

**University of Hawai'i
State of Hawai'i**

**Consolidated Financial Statements, Required
Supplementary Information and Other
Supplementary Information**

June 30, 2008 and 2007

University of Hawai'i
State of Hawai'i
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June 30, 2008 and 2007

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CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditors

To the Board of Regents of the
University of Hawai'i

In our opinion, based on our audits and the reports of other auditors, the financial statements listed in the accompanying index, which collectively comprise the financial statements of the University of Hawai'i (the "University"), a component unit of the State of Hawai'i, present fairly, in all material respects, the financial position of the University and its blended component units at June 30, 2008 and 2007, and the changes in their financial position and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the University of Hawai'i Foundation (the "Foundation") and the Research Corporation of the University of Hawai'i (the "Research Corporation"), which collectively represent 14.5 percent of total assets and 2.0 percent of total operating revenues of the University as of and for the year ended June 30, 2008, and 14.9 percent of total assets and 1.9 percent of total operating revenues of the University as of and for the year ended June 30, 2007. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the Foundation and Research Corporation, are based solely on the reports of the other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

As discussed in the significant accounting policies in the Notes to Consolidated Financial Statements, the University adopted Governmental Accounting Standards Board ("GASB") Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as of July 1, 2007.

The Management's Discussion and Analysis ("MD&A") on pages 2 through 23 and Required Supplementary Information ("RSI") Other Than MD&A on page 68 are not required parts of the financial statements but are supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A and RSI Other Than MD&A. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Acuity LLP". The signature is written in a cursive, flowing style.

Honolulu, Hawai'i
March 20, 2009, except for Note 22 which is as of May 29, 2009

University of Hawai'i
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Management's Discussion and Analysis (Unaudited)
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Introduction

The following discussion and analysis provides an overview of the consolidated financial position and activities of the University of Hawai'i (the "University") for the years ended June 30, 2008 and 2007, with selected information for the year ended June 30, 2006. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Founded in 1907 under the auspices of the Morrill Act, the University is a land-grant, sea-grant, and space-grant institution. The University system distinguishes itself through its Hawaiian, Asian, and Pacific orientation and its position as one of the world's foremost multicultural centers for global and indigenous studies. Students are members of a population in which no one ethnic group constitutes a majority, and the educational experience is enriched by the diversity of cultures represented.

The University is Hawai'i's sole public higher education system and is governed by a Board of Regents consists of fifteen members appointed by the Governor of the State of Hawai'i . The University system is represented by ten campuses with approximately 53,500 students and 10,000 faculty and staff. The University provides a broad range of 274 degree programs from baccalaureate to post-doctoral level, through a framework of sixteen colleges and nine professional schools. Through its seven community colleges on O'ahu, Hawai'i, Maui, and Kaua'i, the University offers more than 200 certificate and associate degree programs. In addition to organized research institutes and administrative service and distance learning centers, the University system also houses more than a hundred centers with a research, instruction, or public service purpose. The University is also engaged in instructional research and service activities at hundreds of Hawai'i schools, hospitals and community sites, and carries out these activities across the Pacific Islands and in foreign countries.

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Using the Financial Statements

The University's consolidated financial statements are prepared in accordance with Governmental Accounting Standards Board ("GASB") principles, which establish standards for external financial reporting for public colleges and universities. The University's consolidated financial statements are comprised of the following four components:

- **Statement of Net Assets** – The Consolidated Statements of Net Assets present information on the University's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the University's financial condition is improving or deteriorating. Net assets increase when revenues exceed expenses, or when assets increase without a corresponding increase in liabilities. This is an indication of improving financial condition. However, when expenses exceed revenues, or when liabilities increase without a corresponding increase in assets, this is an indication of deteriorating financial condition.
- **Statement of Revenues, Expenses and Changes in Net Assets** – The Consolidated Statements of Revenues, Expenses and Changes in Net Assets present the University's revenues and expenses and illustrate how current year activities improved or weakened the University's financial condition. Changes in net assets are reported when the underlying event occurs (accrual basis of accounting), which may be different from actual cash flows. The Consolidated Statements of Revenues, Expenses and Changes in Net Assets also distinguish operating from non-operating revenues and expenses. Tuition and fees revenue and student housing fees revenue are reported net of scholarships and fellowships, including tuition and fee waivers applied to student accounts. Sales and services revenue primarily includes ticket sales for athletic events and distributions from the Western Athletic Conference and the National Collegiate Athletic Association. It is anticipated that the University will consistently report an operating loss since certain significant revenue sources relied upon for core operational needs, including state appropriations, private gifts and investment income, are considered non-operating revenues.
- **Statement of Cash Flows** – The Consolidated Statements of Cash Flows distinguishes between cash inflows and outflows from operating activities, non-capital financing activities, capital and related financing activities, and investing activities.
- **Notes to Consolidated Financial Statements** – The notes provide additional information that is essential to a full understanding of the information presented in the consolidated financial statements.

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Related Entities

The University maintains close relationships with two other entities, considered to be component units, and whose financial information is blended into the University's accompanying consolidated financial statements. The University of Hawai'i Foundation (the "Foundation") is a not-for-profit organization established to solicit and manage funds for the benefit of the University. The Research Corporation of the University of Hawai'i (the "Research Corporation") provides administrative support services for research and training programs of the University. Both of the University's component units prepare stand-alone financial statements with footnotes, which are audited by independent auditors. The following tables summarize the individual components of the University's consolidated financial position and results of operations for the years ended June 30, 2008, 2007 and 2006 (in thousands of dollars):

	2008				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Current assets	\$ 307,692	\$ 38,274	\$ 27,601	\$ (32,917)	\$ 340,650
Noncurrent assets	1,699,645	387	268,017	(6,652)	1,961,397
Total assets	<u>2,007,337</u>	<u>38,661</u>	<u>295,618</u>	<u>(39,569)</u>	<u>2,302,047</u>
Current liabilities	219,515	27,466	3,749	(29,397)	221,333
Noncurrent liabilities	383,105	1,408	6,958	-	391,471
Total liabilities	<u>602,620</u>	<u>28,874</u>	<u>10,707</u>	<u>(29,397)</u>	<u>612,804</u>
Net assets	<u>\$ 1,404,717</u>	<u>\$ 9,787</u>	<u>\$ 284,911</u>	<u>\$ (10,172)</u>	<u>\$ 1,689,243</u>

	2007				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Current assets	\$ 338,785	\$ 39,815	\$ 21,656	\$ (25,564)	\$ 374,692
Noncurrent assets	1,490,869	546	251,670	(10,943)	1,732,142
Total assets	<u>1,829,654</u>	<u>40,361</u>	<u>273,326</u>	<u>(36,507)</u>	<u>2,106,834</u>
Current liabilities	196,705	29,743	2,652	(31,151)	197,949
Noncurrent liabilities	323,195	958	6,462	-	330,615
Total liabilities	<u>519,900</u>	<u>30,701</u>	<u>9,114</u>	<u>(31,151)</u>	<u>528,564</u>
Net assets	<u>\$ 1,309,754</u>	<u>\$ 9,660</u>	<u>\$ 264,212</u>	<u>\$ (5,356)</u>	<u>\$ 1,578,270</u>

	2006				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Current assets	\$ 274,648	\$ 43,030	\$ 11,160	\$ (21,426)	\$ 307,412
Noncurrent assets	1,264,186	856	196,249	(7,569)	1,453,722
Total assets	<u>1,538,834</u>	<u>43,886</u>	<u>207,409</u>	<u>(28,995)</u>	<u>1,761,134</u>
Current liabilities	161,658	31,449	735	(24,020)	169,822
Noncurrent liabilities	219,037	1,011	5,979	(89)	225,938
Total liabilities	<u>380,695</u>	<u>32,460</u>	<u>6,714</u>	<u>(24,109)</u>	<u>395,760</u>
Net assets	<u>\$ 1,158,139</u>	<u>\$ 11,426</u>	<u>\$ 200,695</u>	<u>\$ (4,886)</u>	<u>\$ 1,365,374</u>

