programs.

More than 3,500 learners were served through programs such as student internships, career academies, career interest inventory and development workshops, industry-recognized certification programs, and job placement opportunities.

### Community Learning Center at Nānākuli

This center provides educational support services to Hawaiians on the Wai'anae Coast, through Kamehameha programs and collaborations with other service providers.

The center teamed up with six outside agencies and four EED departments to provide resource and referral services to 530 Hawaiians. Services included computer technology classes, family nutrition classes and application assistance for Kamehameha Schools programs.

### Enrichment

This department provides a variety of educational opportunities to primarily non-Kamehameha campus Hawaiian learners, to enrich and enhance academic achievement, self-worth and cultural awareness.

More than 4,600 learners were served through its enrichment programs, which included two new Ho'olauna summer programs for non-Kamehameha students on Kaua'i and Moloka'i. The week-long boarding experiences focused on Hawaiian culture in the context of each island.

### **Grants Assistance**

This department provides educational assistance to Hawaiian communities to enable them to access and successfully bid for both federal and non-federal resources.

Grants information and assistance was provided to nearly 430 learners. Twenty-nine learners submitted 85 grant proposals resulting in 26 grants awarded and 31 pending replies.

### **Hawaiian Studies Institute**

This department provides educational and cultural services in *'ike Hawai'i* to the learning community.

The institute served more than 11,800 learners through its cultural education programs. HSI's *kupuna* resource program implemented an island-centered cultural education program for Moloka'i *keiki*. And, its Hawaiian traveling resource program served 112 schools and organizations statewide and on the continental US.

### **Health, Wellness and Family Education**

This department provides culturally appropriate educational services and products to increase resiliency, decrease at-risk behaviors and improve the health and well-being of Hawaiian families.

More than 3,500 learners were served through its outreach programs, including Kūpa'a: Building Healthy Families conferences on Hawai'i and O'ahu. The conferences featured sessions on topics such as nutrition, developing resilient families and surviving domestic violence.

### **Kamehameha Scholars**

This department increases educational success and post-secondary options for Hawaiian youth through a variety of learner support services.

Kamehameha Scholars helped increase the educational success of more than 275 middle school students through a broad scope of services, including: counseling, leadership training, study skills development and parent involvement. The department served scholars and their families in the regions of Leeward O'ahu, Kaua'i and West Hawai'i.



### **Literacy Enhancement**

This department increases literacy achievement and builds capacity among teachers and parents by providing support in the following areas: curriculum and instruction, professional development, tutoring and parent education.

Literacy Enhancement served nearly 2,600 learners through its outreach services. With the department's support, Nānākuli and Nānāikapono elementary schools met their grade three performance benchmark indicators in reading for the Hawai'i Content and Performance Standards II State Assessment Program which measures achievement in reading comprehension and math.

It's a small office with two staff members at a mall in Nānākuli. But having Kamehameha Schools' Learning Center at Nānākuli here is no small thing to the West O'ahu community.

The small center made a big difference in the life of Leona Wright. While she was a senior at Nānākuli High School, Leona came to the center to get help with her Kamehameha Schools college financial aid application. She had heard about the center while volunteering at Kamehameha's Literacy Enhancement program at Nānākuli Elementary School. Her mother, who would have helped her, had recently died in an accident.

"Being a smart young lady, Leona had all her records and documents in order," said Paula-Ann Burgess-Tauala, director of the center. "We helped her complete her application and sent her on her way."

To Burgess' surprise, a few months later, Leona returned to inform Kamehameha Schools' Financial Aid and Scholarship Services Department that her father had died several days earlier. In addition to these life-altering events, she was a minor, unable to sign her own financial aid forms.

Burgess and Kamehameha Schools' Financial Aid staff teamed up with professionals at the Queen Lili'uokalani Children's Center to make sure that Leona had the emotional and financial support she needed to achieve her academic goals. Today, Leona is working toward a

Speech Pathology degree at Kapiolani Community College.

"Aunty Paula is so understanding and supportive," said Leona. "She and the rest of the Kamehameha Schools staff are like family to me."

The center allows Kamehameha Schools to deliver its programs and services to West O'ahu families. These opportunities range from the very popular computer technology classes and Competency-Based Classroom Instruction (to complete a high school diploma), to infant *lomilomi* (massage) and nutrition classes for parents and grandparents.

Other high-demand services include assistance with applications for Kamehameha's campus-based programs, summer and enrichment programs, financial aid and Hawaiian ancestry verification.

"People really appreciate the individual time spent with them," said Burgess, "and we consider it a privilege to be able to extend Pauahi's vision to them."

Community Learning  
Center at Nānākuli  
helps Hawaiians  
help themselves

*"Aunty Paula is so understanding  
and supportive...she and the rest  
of the Kamehameha Schools staff  
are like family to me."*

- Leona Wright  
Scholarship recipient



Learning Center at Nānākuli Director Paula-Ann Burgess-Taula lends support to college student Leona Wright. Burgess and Kamehameha's Financial Aid staff teamed up with other community organizations to help Leona apply for college financial aid after the passing of her parents.



## CHARTER SCHOOL SUPPORT

*Kamehameha Schools views charter schools as a promising educational alternative, and demonstrated its support by developing two strategies to extend Pauahi's legacy to Hawai'i's public school students. In fiscal year 2004, Kamehameha Schools developed Ho'olako Like, a program which supports Hawaiian-centered, community-based start-up charter schools; and assisted in the development of the Ho'okāko'o Corporation, a nonprofit that operates conversion charter schools.*

During the 2004 school year, there were 26 charter schools in Hawai'i. Kamehameha Schools provided funds and services to 12 of them—11 start-up charter schools and one conversion charter school. Read how one charter school is helping restore Hawaiian pride in its students in a story on page 33.