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	2008				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Operating revenue	\$ 656,235	\$ 5,261	\$ 8,053	\$ (13,299)	\$ 656,250
Operating expense	1,318,400	5,587	38,884	(12,412)	1,350,459
Operating income (loss)	(662,165)	(326)	(30,831)	(887)	(694,209)
Nonoperating activity	757,128	453	51,530	(3,929)	805,182
Increase (decrease) in net assets	94,963	127	20,699	(4,816)	110,973
Net assets					
Beginning of year	1,309,754	9,660	264,212	(5,356)	1,578,270
End of year	<u>\$ 1,404,717</u>	<u>\$ 9,787</u>	<u>\$ 284,911</u>	<u>\$ (10,172)</u>	<u>\$ 1,689,243</u>
	2007				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Operating revenue	\$ 619,558	\$ 5,363	\$ 6,655	\$ (8,754)	\$ 622,822
Operating expense	1,159,069	5,107	31,232	(11,314)	1,184,094
Operating income (loss)	(539,511)	256	(24,577)	2,560	(561,272)
Nonoperating activity	691,126	(2,022)	88,094	(3,030)	774,168
Increase (decrease) in net assets	151,615	(1,766)	63,517	(470)	212,896
Net assets					
Beginning of year	1,158,139	11,426	200,695	(4,886)	1,365,374
End of year	<u>\$ 1,309,754</u>	<u>\$ 9,660</u>	<u>\$ 264,212</u>	<u>\$ (5,356)</u>	<u>\$ 1,578,270</u>
	2006				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Operating revenue	\$ 576,455	\$ 5,549	\$ 8,836	\$ (8,726)	\$ 582,114
Operating expense	1,083,672	4,816	26,179	(11,865)	1,102,802
Operating income (loss)	(507,217)	733	(17,343)	3,139	(520,688)
Nonoperating activity	614,613	808	44,139	(2,550)	657,010
Increase (decrease) in net assets	107,396	1,541	26,796	589	136,322
Net assets					
Beginning of year	1,050,743	9,885	173,899	(5,475)	1,229,052
End of year	<u>\$ 1,158,139</u>	<u>\$ 11,426</u>	<u>\$ 200,695</u>	<u>\$ (4,886)</u>	<u>\$ 1,365,374</u>

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Financial Position

The consolidated statements of net assets present the financial position of the University at the end of the fiscal year and display all assets and liabilities of the University. Assets and liabilities are generally measured using current values. Two notable exceptions are receivables and capital assets, which are stated at historical cost less an allowance for doubtful accounts and accumulated depreciation, respectively. The difference between assets and liabilities is net assets, representing a measurement of the current financial condition of the University. The University's assets, liabilities and net assets at June 30, 2008, 2007 and 2006 are summarized as follows (in thousands of dollars):

	2008	Percentage of Total Assets	2007	Percentage of Total Assets	FY 08 vs 07 Change	2006	Percentage of Total Assets	FY 07 vs 06 Change
Current assets								
Cash and operating investments	\$ 181,438	8%	\$ 227,348	11%	\$ (45,910)	\$ 190,538	11%	\$ 36,810
Receivables, net	136,259	6%	128,607	6%	7,652	99,806	5%	28,801
Other current assets	<u>22,953</u>	1%	<u>18,737</u>	1%	<u>4,216</u>	<u>17,068</u>	1%	<u>1,669</u>
	340,650	15%	374,692	18%	(34,042)	307,412	17%	67,280
Noncurrent assets								
Endowment and other investments	464,723	20%	379,767	18%	84,956	249,037	14%	130,730
Capital assets, net	1,188,635	52%	1,074,030	51%	114,605	1,015,426	58%	58,604
Other noncurrent assets	<u>308,039</u>	13%	<u>278,345</u>	13%	<u>29,694</u>	<u>189,259</u>	11%	<u>89,086</u>
Total assets	<u>2,302,047</u>	100%	<u>2,106,834</u>	100%	<u>195,213</u>	<u>1,761,134</u>	100%	<u>345,700</u>
Current liabilities								
	221,333	10%	197,949	9%	23,384	169,822	10%	28,127
Noncurrent liabilities								
Long-term debt	271,990	12%	276,865	13%	(4,875)	170,815	10%	106,050
Other noncurrent liabilities	<u>119,481</u>	5%	<u>53,750</u>	3%	<u>65,731</u>	<u>55,123</u>	3%	<u>(1,373)</u>
Total liabilities	<u>612,804</u>	27%	<u>528,564</u>	25%	<u>84,240</u>	<u>395,760</u>	23%	<u>132,804</u>
Net assets								
Invested in capital assets, net of related debt	967,717	42%	890,877	43%	76,840	843,406	48%	47,471
Restricted								
Nonexpendable	152,449	6%	133,507	6%	18,942	111,428	6%	22,079
Expendable	417,229	18%	399,626	19%	17,603	302,268	17%	97,358
Unrestricted	<u>151,848</u>	7%	<u>154,260</u>	7%	<u>(2,412)</u>	<u>108,272</u>	6%	<u>45,988</u>
Total net assets	<u>\$ 1,689,243</u>	73%	<u>\$ 1,578,270</u>	75%	<u>\$ 110,973</u>	<u>\$ 1,365,374</u>	77%	<u>\$ 212,896</u>

A review of the University's consolidated statements of net assets at June 30, 2008, 2007 and 2006 shows that the University continues to build upon its strong financial foundation. Its financial health reflects the prudent utilization of its financial resources, including careful cost control, management of its endowment, conservative utilization of debt and adherence to its long-range capital plan for the replacement of physical plant.

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Current Assets and Liabilities

Working capital is a good measure of both the University's efficiency and financial health. Positive working capital means that the University has current assets in excess of current liabilities and is able to pay off short-term obligations. A working capital deficit would mean that the University is unable to meet its short-term obligations with its existing assets.

At June 30, 2008, 2007 and 2006, working capital amounted to \$119.3 million, \$176.7 million and \$137.6 million, respectively. The components of the University's current assets and liabilities and their fluctuations during the three-year period are as follows:

- Current assets consist primarily of cash and cash equivalents, operating investments and net receivables. Total current assets decreased by \$34 million or 9.1 percent at June 30, 2008, primarily due to decreases in operating investments and other accounts receivables offset by increases in cash and cash equivalents, due from State of Hawai'i and other current assets. Other receivables decreased due to the establishment of a \$6.3 million allowance against a receivable from the University Clinical, Education & Research Associates ("UCERA"). Operating investments decreased by \$116 million primarily due to the reclassification of \$117 million in auction rate securities to noncurrent assets discussed below. Cash and cash equivalents increased by \$70.1 million primarily due to expanded investment in certificates of deposit. Due from State of Hawai'i, included in net receivables, increased by \$14.7 million as a result of additional State support received for fiscal year 2008. Other receivables, net of allowances, decreased by \$7.1 million while other current assets increased by \$4.2 million. Total current assets increased by \$67.3 million or 21.9 percent at June 30, 2007, primarily due to an increase in cash and cash equivalents and operating investments and an increase of \$28.8 million in net receivables. Receivables, net of allowances for doubtful accounts, increased by \$28.8 million or 28.9 percent to \$128.6 million at June 30, 2007, primarily due to several large Letters of Credit ("LOC"). The sponsors involved with some of these large accounts receivable billings are the National Science Foundation, U.S. Department of Agriculture, U.S. Department of Defense and the U.S. Department of Health.
- Current liabilities consist primarily of accounts payable, accrued compensation, advances from sponsors, and deferred revenue. Current liabilities also include amounts due to the State of Hawai'i, the current portion of long-term debt and other current liabilities. Total current liabilities increased by \$23.4 million or 11.8 percent at June 30, 2008 as compared to the prior year, due primarily to increases in accounts payable, accrued compensation, advances from sponsors, deferred revenue and current portion of long-term liabilities offset by decreases in other current liabilities. Total current liabilities increased by \$28.1 million or 16.5 percent at June 30, 2007 as compared to the prior year, due primarily to increases in accrued compensation and benefits, advances from sponsors and accounts payable.

Endowment and Other Investments

The University's endowment and other investments, including endowments held with the Foundation, increased by \$85 million to \$464.7 million at June 30, 2008. Endowments and other investments held with the Foundation amounted to \$224 million at June 30, 2008. The increase was primarily attributable to a \$117 million reclassification of auction rate securities from operating investments offset by \$46 million used for capital purchases. The reclassification of auction rate securities was made as a result of uncertainties surrounding the timing of liquidation of the University's auction rate securities portfolio. While the University's ability to liquidate the carrying value of its auction rate securities in the near term may be limited, management believes it is appropriate to report the University's auction rate securities at par value since the University continues to receive its contractual interest payments in a timely manner, recent successful auctions have been executed at par value, and the University has no intention of

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settling its auction rate securities at less than par value. The University's endowment and other investments, including endowments held with the Foundation, increased by \$130.7 million to \$379.8 million at June 30, 2007. Endowments and other investments held with the Foundation amounted to \$208.3 million at June 30, 2007. The increase was primarily attributable to additional endowment gifts, an increase in market value and an investment for the construction of the New Frear Hall Student Housing Complex.

The University's endowment funds consist of both permanent endowments and funds functioning as endowment (quasi-endowment funds). Permanent endowment funds are funds received from donors or other outside agencies with the stipulation that the principal be inviolate and invested in perpetuity for the purpose of producing present and future income which may either be expended for the purposes specified by the donor or added to principal. Quasi-endowment funds are funds which the Board of Regents, rather than a donor or other outside agency, has allocated for long-term investment purposes. The Board of Regents, in accordance with its policies, is not required to maintain the quasi-endowment principal in perpetuity. Quasi-endowment funds are further categorized as restricted and unrestricted. Restricted quasi-endowment funds represent donor-restricted gifts, without the requirement to maintain the principal in perpetuity. Unrestricted quasi-endowment funds represent unrestricted funds designated by the Board of Regents for long-term investment purposes.

Programs supported by the University's permanent and quasi-endowment funds include scholarships, fellowships, professorships, research efforts and other important programs and activities. The University uses its endowment to support operations by generating a predictable stream of annual support for current needs, while preserving the purchasing power of the endowment funds for future periods.

Effective for fiscal year 2004, the University adopted a spending rate policy with the intent of limiting the immediate impact that significant changes in the fair value of the endowment portfolio have on annual distributions. The spending rate policy provides for an annual distribution, ranging between three percent and five percent of the five-year moving average of the endowment portfolio's fair value. In fiscal year 2008, the University instituted a four percent distribution rate on restricted and unrestricted endowments. The total restricted and unrestricted distribution for the University in 2008 totaled \$1.9 million. The distribution rate for fiscal year 2007 was also 4 percent and amounted to \$2.0 million.

Capital and Debt Activities

The University's capital assets are separated into seven categories: land, buildings, infrastructure, land improvements, equipment, library books, and construction in progress. At June 30, 2008 and 2007, total capital assets, net of accumulated depreciation, amounted to \$1.2 billion and \$1.1 billion, respectively, which represented 52 percent and 51 percent, respectively, of the University's total assets. Capital asset additions totaled \$195.2 million and \$138.8 million in fiscal years 2008 and 2007, respectively, while depreciable capital asset disposals, net of accumulated depreciation, amounted to \$9.4 million and \$14.8 million, respectively. Of the total capital asset additions, \$16.1 million and \$7.3 million were related to building projects administered by the State of Hawai'i Department of Accounting and General Services ("DAGS") – Public Works Division and transferred to the University in fiscal years 2008 and 2007, respectively. Purchases of equipment, including information technology, amounted to approximately \$18.6 million and \$22.2 million and purchases of library books amounted to approximately \$6.9 million and \$8.1 million during fiscal years 2008 and 2007, respectively.

One of the critical factors in enhancing the quality of the University's academic and research programs and student life enrichment is the development, replacement and renewal of capital assets. The University continues to modernize its older teaching and research facilities, and develop and construct new facilities.

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Significant capital projects completed during fiscal year 2008 and 2007 or in progress as of June 30, 2008 and 2007 included:

- **New Frear Hall Student Housing Complex** – Groundbreaking for the construction of the University's newest residence hall on the Mānoa campus was held on November 21, 2006, and since then construction has been on a fast track for the scheduled completion and initial occupancy prior to the start of the 2008 Fall semester. The project will culminate in the first new addition to student housing facilities at Mānoa since 1978 and will help to ease critical dormitory room shortages. The completed complex will consist of a central lobby structure and two interconnected 12-story towers that will house 810 residents in various suite arrangements. In addition to offering residents multiple choices in room layout, the facility will include study lounges, a game room, kitchen, conference room and social lounge. The project was completed in August 2008 in time for the start of the fall 2008 semester.
- **Maikalani Advanced Technology Research Center** – The 15,000 square foot Maikalani Advanced Technology Research Center was completed and conveyed to the University on May 23, 2008. The \$7 million facility in the Kulamanu Town Center, Pukalani, Maui, provides laboratory, research, and office space to support current and future astronomy projects on Haleakala. The new center replaces an 80-year old farmhouse that UH astronomers, technicians, and administrative staff have been using as their Maui headquarters for the past 40 years. The two acre site is ideally situated with available infrastructure and is within reasonable driving distance to the summit observatories yet close enough to the Maui High Performance Computing Center in Kihei to allow high speed data connectivity for project computing support. With the primary function of providing a modern, efficient environment for the development of new technologies, the facility will attract research partners and funding from around the world for advanced astronomical projects.
- **University of Hawai'i Student Life Complex** – Construction of the University of Hawaii at Hilo Student Life center was completed in August 2008. The facility will provide students with a wide range of health, fitness and recreational activities. The 22,600 square-foot structure adjacent to the Athletics complex includes a fitness room, aerobics, martial arts, human performance testing, a 50-meter outdoor pool, an open covered deck, classrooms, lockers and shower facilities, a weight room and an indoor café. The center moreover is on target to become the Big Island's first building to earn a LEED (Leadership in Energy and Environmental Design) Gold rating.
- **Kaua'i Community College One-Stop Center** – At June 30, 2008, \$13.9 million in project costs were incurred for the Kaua'i Community College One-Stop Center. The new center will include administration, student services and academic support operations. Phase I of the project was completed in August 2008.

The State of Hawai'i, at times issues general obligation bonds on behalf of the University to finance certain capital projects. At June 30, 2008 and 2007, amounts due to the State of Hawai'i for general obligation bonds payable amounted to \$2.9 million and \$4.6 million, respectively. For fiscal year 2008, debt service paid by the University amounted to \$1.9 million consisting of \$1.7 million in principal and \$158,000 in interest. For fiscal year 2007, debt service paid by the University amounted to \$1.9 million consisting of \$1.7 million in principal and \$238,000 in interest. General obligation bonds have also been issued by the State of Hawai'i on behalf of the University and are carried as a liability of the State of Hawai'i. Debt service on these general obligation bonds amounted to \$83.9 million and \$80.3 million in fiscal years 2008 and 2007, respectively, and were paid for by the State of Hawai'i on behalf of the University using state appropriations. These amounts are reflected in nonoperating revenues in the statements of revenues, expenses and changes in net assets.

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The University uses revenue bond financing for certain major capital projects. Most recently in December 2006, the University issued the \$100 million of Series 2006A revenue bonds to finance the construction of a new dormitory at the University's Mānoa campus and for the repair and maintenance of University housing projects. The University Bond System's two outstanding revenue bonds, Series 2001B and 2006A, were given municipal bond ratings of "AAA", "Aaa" and "AAA" by Standard & Poor's, Moody's Investor Service and Fitch Ratings, respectively, based on bond insurance policies.

At June 30, 2008 and 2007, revenue bonds payable amounted to \$263 million and \$264.1 million, respectively. Debt service in fiscal year 2008 amounted to \$12.8 million, consisting of \$1 million of principal and \$11.8 million of interest. Debt service in fiscal year 2007 amounted to \$11.1 million, consisting of \$3.7 million of principal and \$7.4 million of interest. Principal reductions during fiscal year 2008 and 2007 were in accordance with scheduled debt service payments.

In June 2002, the University issued \$150 million in Series 2002A revenue bonds to finance the construction of the new John A. Burns School of Medicine campus. While all unrestricted revenues of the University, excluding those revenues pledged under other revenue bond offerings, are pledged as collateral, the University anticipates that State of Hawai'i Tobacco Settlement funds will be the primary source of support for debt service payments on these revenue bonds. The University received State of Hawai'i Tobacco Settlement funds in the amount of \$21.3 million in 2008 to cover the debt service due. The payment for 2007 was received in July 2007 and thus is included in the receipts for 2008.

In October 2006, the University issued \$133.8 million in Refunding Series 2006A bonds to refinance a portion of the University's outstanding Series 2002A revenue bonds. The bond offering was structured to match the timing of receipt of projected State of Hawai'i Tobacco Settlement funds. The refunding resulted in an \$8.3 million reduction in future debt service payments.

In addition to the general obligation and revenue bond liabilities discussed above, the University entered into a capital lease to finance the construction of the Kau'iokahaloa Nui faculty housing project in November 1995. At June 30, 2008 and 2007, capital lease obligations amounted to \$13.8 million and \$14.3 million, respectively. Debt service in fiscal year 2008 amounted to \$1.2 million consisting of \$435,000 for principal and \$797,000 for interest. Debt service in fiscal year 2007 amounted to \$1.2 million consisting of \$415,000 for principal and \$820,000 for interest.

Net Assets

Net assets represent the residual interest in the University's assets after liabilities are deducted. At June 30, 2008 and 2007, total net assets amounted to \$1.7 billion and \$1.6 billion, respectively. Net assets are reported in four major categories: invested in capital assets, net of related debt; restricted nonexpendable; restricted expendable; and unrestricted.