## HO'OLAKO LIKE

Ho'olako Like provides financial support to start-up charter schools that emphasize Hawaiian values, culture and language. In addition to providing much-needed funding, the program provides assistance with curriculum, program evaluation, professional staff development, accreditation and consultation on other funding opportunities.

### 2004 Fiscal Year Highlights

#### Learners Served

Eleven community-based charter schools on Hawai'i, Kaua'i and O'ahu received more than \$1.2 million in funding through Kamehameha Schools' Ho'olako Like program. The charter schools, operating in predominantly Hawaiian communities, served 890 students, 94% of whom are of Hawaiian ancestry. This was an increase of more than 200 students over the previous year.

#### More Qualified Schools

Three new charter schools qualified for assistance through Ho'olako Like during fiscal year 2004, including the state's only Leeward O'ahu charter school—Ka Waihona O Ka Na'auao in Mākaha. The other new schools are located on the island of Hawai'i: Kua O Ka Lā in Pāhoa and Ke Kula 'O Nāwahīokalani'ōpu'u 'Iki, a Hawaiian language immersion school in Kea'au.



### **Per-Pupil Funding Increase**

Kamehameha Schools contributes \$1 for every \$4 contributed to charter schools by the state Department of Education (DOE). During the 2004 fiscal year, Kamehameha Schools' funding increased from \$970 per student to \$1,339 per student, based on an increase in the DOE's per-pupil allocation from \$3,380 to \$5,354.

### **Training and Support**

In addition to providing funding, Ho'olako Like collaborated with Kamehameha departments and community organizations to offer valuable technical training and support to 12 charter schools. The support included leadership training through Kamehameha's Pauahi Leadership Institute and a learning assessment workshop by its Policy Analysis & System Evaluation Department.

### **HO'OKĀKO'O CORPORATION**

Kamehameha Schools is also supporting conversion charter schools serving Hawaiian communities through the Ho'okāko'o Corporation, an independent, nonprofit organization that operates traditional public schools that have converted to charter schools. Ho'okāko'o Corporation serves as the schools' local board as well as its link with the state Department of Education, the state Board of Education, labor unions and other supporting entities such as Kamehameha Schools.