Net assets invested in capital assets, net of accumulated depreciation and the related outstanding debt used to finance the acquisition, construction or improvement of those assets, amounted to \$967.7 million and \$890.9 million at June 30, 2008 and 2007, respectively, an increase of \$76.8 million in fiscal year 2008 and \$47.5 million in fiscal year 2007. The fiscal year 2008 increase represents \$195.2 million of capital asset additions and \$42 million reduction in the reclassification of unspent Series 2006A bond proceeds to restricted net assets, and \$71 million of depreciation expense. The fiscal year 2007 increase represents \$138.8 million of capital asset additions and \$86.1 million reclassification of unspent Series 2006A bond proceeds to restricted net assets, less \$97.3 million decrease of capital assets investments in construction in progress, library books and buildings, \$13 million of debt financed medical school additions and \$65.4 million of depreciation expense.

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Restricted nonexpendable net assets representing the University and Foundation's permanent endowment funds, which are required to be maintained in perpetuity, amounted to \$152.4 million and \$133.5 million at June 30, 2008 and 2007, respectively. The increases of \$18.9 million and \$22.1 million in fiscal years 2008 and 2007, respectively, were primarily attributable to new permanent endowment gifts received.

Restricted expendable net assets are subject to externally imposed restrictions governing their use. These net assets were restricted for the following purposes at June 30, 2008, 2007 and 2006 (in thousands of dollars):

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Plant facilities	\$ 241,019	\$ 217,679	\$ 164,403
Donor-restricted activities	147,192	151,002	107,579
Loan activities	27,853	28,163	26,601
External sponsor activities	1,165	2,782	3,685
	<u>\$ 417,229</u>	<u>\$ 399,626</u>	<u>\$ 302,268</u>

The overall increase of \$17.6 million in restricted expendable net assets was attributable to \$23.3 million increase in plant facilities offset by decreases in donor-restricted, loan and external sponsor activities of \$3.8 million, \$310,000 and \$1.6 million respectively.

Net assets that are not subject to externally imposed restrictions governing their use are classified as unrestricted for financial reporting purposes. Although unrestricted net assets are not subject to externally imposed restrictions, all of the University's unrestricted net assets have been internally designated for various academic and research programs and initiatives, contractual commitments, and capital projects. In addition, unrestricted net assets of \$42.2 million, \$43.1 million and \$40 million were designated for endowment activities at June 30, 2008, 2007 and 2006, respectively. Unrestricted net assets were comprised of the following at June 30, 2008, 2007 and 2006 (in thousands of dollars):

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Designated			
Research and training	\$ 55,428	\$ 49,922	\$ 42,747
Contract commitments	43,007	24,189	13,817
Quasi-endowment	42,184	43,140	40,006
Capital projects	29,751	28,551	20,374
Bond System	14,346	20,175	19,073
Other designated net assets	8,413	8,059	9,697
	<u>193,129</u>	<u>174,036</u>	<u>145,714</u>
Undesignated (unfunded obligations for vacation, worker's compensation liabilities, payroll, etc).	<u>(41,281)</u>	<u>(19,776)</u>	<u>(37,442)</u>
	<u>\$ 151,848</u>	<u>\$ 154,260</u>	<u>\$ 108,272</u>

Results of Operations

The consolidated statement of revenues, expenses and changes in net assets is a presentation of the University's results of operations for the year. It indicates whether the financial condition of the University improved or deteriorated. For financial reporting purposes, certain significant revenues, including state

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appropriations, private gifts, and investment income, which are relied upon and budgeted to support the University's core operations, are required to be reported as nonoperating revenues. The University's results of operations for the years ended June 30, 2008, 2007 and 2006, summarized to match revenues supporting core activities with expenses associated with core activities, is as follows (in thousands of dollars):

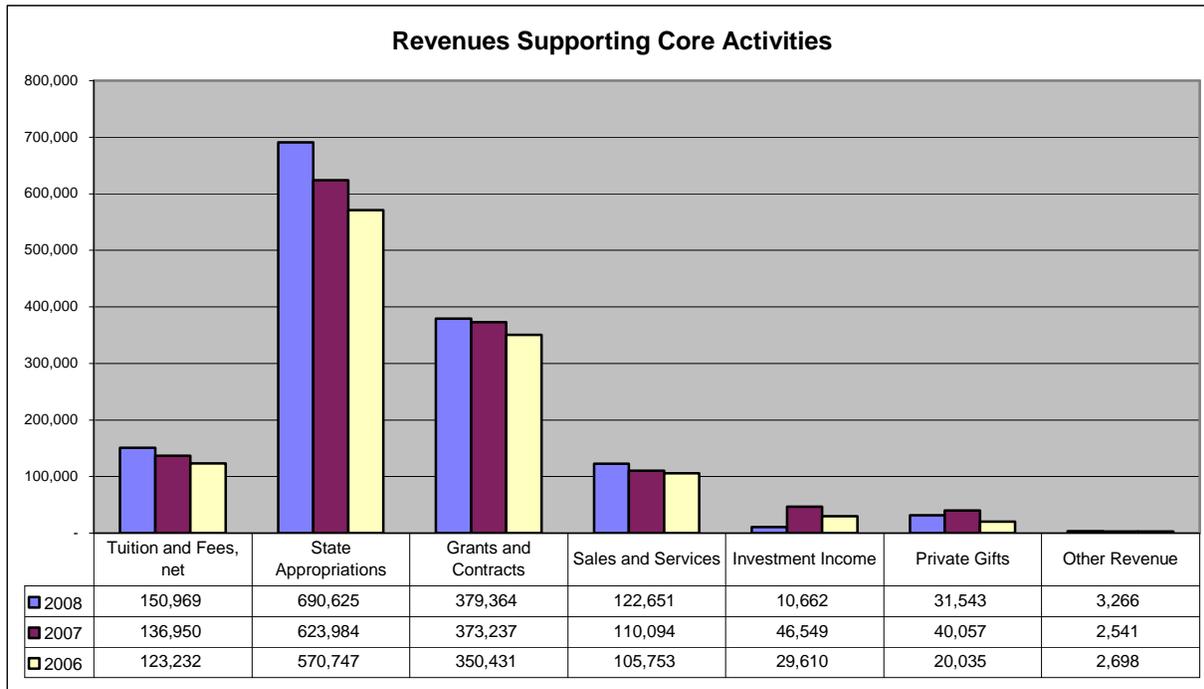
	2008			2007			2006	
	Amount	Percent of Total	Inc/(Dec) Fr 2007	Amount	Percent of Total	Inc/(Dec) Fr 2006	Amount	Percent of Total
Revenues								
Operating								
Tuition and fees, net	\$ 150,969	10.87%	\$ 14,019	\$ 136,950	10.27%	\$ 13,718	\$ 123,232	10.25%
Grants and contracts	379,364	27.31%	6,127	373,237	27.99%	22,806	350,431	29.14%
Sales and services	122,651	8.84%	12,557	110,094	8.27%	4,341	105,753	8.80%
Other revenue	3,266	0.24%	725	2,541	0.19%	(157)	2,698	0.22%
Total operating revenues	<u>656,250</u>	<u>47.24%</u>	<u>33,428</u>	<u>622,822</u>	<u>46.71%</u>	<u>40,708</u>	<u>582,114</u>	<u>48.41%</u>
Non-operating								
State appropriations	690,625	49.72%	66,641	623,984	46.80%	53,237	570,747	47.46%
Investment income	10,662	0.77%	(35,887)	46,549	3.49%	16,939	29,610	2.46%
Private gifts	31,543	2.27%	(8,514)	40,057	3.00%	20,022	20,035	1.67%
Total non-operating revenues	<u>732,830</u>	<u>52.76%</u>	<u>22,240</u>	<u>710,590</u>	<u>53.29%</u>	<u>90,198</u>	<u>620,392</u>	<u>51.59%</u>
Total revenues supporting core activities	<u>1,389,080</u>	<u>100.00%</u>	<u>55,668</u>	<u>1,333,412</u>	<u>100.00%</u>	<u>130,906</u>	<u>1,202,506</u>	<u>100.00%</u>
Expenses								
Operating								
Compensation and benefits	901,678	62.46%	134,393	767,285	59.36%	52,484	714,801	59.20%
Supplies and materials	185,216	12.83%	(366)	185,582	14.36%	15,618	169,964	14.08%
Telecom and utilities	58,553	4.06%	11,872	46,681	3.61%	1,773	44,908	3.72%
Scholarships and fellowships	30,162	2.09%	(1,431)	31,593	2.44%	(1,942)	33,535	2.78%
Other expense	103,624	7.18%	16,058	87,566	6.77%	7,896	79,670	6.60%
Total operating expenses	<u>1,279,233</u>	<u>88.61%</u>	<u>160,526</u>	<u>1,118,707</u>	<u>86.55%</u>	<u>75,829</u>	<u>1,042,878</u>	<u>86.38%</u>
Non-operating								
Transfers to State, net	82,540	5.72%	(22,044)	104,584	8.09%	7,483	97,101	8.04%
Interest expense	10,629	0.74%	6,710	3,919	0.30%	(3,511)	7,430	0.62%
Total non-operating expenses	<u>93,169</u>	<u>6.45%</u>	<u>(15,334)</u>	<u>108,503</u>	<u>8.39%</u>	<u>3,972</u>	<u>104,531</u>	<u>8.66%</u>
Expenses associated with core activities before depreciation	<u>1,372,402</u>	<u>-</u>	<u>145,192</u>	<u>1,227,210</u>	<u>-</u>	<u>79,801</u>	<u>1,147,409</u>	<u>-</u>
Income from core activities before depreciation	<u>16,678</u>	<u>-</u>	<u>(89,524)</u>	<u>106,202</u>	<u>-</u>	<u>51,105</u>	<u>55,097</u>	<u>-</u>
Depreciation	71,226	4.93%	5,839	65,387	5.06%	5,463	59,924	4.96%
Expenses associated with core activities including depreciation	<u>1,443,628</u>	<u>100.00%</u>	<u>151,031</u>	<u>1,292,597</u>	<u>100.00%</u>	<u>85,264</u>	<u>1,207,333</u>	<u>100.00%</u>
Income (loss) from core activities	<u>(54,548)</u>	<u>-</u>	<u>(95,363)</u>	<u>40,815</u>	<u>-</u>	<u>45,642</u>	<u>(4,827)</u>	<u>-</u>
Other nonoperating activity								
Capital gifts and grants	148,496			150,290			140,374	
Permanent endowment	19,284			21,548			6,176	
Other revenue/expense, net	<u>(2,259)</u>			<u>243</u>			<u>(5,401)</u>	
Other nonoperating income, net	<u>165,521</u>			<u>172,081</u>			<u>141,149</u>	
Increase in net assets	110,973			212,896			136,322	
Net assets								
Beginning of year	<u>1,578,270</u>			<u>1,365,374</u>			<u>1,229,052</u>	
End of year	<u>\$ 1,689,243</u>			<u>\$ 1,578,270</u>			<u>\$ 1,365,374</u>	