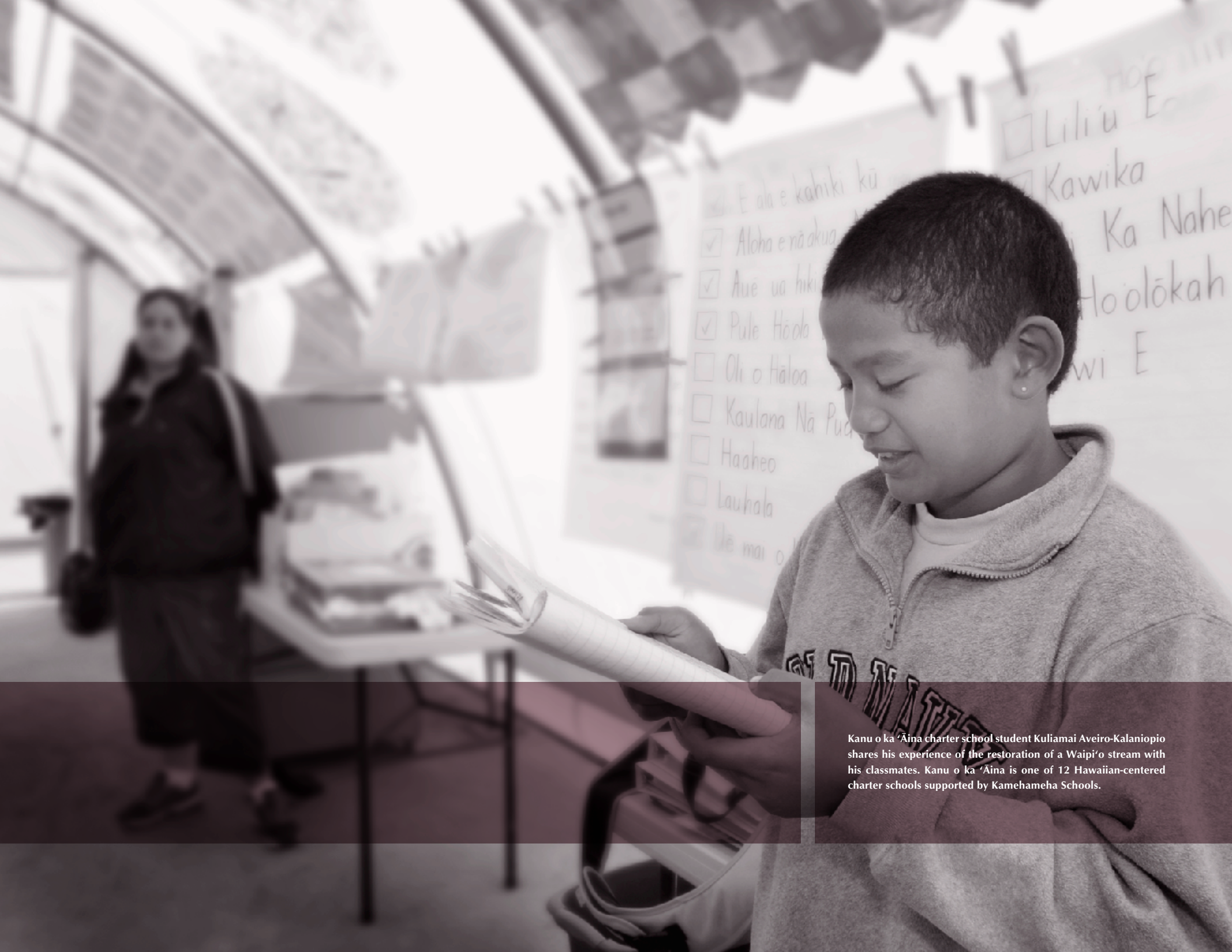
### **2004 Fiscal Year Highlights**

#### **Waimea Middle School**

Kamehameha Schools contributed more than \$700,000 to the Ho'okāko'o Corporation to help provide financial support to this conversion charter school in Kamuela, Hawai'i. Waimea Middle School was the first to be funded through the corporation. The school had an enrollment of 520 *keiki*, nearly 200 of whom were of Hawaiian ancestry.

#### **Kualapu'u Elementary School**

Ho'okāko'o Corporation received authorization from the state Board of Education to operate this conversion charter school on Moloka'i. The school serves 336 students, more than 300 of whom are of Hawaiian ancestry. Kamehameha Schools will provide funding to this school through the corporation during the 2004-2005 fiscal year.



Kanu o ka 'Āina charter school student Kuliamai Aveiro-Kalaniopio shares his experience of the restoration of a Waipi'o stream with his classmates. Kanu o ka 'Āina is one of 12 Hawaiian-centered charter schools supported by Kamehameha Schools.

## HAWAIIAN-CENTERED LEARNING

The restoration of streams in Waipi‘o Valley on the Big Island could be a metaphor for the Hawaiian-centered charter school movement. Just as the restoration will return the streams to their natural course, these charter schools will restore pride in Hawaiian children by integrating Hawaiian culture, traditions and language into their learning, preparing them to live naturally in both the Hawaiian and western worlds.

For so long, water from Waipi‘o Valley streams was diverted to irrigate sugarcane fields, severely reducing flow in the natural streambeds, and seriously altering the surrounding ecosystem. With sugar gone, students from Kanu o ka ‘Āina New Century Public Charter School, helped by Bishop Museum scientists, are working to restore the normal water flow to the valley’s Lālākea and Hi‘ilawe streambeds and return stream habitats to their original condition.

Kanu o ka ‘Āina is one of 11 Hawaiian-centered start-up charter schools supported by Kamehameha Schools through its Ho‘olako Like program. The program is part of Kamehameha’s strategy to extend Pauahi’s educational reach through support of Hawai‘i’s public school children. The restoration of Waipi‘o Valley streams is typical of the project-driven learning that takes place at this progressive charter school.

“This is not easy work,” said Kū Kahakalau, the school’s director. “It’s exacting and rigorous high-level science. The students gathered baseline data prior to closing off the diversion to measure the effects of restoring stream flow. Then they measure and monitor the whole ecosystem once the streams return to their original flow patterns.”

At the same time, the students learn about the history, culture and ecology of Waipi‘o Valley, and why Native Hawaiians have lobbied so hard for native water rights and the restoration of these streams.

The students also bring their experiences back to the classroom to share with their peers and other community audiences that have a vested interest in the restoration of the streams.

“We cannot duplicate this experience in the classroom,” said Kahakalau. “These students are learning firsthand about their own history and heritage, and how they can use modern science and politics to direct the course of their future as Native Hawaiians.”

*“These students are learning firsthand about their own history and heritage...”*

– Kū Kahakalau  
Charter school director

Charter school students restore Waipi‘o Valley streams and their Hawaiian pride as well



## *Strengthening the Endowment*

In 1884, as part of her last will and testament, Princess Bernice Pauahi Bishop placed 375,000 acres of inherited Kamehameha lands, worth \$474,000, in a perpetual endowment for the founding and support of Kamehameha Schools. At the time, virtually all of Pauahi's assets were in real estate. Today, 31% of Kamehameha Schools' Endowment Fund assets are in real estate and 69% are in financial assets. At the end of fiscal year 2004, the Endowment Fund's total assets had a market value of more than \$6.2 billion.

This section gives a summary of the Endowment Fund's assets, educational spending and financial results for the fiscal year. A detailed account of the above, including an independent auditors' report, is available online at [www.ksbe.edu](http://www.ksbe.edu) or upon request by calling (808) 534-3973.



# S

## STRENGTHENING THE ENDOWMENT

### Managing Our Assets

Kamehameha Schools' Endowment Fund assets provide approximately 98% of the financial support for our educational programs. Extending our educational reach to Pauahi's children can only happen if these assets are managed wisely. The Endowment Group is dedicated to ensuring the long-term stabilized financial performance of Kamehameha's Endowment Fund assets. The goal of the group is to maximize the value of Pauahi's present assets, assuring that they add the highest value to her mission and to practice responsible land stewardship.

Five divisions comprise the Endowment Group:

- Commercial Asset Division – Asset Management and Operations
- Commercial Asset Division – Development and Planning
- Financial Asset Division
- Land Asset Division
- Residential Asset Division

Together, they work to strengthen Pauahi's endowment to help support her educational vision into perpetuity.

### Endowment Fund Asset Allocation

The Endowment Group categorizes Kamehameha Schools assets into two types: core assets, which include Hawai'i commercial and residential real estate; and non-core assets, which include all other investments, primarily marketable securities and alternative investments.

The investment objectives of the core assets are to: (1) produce a sustainable net income or dividend stream of at least 4% that increases at least at the rate of inflation over time, and (2) earn an average annual real total return of at least 5% per year (which includes the 4% income stream plus a 1.0% factor for underlying asset appreciation).

The investment objectives of the non-core assets are to (1) earn a 5 % or higher net average annual real total return, (2) provide adequate liquidity to meet the school's spending requirements and (3) to provide a diversified source of revenue.

In December 2003, staff teamed up with outside experts to conduct a formal evaluation of Kamehameha Schools' investment policy and asset allocation strategy in relation to the spending requirements of the Schools. Given the lower expected rates of return expected across most asset classes, it was necessary to develop a new asset allocation strategy which would enable Kamehameha to maintain its long-term 4% spending requirements for the Schools. The evaluation resulted in a major shift in Kamehameha Schools' asset allocation, which primarily increased Alternative Investments and Non-US Equity while decreasing US Equities, Fixed Income and Mainland Real Estate.

For example, Fixed Income decreased to 15% from 30% (midpoint) and US Equity decreased to 20% (midpoint) from 40% (see chart on page 37). To offset this decrease, Kamehameha Schools increased its allocation primarily to the Alternative Investment category which includes: Absolute Return, Private Equity and Venture Capital, Inflation Hedge and Other. The increase to riskier assets is expected to generate commensurately higher returns which will enable

Kamehameha to maintain its 4% spending target. While the targeted risk tolerance is higher than recent levels for Kamehameha Schools, the risk target is well within peer boundary levels.

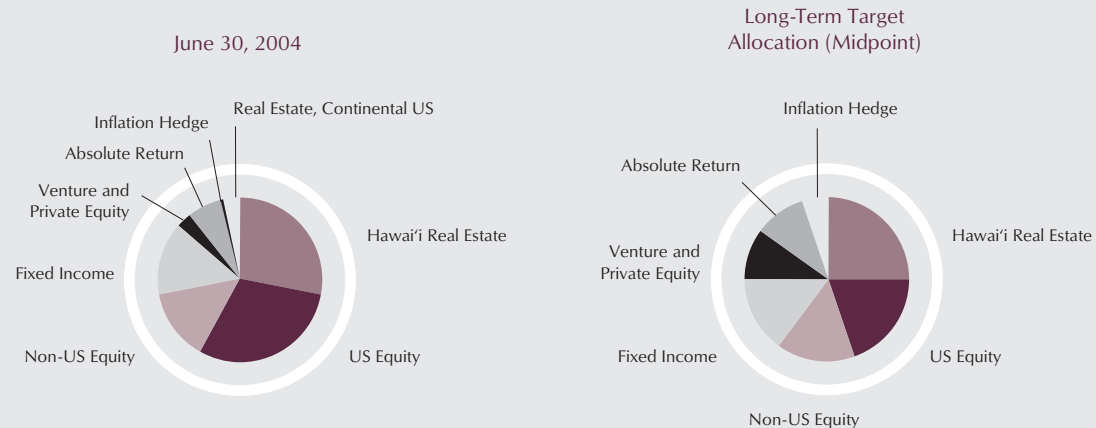
It is expected that it will take a number of years before Kamehameha reaches its long-term asset allocation targets. For example, Kamehameha Schools is over allocated in the US Equity asset class and under allocated in the Alternatives Investment asset class. The reason is that staff has implemented a vintage year strategy for investing. This strategy essentially smooths the cash flow volatility by investing a stable amount of cash each year, versus a lump sum amount, until the target allocation is attained. Thus Kamehameha Schools will reduce its US Equity exposure over the next few years and reinvest in Alternative Investments. This will potentially provide a stable return of cash in future years.

In assessing the actual allocation for FY '04, Fixed Income had a significant reallocation of assets, decreasing 10%. Offsetting this decrease was an increase to the Absolute Return and Non-US Equity asset classes. Over the long-term, it is expected that Absolute Return strategies will generate a higher return than Fixed Income, thus helping Kamehameha Schools maintain its 4% spending target. The other asset classes are basically in-line with Kamehameha's vintage year strategy of increasing Alternative Investments, while decreasing certain traditional asset classes.

STRENGTHENING THE ENDOWMENT

### Kamehameha Schools' Endowment Fund Portfolio

Asset Class	Allocation 6/30/03	Allocation 6/30/04	Interim Target	Long-Term Target/Range
Hawai'i Real Estate	29.3%	28.0%	28.4%	25%
US Equity	28.9%	29.7%	26.6%	15-25%
Non-US Equity	10.4%	14.0%	14.8%	11-19%
Fixed Income	24.8%	14.9%	15.1%	12-18%
Alternative Investments:				
Venture and Private Equity	2.6%	2.5%	3.6%	8-12%
Absolute Return	0.3%	7.2%	7.3%	8-12%
Inflation Hedge & Other	0.0%	0.4%	0.7%	4-6%
Real Estate (Continental US)	3.7%	3.3%	3.5%	0%
Sub-Total Alternatives	6.6%	13.4%	15.1%	20-30%
<b>Total</b>	<b>100%</b>	<b>100%</b>	n/a	n/a





### Endowment Fund Investment Performance

The global economy continued to improve toward the end of the fiscal year, June 30, 2004. Stronger employment and production gains continued despite inflationary pressures. To keep inflation under restraint, the Federal Reserve and the Bank of England raised interest rates by 25 basis points and 50 basis points, respectively, in the last quarter and they are expected to continue to raise rates until early 2005. Thus, the major shift out of fixed income to higher earning assets was fruitful, as it allowed Kamehameha Schools to participate to a greater degree in the global recovery.