Revenues Supporting Core Activities

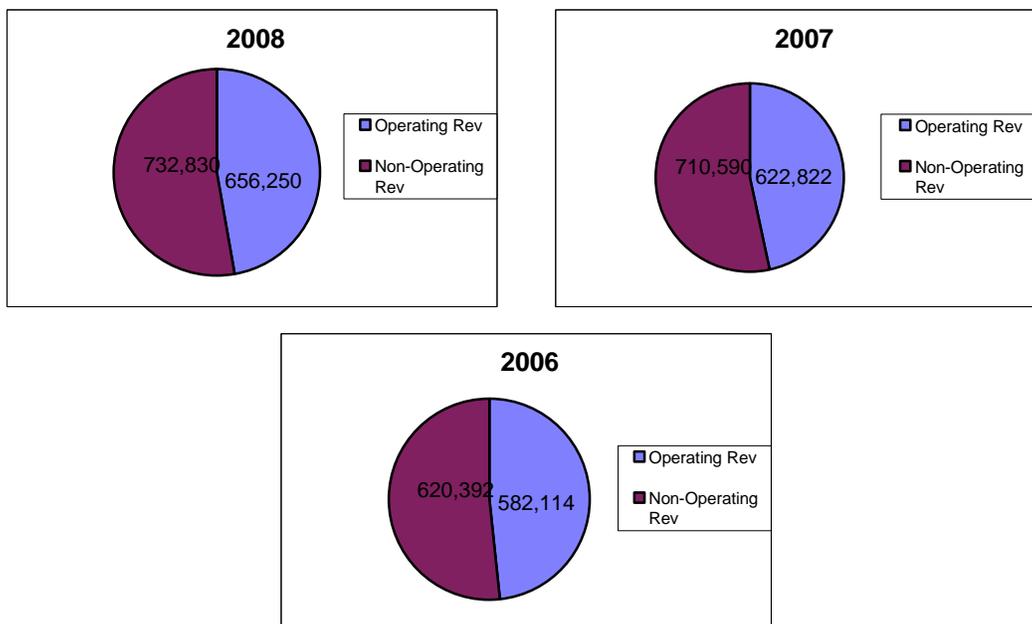
The University has a diversified stream of revenues to support its operations. State appropriations and tuition and fees are the core components that support the University's instructional and academic programs. Government and nongovernmental grants and contracts provide opportunities for undergraduate and graduate students to participate in basic research with renowned researchers. Private gifts contribute toward the support of the University's instructional and academic initiatives. Sales and services revenues include revenues from educational departments and auxiliary enterprises, including bookstores, student housing, food services, and parking.

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The following chart illustrates the trend in the University's revenues for the years ended June 30, 2008, 2007 and 2006 (in thousands of dollars):

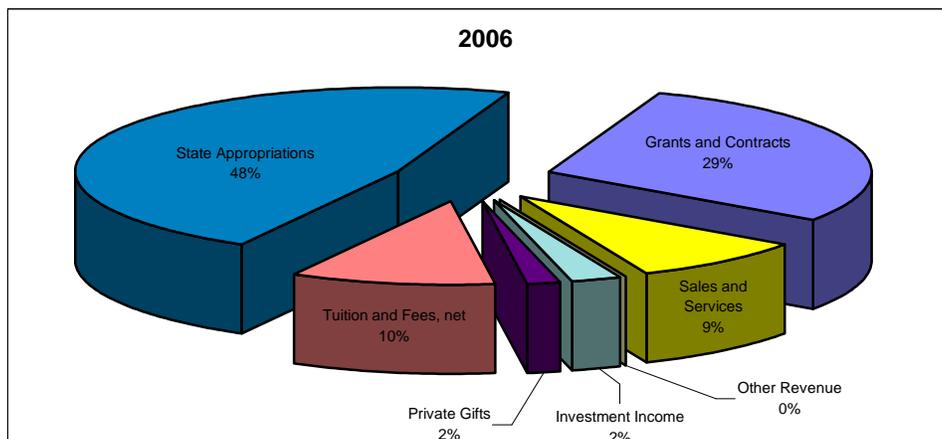
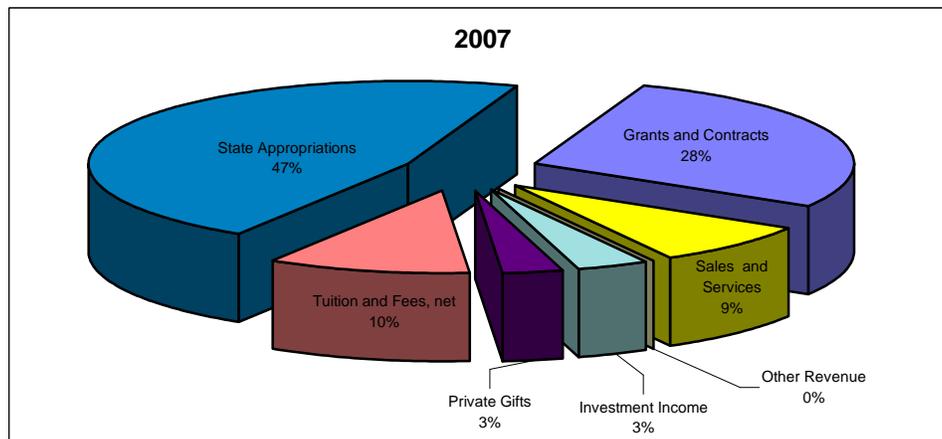
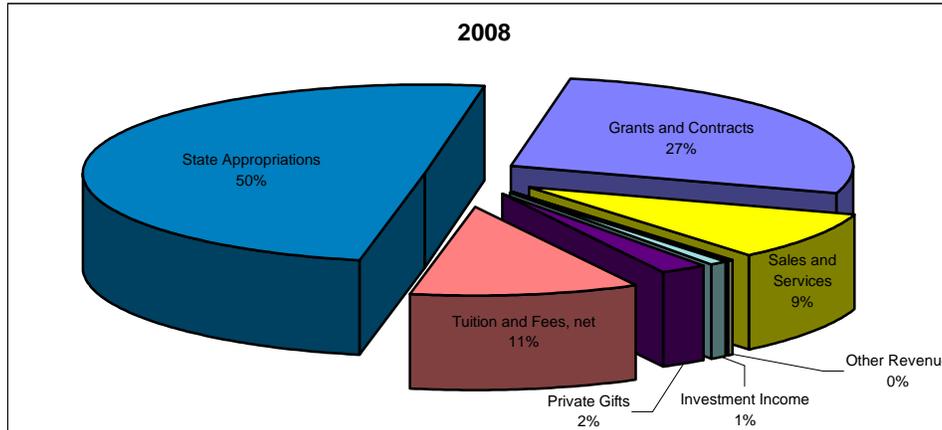