Overall, the Endowment Fund returned 15.4% for the one-year period ended June 30, 2004. This performance significantly exceeded our Blended Portfolio benchmark, but underperformed our Peer Group (Cambridge Associates Large Endowment Fund Median) benchmark by 2.1% and -1.7%, respectively. Performance also significantly exceeded Kamehameha Schools' CPI + 5% benchmark by over 7%, but this benchmark is intended as a long-term (rolling 10-year period) benchmark and is less relevant to short-term (one-year) performance. One significant reason for the Endowment Fund underperforming against the Cambridge Associates Large Endowment Fund Median is the large concentration of Hawai'i real estate subject to long-term, low-yielding ground leases held by Kamehameha Schools. Most large endowments hold less than 10% of their portfolios in real estate, electing instead to hold more stocks and abso-

lute return/hedge funds. By comparison, Kamehameha holds approximately 30% of its investment portfolio in Hawai'i real estate. Excluding the Hawaiian real estate performance from the portfolio return would indicate an adjusted return of 16.8%, slightly below the Cambridge Median of 17.1%.

Despite the low-yielding ground leases of its Hawai'i lands, Kamehameha Schools continues to honor its historical ties to the *'aina* and the significance of land within the Hawaiian culture by continuing to keep the land in its care. That care includes developing policies and practices that honor Kamehameha's special obligation and kinship to the land.

Kamehameha Schools' Hawai'i lands, however, have lower risk and thus lower the risk of its overall portfolio. Kamehameha Schools' efficient frontier analysis indicates that over the long-term, we expect to have higher risk adjusted returns than the Cambridge Associates Large Endowment Fund Median benchmark.

The Endowment Funds inception-to-date returns are calculated from July 1, 1999 through June 30, 2004. Kamehameha's Endowment Fund total return was 7.8% for this period. This performance exceeded our Blended Portfolio and Peer Group benchmark by 2.6% and 0.8%, respectively. The Endowment Fund total return was also equal to the CPI +5% benchmark.



Kamehameha Schools Schedule of Total Return (By Asset Class)<sup>1</sup>  
 June 30, 2004

Asset Class and Benchmarks	One Year	July 1, 1999 To Date
<b>Core Assets:</b>		
<b>Hawai'i Real Estate</b>	12.4%	5.3%
CPI+5%	8.3%	7.8%
<b>Non-Core Assets:</b>		
<b>Marketable Securities:</b>		
<i>US Equity</i>	23.6%	6.3%
Russell 3000	20.5%	-1.1%
<i>Non-US Equity</i>	30.7%	5.6%
MSCI EAFE/Emerging Markets Free Index	30.9%	0.1%
<i>Fixed Income</i>	2.1%	7.3%
Lehman Brothers Aggregate	0.3%	6.9%
<i>Cash Equivalents</i>	1.1%	3.4%
Three-Month Treasury Bill	1.0%	3.2%
<b>Alternative Investments:</b>		
<i>Venture &amp; Private Equity</i>	34.3%	-1.3%
CPI+10%	13.3%	12.9%
<i>Absolute Return</i>	5.9%	7.8%
CPI+8%	11.3%	10.8%
<i>Energy &amp; Other</i>	19.1%	35.5%
CPI+5%	8.3%	7.8%
<i>Real Estate (Continental US)</i>	9.2%	11.9%
NCREIF Total Property Index	10.8%	9.4%
<b>Total Endowment Fund</b>	15.4%	7.8%
Blended Portfolio	13.2%	5.2%
CA Large Endowment Fund Median	17.1%	6.9%
CPI+5%	8.3%	7.8%

<sup>1</sup>Total return is calculated using the Modified BAI method, a time-weighted rate of return. Total returns for periods greater than one year are annualized.

STRENGTHENING THE ENDOWMENT

There were major performance highlights for fiscal year 2004 in virtually every asset class. Kamehameha Schools' Hawai'i Real Estate, US Equity, Non-US Equity, Venture and Private Equity, Energy and Other all saw double-digit returns of 12.4%, 23.6%, 30.7%, 34.3% and 19.1%, respectively. The performance of these and other asset classes all contributed to the outperformance of the Blended Portfolio and helped to offset underperformance in Kamehameha Schools' other asset classes thus, exemplifying the benefits of a diversified portfolio.

The rally in the stock market in the second half of fiscal year 2003 continued into FY 2004 and helped to offset a lackluster capital markets environment during FY 2000 through 2002. Kamehameha Schools' Endowment Fund benefited from this rally and generated a total return of approximately 15.4% for the year. This helped to increase Kamehameha's Endowment Fund market value by \$678 million, after spending, over the previous year.

Schedule of Endowment Market Value (in thousands)  
As of June 30, 2004, 2003, 2002, 2001 and 2000

	2004	2003	2002	2001	2000
<b>Total Endowment Market Value</b>	\$ 6,216,502	\$ 5,538,310	\$ 5,428,401	\$ 5,752,112	\$ 5,652,762

Source: Audited consolidated financial statements and supplemental schedules of Kamehameha Schools and Subsidiaries.

### Real Estate Asset Highlights

Kamehameha Schools owns more than 365,000 acres of real estate in Hawai'i, making it the largest private landowner in the state. Ninety-eight percent of that land is in conservation and agriculture, and the remainder is in commercial and residential use. Our Endowment Group works diligently to maintain and enhance the value of the *ali'i* (chiefly) lands entrusted to us, to ensure that they and our educational programs serve Hawaiians for many years to come.

Kamehameha Schools has land policies in place to assure that its land and water resources are managed and used in a reasonable, prudent and sustainable manner. Objectives are balanced to optimize cultural, educational, economic and environmental benefits, as well as the impact on the community.

Following are the fiscal year 2004 highlights in each of the Endowment Group's four real estate asset divisions.