The following charts compare operating and nonoperating revenues for the years ended June 30, 2008, 2007 and 2006 (in thousands of dollars):



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The following charts illustrate the composition of revenues for the years ended June 30, 2008, 2007 and 2006:



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Fiscal year 2008 was the second year in the University's six-year plan to increase tuition and fee rates. Tuition and fees revenue, net of scholarship allowances, increased by \$14.0 million or 10.9 percent to \$151.0 million in fiscal year 2008, and increased by \$13.7 million or 11.1 percent to \$136.9 million in fiscal year 2007 when compared to \$123.2 million in fiscal year 2006. Scholarship allowances amounted to \$52.3 million in fiscal year 2008 compared to \$36.2 million in fiscal year 2007. For fiscal year 2008, the increase is primarily attributable to an increase in enrollment at the UH Hilo, West O'ahu and community college campuses. In addition undergraduate tuition and fee rates for all campuses increased between 11.4 and 21.7 percent. For fiscal year 2007, the University's Mānoa campus student enrollment decreased by 1 percent and undergraduate tuition and fee rates for all campuses increased between 14.3 and 23.3 percent.

General state appropriations increased by \$66.6 million, or 11 percent, to \$690.6 million in fiscal year 2008 and increased by \$53.2 million, or 9.3 percent, to \$624 million in fiscal year 2007 when compared to \$570.7 million in fiscal year 2006. A \$57.1 million increase in general state appropriation support, a \$3.3 million decrease in collective bargaining appropriations and a \$12.8 million increase in flood appropriation and revenue that lapsed accounted for the net increase in fiscal year 2008. A \$14.9 million increase in the appropriation for non-discretionary costs paid to the Department of Budget and Finance related to non-imposed fringe benefits and debt service, a \$7.8 million increase in collective bargaining appropriations and a \$31.1 million in flood appropriation and revenue that lapsed accounted for the increase in fiscal year 2007.

Revenues from federal, state and local grants and contracts and nongovernmental sponsored programs increased by \$6.1 million, or 1.6 percent, to \$379.4 million in fiscal year 2008, and increased by \$22.8 million, or 6.5 percent, to \$373.2 million in fiscal year 2007 when compared to \$350.4 million in fiscal year 2006. The fiscal year 2008 net increase was attributable to a \$2.9 million decrease in federal grants and contracts offset by increases in state and local grants and contracts and nongovernmental sponsored programs of \$5.8 million and \$3.2 million, respectively. The fiscal year 2007 increase was attributable to an increase in federal grants and contracts, with the majority in a grant for the Maui High Performance Computing Center, which is an Air Force Research Laboratory Center.

Sales and services revenues, which are mainly comprised of bookstores, student and faculty housing, food services, parking and athletics, increased by \$12.2 million, or 11.1 percent, to \$122.3 million in fiscal year 2008 when compared to \$110.1 million in fiscal year 2007. The increase was largely due to increases in bookstore and Mānoa athletics revenues attributable to the successful football season and Allstate Sugar Bowl participation. In fiscal year 2007, sales and services increased by \$4.3 million, or 4.1 percent, to \$110.1 million when compared to \$105.8 million in fiscal year 2006. In fiscal year 2007, the increase was largely due to a slight decrease in scholarship allowance in housing which offsets with student housing revenue, an increase in gate receipts in athletics at the Mānoa campus and an increase from cafeteria sales in food service for boarding students at the Hilo campus.

The University's net investment income for fiscal year 2008 decreased by \$35.9 million, or 77.1 percent, to \$10.6 million compared to \$46.5 million in fiscal year 2007. The fiscal year 2008 decrease was mainly due to a \$38.9 million decrease in unrealized net gain offset by a \$4.2 million increase in realized net gain. Net investment income for fiscal year 2007 increased by \$16.9 million, or 57.2 percent, compared to \$29.6 million in fiscal year 2006. The fiscal year 2007 increase was mainly due to \$5.5 million in additional investment income, \$3.8 million additional unrealized gain, offset by a \$159,000 decrease of realized gain.

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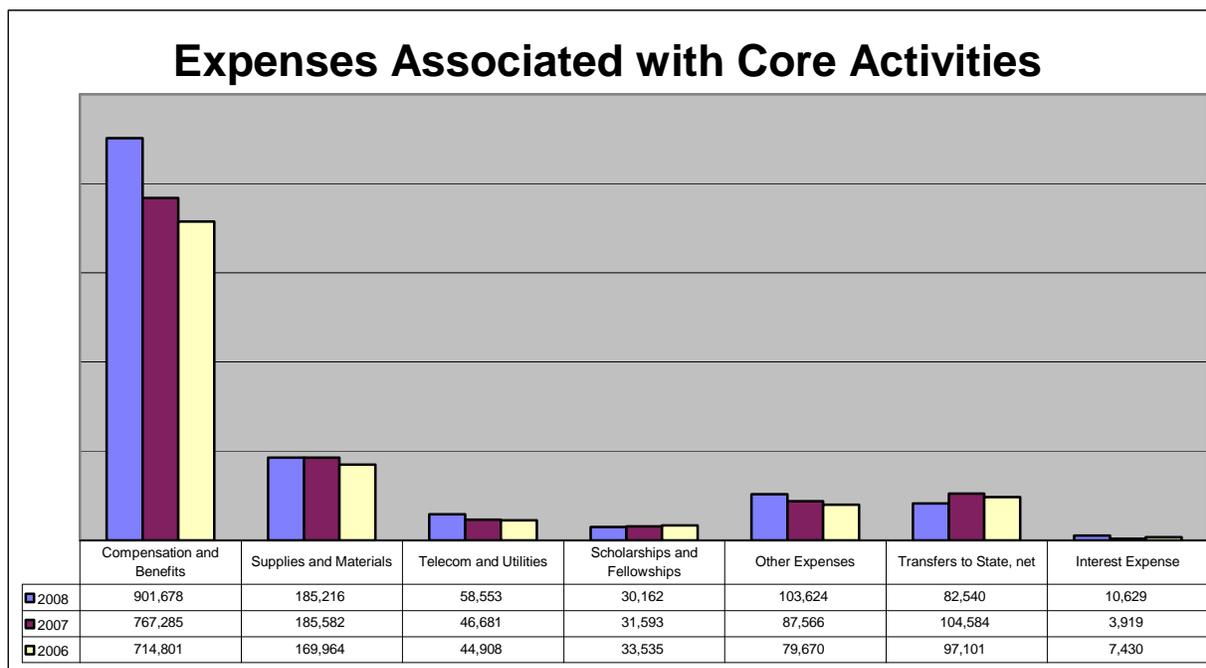
The components of net investment income for the years ended June 30, 2008, 2007 and 2006 were as follows (in thousands of dollars):

	<u>2008</u>	<u>2007</u>	<u>Inc/(Dec) From 2007</u>	<u>2006</u>	<u>Inc/(Dec) From 2006</u>
Interest and dividend income	\$ 21,383	\$ 21,378	\$ 5	\$ 13,818	\$ 7,560
Investment income used to finance construction costs	(518)	(802)	284	(760)	(42)
Net realized and unrealized gains (losses)	<u>(10,203)</u>	<u>25,973</u>	<u>(36,176)</u>	<u>16,552</u>	<u>9,421</u>
	<u>\$ 10,662</u>	<u>\$ 46,549</u>	<u>\$ (35,887)</u>	<u>\$ 29,610</u>	<u>\$ 16,939</u>

For fiscal year 2008, private gifts, most of which are restricted as to use, decreased by \$8.5 million, or 21.2 percent, to \$31.5 million in fiscal year 2008 when compared to \$40.1 million in fiscal year 2007. The fiscal year 2008 decrease was primarily attributable to the successful 2007 Centennial Campaign which brought the Foundation and the University closer to reaching its \$250 million goal. For fiscal year 2007, private gifts, most of which were restricted as to use, increased by \$20 million, or 100 percent, to \$40.1 million when compared to \$20.0 million in fiscal year 2006. The fiscal year 2007 increase was primarily attributable to the Foundation's dedication to raise private funds to support all ten campuses of the University. The University will continue to aggressively develop private revenue sources and cultivate the increasing trend in private gifts received.