### Commercial Asset Division – Asset Management and Operations

Kamehameha's Asset Management and Operations Division oversees more than 2.8 million square feet of space-lease properties and 250 ground-lease properties. For the year ended June 30, 2004, these assets had a combined value of \$1.4 billion. The properties generated \$109 million in revenue, with a net income of \$71 million before depreciation.

The space-lease properties include the Royal Hawaiian Shopping Center, Windward Mall, Hawai'i Kai Towne Center and Newtown Square. The ground lease properties include 11 hotels, nine golf courses, and numerous industrial leases, shopping centers and office properties on Hawai'i, Kaua'i, Maui and O'ahu.

In the course of the 2004 fiscal year, the Asset Management and Operations Division renegotiated the ground lease for Pearlridge Shopping Center, issued a new lease for the Sheraton Keauhou Bay, and began the demolition of the Kona Lagoon Hotel to bring this land back to its cultural purpose. The division also entered into a development agreement for a 1,000-acre luxury resort at Ka'ūpulehu, and finalized a revised development agreement for lands in Waiawa—the culmination of more than 10 years of effort.

### **Commercial Asset Division – Development & Planning**

Kamehameha Schools has embarked on major revitalization and master-planning activities for three of its high-priority projects. The Development and Planning Division is charged with bringing these plans to fruition. Investment in these projects represents an opportunity to enhance the value of these key assets, helping to ensure greater returns to support our educational mission.

During fiscal year 2004, Kamehameha Schools announced plans for an \$84 million revitalization of the Royal Hawaiian Shopping Center in Waikiki. The investment will enable Kamehameha Schools to capitalize on the center's unique and highly advantageous Waikiki location, which is one of the strongest retail markets in the world. The plan includes restoring a Hawaiian sense of place to the center and adding an exciting array of restaurants and shops. Construction is scheduled to last from spring 2005 through summer 2006.

Kamehameha Schools also unveiled the master plan for its 2,400-acre Keauhou Resort community on Hawai'i's Kona coast. With the plan in place, Kamehameha began searching for a development partner who shares its vision of balancing educational, cultural and economic success in this community that hosts residents and visitors alike.

A master plan is also being developed for 51 acres of Kamehameha-owned property in Kaka'ako. The master plan envisions an urban community in the heart of Honolulu with a wide variety of mixed uses to capitalize on the tremendous opportunities and growth in the area.

### **Land Asset Division**

Kamehameha Schools' Land Asset Division (LAD) manages more than 345,000 acres of agriculture and conservation land, including over 60 miles of ocean frontage, 100 miles of streams, historic fishponds, forests and lava fields. During the 2004 fiscal year, gross revenues from these assets totaled approximately \$4.7 million.

LAD bridges the management of these lands with Kamehameha's educational mission through its 'Āina Ulu ecological education program. During the 2004 fiscal year, more than 10,000 learners participated in the program designed to use Kamehameha lands as classrooms for project-based teaching and learning. *(See story on page 42.)*

The division also conducted environmental mitigation and restorative efforts in 19 *ahupua'a* through 10 community-based collaborations. These improvements helped 'Āina Ulu programs secure approximately \$300,000 in additional support –40 cents for every dollar expended by Kamehameha Schools. The support included grants, tools, materials and in-

kind services. In addition, \$1.8 million in community support was leveraged for the division's Mālama 'Āina environmental stewardship program, a one-to-one match of Kamehameha expenditures.

### **Residential Asset Division**

Over the past 27 years, Kamehameha Schools has sold more than 23,000 leasehold properties in Hawai'i as part of its voluntary sales program. The Endowment Group's Residential Asset Division (RAD) currently oversees 3,700 Kamehameha-owned single and multi-family residential leasehold properties in Hawai'i, most of which are available for purchase by lessees. Pending purchase, leases continue to be administered by RAD. In addition, the division oversees 15 apartment buildings and 200 residential condominium leases not included in the sales program.

During the 2004 fiscal year, these assets had a combined value of \$420 million. The properties generated \$83.9 million in gross revenue, with a net income of \$82.3 million. RAD completed the sales of more than 675 leasehold properties, reducing Kamehameha's residential inventory to 3,700 properties. The sales yielded \$67 million in proceeds. Despite the reduction in leasehold properties, fiscal year 2004 rent revenue of approximately \$12 million remained relatively constant over fiscal year 2003, due to the completion of scheduled rent renegotiations.

With an opening chant echoing in their hearts, and minds focused on time and place, the eager young students of charter school Hālau Kū Māna enter He‘eia Fishpond to care for, observe and learn about this centuries-old place where fish were raised and harvested by their ancestors.

The students are participants in a land stewardship program sponsored by Paepae o He‘eia in partnership with Kamehameha Schools’ Land Asset Division (LAD). The partnership is one of several administered by LAD’s ‘Āina Ulu program, which bridges the management of Kamehameha lands with its educational mission. What results is a synergistic weave of activities with economic, cultural, environmental, community and educational benefits.

‘Āina Ulu program  
bridges the management  
of Kamehameha lands  
with its educational  
mission

*“Our ‘Āina Ulu program uses  
Kamehameha’s land legacy to help  
educate more Hawaiian children.”*

– Neil Hannahs  
Director, Land Asset Division

“Our ‘Āina Ulu program uses Kamehameha’s land legacy to help educate more Hawaiian children,” said LAD Director Neil Hannahs. “Lessons in land stewardship are integrated into educational curriculum to actively engage students in their culture and history, instill in them a sense of pride in their heritage and connect them to their communities in a meaningful way.”

The mission of Ka ‘Ai Kamaha‘o—the land stewardship program at Hei‘eia Fishpond—is to teach students about the “wondrous sustenance of the land” (*Ka ‘Ai Kamaha‘o*), implying that they can be sustained and nourished through ancestral connection to the land and their elders.

They make these connections in very practical ways. For example, students build cages to raise *limu* (seaweed). They prepare pens for the fish population by cleaning out invasive species. They learn how to identify invasive *limu* and extract them from the pond. They also learn how to harvest, clean and cook *limu* and fish. Best of all, they get to show what they’ve learned and share the results of their culinary skills with their families at a special Family Day.

Much of their work is captured in research reports or reflection journals, some of which have been presented by the students at education and conservation conferences.

Besides the fun and pride in their accomplishments, Project Coordinator Mahina Paishon hopes that these students and their parents will learn that Hawaiians can regain control of their natural resources and manage them in a sustainable way, using the methods of their ancestors.



Hālau Kū Māna charter school students Uluwehi Keaunui and Sanoë Chock care for, observe and learn about He'eia Fishpond, where fish were raised and harvested by their ancestors. Their experience is part of the Land Asset Division's 'Āina Ulu program.

## Investing in Education

Princess Pauahi intended Kamehameha Schools to be perpetual. We have the responsibility of managing the trust to ensure that our programs and services can continue into perpetuity. This includes the management of trust spending.

Kamehameha Schools' spending policy sets a trust-spending target of 4% of the average market value of its endowment over the past five years to be spent annually on its educational mission. Since the adoption of this policy in fiscal year 1999-2000, Kamehameha has maintained an annual trust-spending rate of approximately 4% with the exception of its initial year.

In accordance with this policy, Kamehameha Schools spent approximately \$221 million on educational programs for the year ended June 30, 2004—an increase of about \$1 million over the previous year. Trust spending is calculated on a cash basis, and includes major repairs, capital projects, interest on debt, borrowing of debt, an allocation of support costs and the funding of operating reserves.

Kamehameha Schools' Strategic Implementation Plan "Pauahi's Legacy Lives," having increased spending by \$11.9 million this year, extended its reach through greater collaboration with other organizations as well as with families and their communities. Net expenditures for "Pauahi's Legacy Lives" in trust spending was approximately \$19.3 million in fiscal year 2003-2004.

Campus-based programs expenditures in trust spending increased by \$15.1 million due to the expansion to the 10th grade at the Maui and Hawai'i campuses. Capital projects and major repair expenditures in trust spending decreased by \$36.8 million due to the substantial completion of the campuses. These trends should continue over the next two years with the addition of the 11th and 12th grades and as construction activity nears completion at both campuses.

Condensed Schedules of Trust Spending *(In thousands, except for Trust Spending Rate)*  
Years ended June 30, 2004, 2003, 2002, 2001 and 2000

	2004	2003	2002	2001	2000
Campus-based programs	\$ 112,303	\$ 97,205	\$ 81,227	\$ 78,209	\$ 71,974
Outreach-based programs	40,169	39,649	38,581	36,839	32,807
Pauahi's Legacy Lives	19,275	7,391	-	-	-
Capital projects and major repairs	96,147	132,938	120,163	53,939	24,890
Interest and debt financing of capital projects	(55,224)	(68,640)	(20,000)	-	-
Operating reserve activity	4,500	6,000	1,000	35,400	-
Other programs	3,387	4,923	1,875	1,719	3,082
<b>Total Trust Spending</b>	<b>\$220,557</b>	<b>\$219,466</b>	<b>\$222,846</b>	<b>\$206,106</b>	<b>\$132,753</b>
<b>Average Market Value of Endowment</b>	<b>\$5,461,640</b>	<b>\$5,392,443</b>	<b>\$5,210,717</b>	<b>\$4,996,812</b>	<b>\$4,812,799</b>
<b>Trust Spending Rate</b>	<b>4.0%</b>	<b>4.1%</b>	<b>4.3%</b>	<b>4.1%</b>	<b>2.8%</b>

Source: Data derived from audited consolidated financial statements and supplemental schedules of Kamehameha Schools and Subsidiaries.

## Debt Management

During the fiscal year 2003-2004 Kamehameha Schools increased its private shelf facility to \$350 million and drew down approximately \$60 million to manage the debt financing of its capital projects. As of June 30, 2004, the balance outstanding drawn from the private shelf facility was \$150 million. As a result, debt represented approximately 4.1% of the fair market value of the Endowment Fund as of June 30, 2004, and approximately 3.8% as of June 30, 2003. Kamehameha's Debt Policy limits the amount of debt allowed to 10-20% of the fair market value of the Endowment Fund and defines the requirements and parameters for the utilization of debt and other appropriate considerations.

## Financial Results

The following is a review of Kamehameha Schools' financial position, change in net assets and cash flows for the 2003-2004 fiscal year:

- **Financial Position**

During the year, net assets increased by 13% to approximately \$4.8 billion. The majority of this increase was attributable to net realized and unrealized gains on investments of \$523 million in fiscal year 2003-2004. Stronger market conditions contributed to the increase in net realized and unrealized gains on investments.

### Condensed Consolidated Balance Sheets

As of June 30, 2004 and 2003 (In thousands)

	2004	2003
<b>Assets</b>		
Cash and Investments*	\$4,422,800	\$3,880,877
Other Assets	1,286,185	784,023
<b>Total Assets</b>	<b>\$5,708,985</b>	<b>\$4,664,900</b>
<b>Liabilities</b>		
Notes Payable	\$256,715	\$209,592
Other Liabilities	657,176	202,742
<b>Total Liabilities</b>	<b>\$913,891</b>	<b>\$412,334</b>
<b>Net Assets</b>	<b>\$4,795,094</b>	<b>\$4,252,566</b>

\* Includes privately placed debt and equity securities

Source: Data derived from audited consolidated financial statements and supplemental schedules of Kamehameha Schools and Subsidiaries as of June 30, 2004 and 2003.