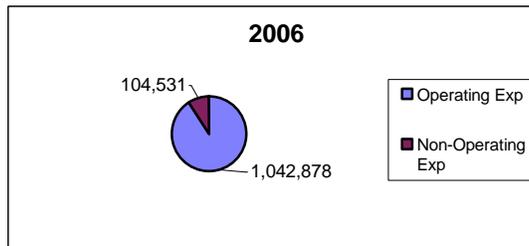
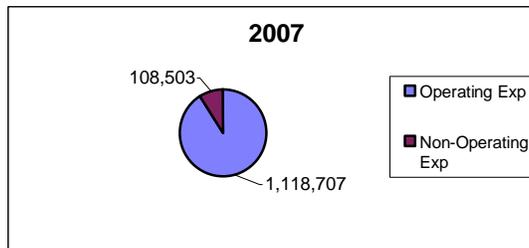
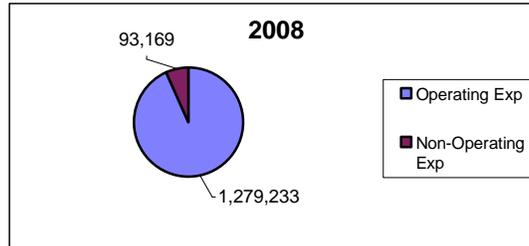
Expenses Associated with Core Activities

The following chart illustrates the trend in the University's expenses for the years ended June 30, 2008, 2007 and 2006 (in thousands of dollars):



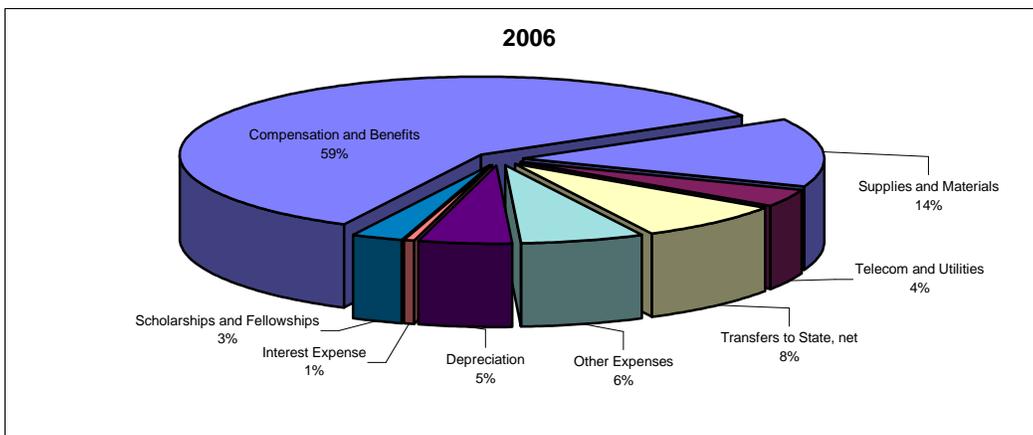
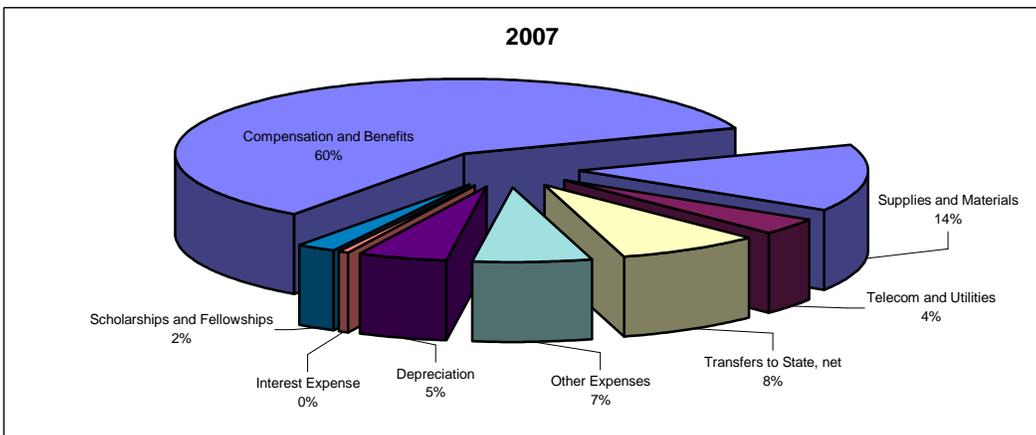
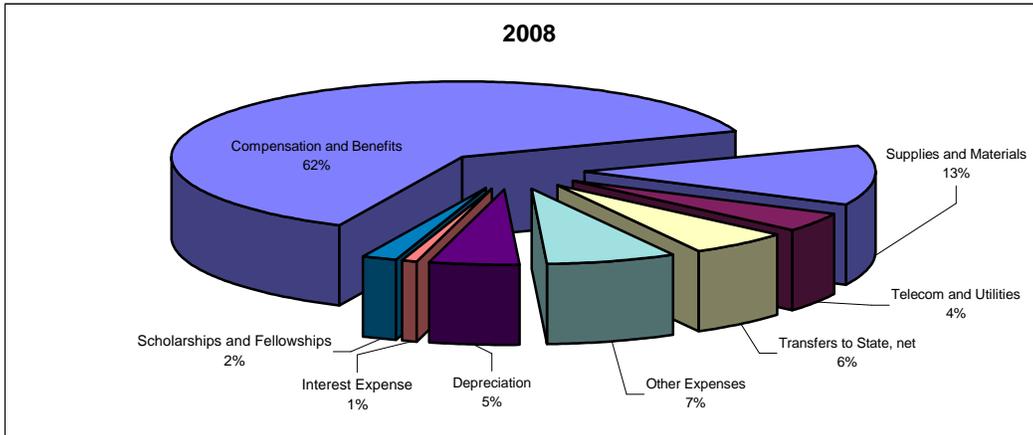
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The following charts compare operating and nonoperating expenses for the years ended June 30, 2008, 2007 and 2006 (in thousands of dollars):



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The following charts illustrate the composition of expenses for the years ended June 30, 2008, 2007 and 2006:



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The University is committed to recruiting and retaining outstanding faculty and staff, and providing compensation equivalent to peer institutions and nonacademic employers. Approximately 62 percent of the University's expenses were related to compensation and benefits during fiscal year 2008 compared to 59.3 percent in fiscal year 2007. Compensation and benefits increased by \$134.4 million, or 17.5 percent, to \$901.7 million in fiscal year 2008, and increased by \$52.5 million, or 7.3 percent, to \$767.3 million in fiscal year 2007 when compared to \$714.8 million in fiscal year 2006. The increases for fiscal years 2008 and 2007 were attributable to scheduled pay rate increases under collective bargaining agreements, the addition of new faculty and administrative employees to support increases in other academic, research and public service programs, increases in fringe benefits assessed by the state, and the impact of GASB Statement No. 45 on fiscal year 2008 fringe benefit expense. The adoption of GASB Statement No. 45 resulted in the University recognizing \$88.6 million in expense related to postretirement health and life insurance benefits.

Supplies and materials expense includes service fees, printing and binding, advertising, dues and subscriptions, controlled property acquisitions and other miscellaneous operating costs. In fiscal year 2008, supplies and materials expense decreased by \$365,000, or .2 percent, to \$185.2 million when compared to \$185.5 million in fiscal year 2007. The decrease was primarily attributable to the 2007 \$10.5 million reclassification of library electronic database expense from the capitalized expense category offset by increases in supplies and material expense in fiscal year 2008. In fiscal year 2007, supplies and materials expense increased by \$15.6 million, or 9.2 percent, to \$185.6 million when compared to \$170 million in fiscal year 2006.

The University is committed to providing an affordable yet quality education to its students. Scholarships and fellowships, primarily comprised of academic and athletic scholarships and fellowships, are payments of financial aid made directly to students. Scholarships and fellowships decreased by \$1.4 million, or 4.5 percent, to \$30.2 million in fiscal year 2008 and decreased by \$1.9 million, or 5.8 percent, to \$31.6 million in fiscal year 2007 when compared to \$33.5 million in fiscal year 2006. The decrease for fiscal year 2008 was primarily due to a change in the relative amounts of financial aid payments made as compared to amounts offset against tuition and fees, while the decrease in 2007 was primarily attributable to fewer awards from the U.S. Department of Education for the Gaining Early Awareness and Readiness for Undergraduate Programs ("GEAR-UP").

The University continues its commitment to improve and maintain its facilities that service the diverse social needs of students, faculty, families and persons with disabilities. For fiscal year 2008, repairs and maintenance increased by \$2.3 million, or 10.9 percent, to \$22.9 million compared to \$20.6 million in fiscal year 2007. The majority of repair and maintenance increases was in buildings and structures such as facilities management projects, accessibility modifications, capital renewal and deferred maintenance in all of the University's campuses.