*Kamehameha Schools' spending policy sets a trust-spending target of four percent of the average market value of its endowment over the past five years to be spent annually on its educational mission.*

- **Change in Net Assets**

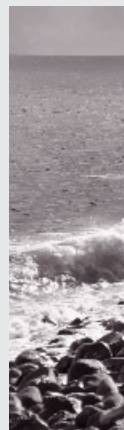
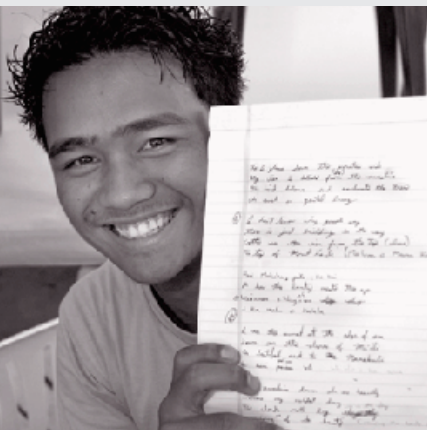
The Statements of Activities, which details the revenues, gains and other support and expenses during the year, reported an increase in net assets of approximately \$543 million for the year ended June 30, 2004. As previously mentioned, the majority of the increase was due to net realized and unrealized gains on investments in the capital markets.

Educational program expenses in this statement of approximately \$160 million for the year ended June 30, 2004 is reported on an accrual basis and does not include capital projects, an allocation of support costs or the funding of reserves. The increase of approximately \$24 million is primarily due to increased "Pauahi's Legacy Lives" programs and the expansion to the 10th grade at the Maui and Hawai'i campuses.

- **Cash Flows**

For the year ended June 30, 2004, approximately \$57 million of net cash outflows were used by operations. Investment activities resulted in a net cash outflow of approximately \$105 million primarily due to purchases of investments. Financing activities provided net cash of \$47 million principally due to a \$60 million draw from the private shelf facility obtained to manage the debt financing of capital projects offset by a repayment of certain borrowings.





STRENGTHENING THE ENDOWMENT

Condensed Consolidated Statements of Activities  
Years ended June 30, 2004 and 2003 (In thousands)

	2004	2003
<b>Revenues, gains and other support:</b>		
Tuition and fees (net of financial aid)	\$7,813	\$4,505
Net realized and unrealized gains on investments	523,163	69,963
Rental	127,939	140,467
Investment Income	94,024	77,840
Net gain on property sales	84,246	218,222
Other	1,573	33,360
<b>Total revenues, gains and other support</b>	<b>\$838,758</b>	<b>\$544,357</b>
<b>Expenses:</b>		
Educational Programs	\$159,651	\$135,907
Management and General	136,579	104,415
<b>Total Expenses</b>	<b>\$296,230</b>	<b>\$240,322</b>
<b>Change in Net Assets</b>	<b>\$542,528</b>	<b>\$304,035</b>

Source: Data derived from audited consolidated financial statements and supplemental schedules of Kamehameha Schools and Subsidiaries as of June 30, 2004 and 2003.

# M

**MAKALAPUA** Blossom forth

Nourished by the legacy of Princess Bernice Pauahi Bishop, Hawaiians are blossoming forth with a sense of pride and hope for a promising future. Kamehameha Schools continues to nurture these precious flowers—*nā pua a Pauahi*—as it carries out Pauahi’s vision: to create educational opportunities in perpetuity to improve the capability and well-being of Hawaiians.

Pauahi’s vision is our mission. It is the sole reason for our existence. With generous support from staff, parents, students, alumni and the community, we are striving to make Pauahi’s vision a reality. Our work is being guided by Hawaiian and Christian values embraced by our princess, and practiced by our faculty and staff system-wide.

Learn more about Pauahi’s vision and our mission at the Kamehameha Schools  
Web site: [www.ksbe.edu](http://www.ksbe.edu)

**Aloha** Love, affection, compassion

We are passing on the love and compassion Pauahi had for her people by extending Kamehameha Schools’ educational reach to more Hawaiians in communities and optimizing the excellence we have achieved on our campuses and preschool sites.

**‘Imi na‘auao** To seek enlightenment, wisdom and education  
We are seeking the wisdom, support and collaboration of families, communities and educators to optimize the development of Hawaiian children from before birth to eight years old.

**Mālama** To care for, to protect, to maintain  
We are preserving and protecting Kamehameha Schools’ Hawaiian preference policy so that the education of Hawaiians may continue.

**‘Ike pono** To know what is right  
We support unity among Hawaiian organizations to strengthen Native Hawaiians.

**Kuleana** Privilege, responsibility  
We are carrying out the responsibility placed upon us by our princess by strengthening the Kamehameha Schools endowment to support our educational programs.

**Ho‘omau** To persevere, to perpetuate, to continue  
We are working to perpetuate Hawaiian culture, values, history, language and traditions by integrating them into our learning and work environments.

**Ha‘aha‘a** Humility, humbleness, modesty  
We are forming quiet collaborations with island families, communities and organizations to help them build the capacity for sustainable educational solutions.





*Mohala i ka wai ka maka o ka pua*



*Unfolded by the water are the faces of the flowers*



KAMEHAMEHA SCHOOLS

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