The University depreciates their capital assets over their estimated useful lives using the straight-line method. Depreciation expense, which represents the estimated utilization of the University's capital assets each year, increased by \$5.8 million, or 8.9 percent, to \$71.2 million during fiscal year 2008 when compared to \$65.4 million in fiscal year 2007. The increase in fiscal year 2008 was primarily attributable to land improvements, building and equipment additions and reclassifications from CIP to building and infrastructure. In fiscal year 2007, depreciation expense increased by \$5.5 million, or 9.1 percent, to \$65.4 million when compared to \$59.9 million in fiscal year 2006. The increase in fiscal year 2007 was primarily attributable to an increase in depreciation for the JABSOM Research and Ancillary buildings.

Transfers to state are primarily attributable to the return of general state appropriations for debt service on general obligation debt, excess fringe benefit appropriations and assessments, and executive restrictions, offset by transfers from the state to cover debt service on the University's Series 2002A revenue bonds and the Hawai'i Cancer Research Special fund.

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Transfers to state decreased by \$22 million, or 21.1 percent, to \$82.5 million in fiscal year 2008 when compared to \$104.6 million in fiscal year 2007. For fiscal year 2008, increases in transfers to state in the amount of \$7.2 million for debt service on general obligation bonds, fringe benefit expense and interest paid on Tobacco settlement funds offset by increases in transfers from the state in the amount of \$29.2 million for Bridge to Hope, Hawai'i Cancer Research cigarette stamp tax and Tobacco settlement accounted for the overall change. Transfers to state increased by \$7.5 million, or 7.7 percent, to \$104.6 million in fiscal year 2007 when compared to \$97.1 million in fiscal year 2006. For fiscal year 2007, a \$6.5 million increase in the pass-through costs for debt service on general obligation debt, offset by a \$1.1 million decrease in excess fringe benefit appropriation, plus an additional \$7.7 million transferred to Hawai'i Cancer Research special fund from proceeds collected from the Cigarette Stamp Tax and a \$9.1 million decrease due to not receiving proceeds for the tobacco settlement fund accounted for the overall change.

The Cigarette Tax and Tobacco Tax Law, HRS section 245-15 effective July 1, 2006, established the Hawai'i Cancer Research Special Fund. The cigarette stamp tax, beginning October 1, 2006, provides revenues to support research and operating expenses to this fund as follows:

<u>Time Period</u>	<u>Cigarette Stamp Tax</u>
October 1, 2006 – September 29, 2007	1.0 cent per cigarette
October 1, 2007 – September 30, 2008	1.5 cents per cigarette
October 1, 2008 – September 30, 2009	2.0 cents per cigarette
October 1, 2009 – September 30, 2010	2.0 cents per cigarette
October 1, 2010 – September 30, 2011	2.0 cents per cigarette
October 1, 2011 – thereafter	2.0 cents per cigarette

Construction of the Cancer Research Center in Kaka'ako is expected to begin in 2010. The University is negotiating with Townsend Capital LLC, a privately held real estate investment firm, which plans to develop, finance and construct the center and in turn lease it to the University after its expected completion in 2012. The 200,000 square foot center will be built on land leased from the Hawai'i Community Development Authority, a state agency that is responsible for the redevelopment of Kaka'ako.

Other Nonoperating Activities

Revenues from other nonoperating activities generally are not used to support the University's current operations and are comprised primarily of capital gifts and grants, and additions to permanent endowments. Capital gifts and grants, state capital appropriations and transfers, may only be used for the purchase or construction of specified capital assets. Additions to permanent endowments must be retained in perpetuity; however investment earnings thereon may be available in future years to support specified programs.

Capital gifts and grants, state capital appropriations and transfers, decreased by \$1.8 million, or 1.2 percent, to \$148.5 million in fiscal year 2008 compared to \$150.3 million in fiscal year 2007. During fiscal 2008, the State of Hawai'i transferred \$16.1 million in completed construction projects to the University. In addition to the completed projects, the State of Hawai'i appropriated \$116.9 million to the University for building renovation and other capital improvement projects on all campuses throughout the University system. The remainder of capital gifts and grants during fiscal year 2008 were primarily attributable to federal capital grants of \$11.1 million and private capital gifts and grants of \$4.9 million. In fiscal year 2007, capital gifts and grants, including state capital appropriations and transfers, increased by \$9.9 million, or 7.1 percent, to \$150.3 million compared to \$140.4 million in fiscal year 2006. As part of the University's on-going effort to gain autonomy, the Office of Capital Improvements was created to administer all major University construction projects that were once administered and financed by DAGS. During this transition, some older projects remained at DAGS for transfer to the University following

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contract completion. The Renovation of Hamilton Library, Phase IIIA project was completed and turned over to the University during fiscal year 2007. Due to a \$1.7 million flood impairment loss, the transferred cost was reduced from \$9 million to \$7.3 million. In addition to the completed project turned over to the University, the State of Hawai'i appropriated \$129.1 million to the University for building renovation and other capital improvement projects on all campuses throughout the University system. The remainder of capital gifts and grants during fiscal year 2007 were primarily attributable to federal capital grants of \$14.5 million and private capital gifts and grants of \$471,000.

Cash Flows

The statement of cash flows presents the University's significant sources and uses of cash and cash equivalents, including restricted cash balances. The University's cash is comprised primarily of cash held with the state treasury, demand deposits, and time certificates of deposit with an original maturity of three months or less. A summary of the University's cash flows for the years ended June 30, 2008 and 2007 is as follows (in thousands of dollars):

	2008	2007	FY 08 vs. 07 Change	2006	FY 07 vs. 06 Change
Cash received from operations	\$ 733,944	\$ 668,382	\$ 65,562	\$ 643,306	\$ 25,076
Cash payments for operations	<u>(1,266,504)</u>	<u>(1,156,276)</u>	<u>(110,228)</u>	<u>(1,084,594)</u>	<u>(71,682)</u>
Net cash used in operating activities	<u>(532,560)</u>	<u>(487,894)</u>	<u>(44,666)</u>	<u>(441,288)</u>	<u>(46,606)</u>
Net cash provided by noncapital financing activities	705,005	627,457	77,548	568,972	58,485
Net cash used in capital and related financing activities	(148,583)	(36,407)	(112,176)	(125,929)	89,522
Net cash provided by (used in) investing activities	<u>44,006</u>	<u>(91,844)</u>	<u>135,850</u>	<u>(4,512)</u>	<u>(87,332)</u>
Net increase (decrease) in cash	67,868	11,312	56,556	(2,757)	14,069
Cash					
Beginning of year	<u>37,815</u>	<u>26,503</u>	<u>11,312</u>	<u>29,260</u>	<u>(2,757)</u>
End of year	<u>\$ 105,683</u>	<u>\$ 37,815</u>	<u>\$ 67,868</u>	<u>\$ 26,503</u>	<u>\$ 11,312</u>

The University's cash and cash equivalents increased by \$67.9 million, or 179.5 percent, from \$37.8 million at June 30, 2007 to \$105.7 million at June 30, 2008. During fiscal year 2008, \$532.6 million in cash was used for operating activities, offset by \$705 million in cash provided by noncapital financing activities. Noncapital financing activities include state appropriations and gifts received for other than capital purposes, and are used to support the University's core operations. In fiscal year 2007, the University's cash and cash equivalents increased by \$11.3 million, or 4.27 percent, from \$26.5 million at June 30, 2006 to \$127.7 million at June 30, 2007. During fiscal year 2007, \$487.9 million in cash was used for operating activities, offset by \$627.4 million in cash provided by noncapital financing activities. Noncapital financing activities include state appropriations and gifts received for other than capital purposes, and are used to support the University's core operations.

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Net cash used in capital and related financing activities amount to \$148.6 million in fiscal year 2008, \$36.4 million in fiscal year 2007 and \$125.9 million in fiscal year 2006. The significant increase in net cash used in capital and related financing activities in fiscal years 2008 as compared to fiscal year 2007 was primarily attributable to a \$25.6 million increase in cash provided by capital appropriations, gifts and grants and a \$17.7 million net transfer from the State of Hawai'i and a decrease of \$133.8 million in principal paid on capital debt and leases, offset by a \$235.4 million decrease in proceeds from issuance of capital debt and a \$53.9 million increase in purchases of capital assets.

Correspondingly, net cash provided by investing activities amounted to \$44 million in fiscal year 2008, while net cash used in investing activities amounted to \$91.8 million in fiscal year 2007 and \$4.5 million in fiscal year 2006. The increase in net cash provided by investing activities of \$135.8 million in fiscal year 2008 is attributable to a \$2 million increase in net investment income and a \$26 million decrease from the sales and maturities of investments offset by a \$107.8 million decrease in investment purchases.

Looking Forward

Looking toward the future, management believes that the University is well positioned to maintain its strong financial condition and level of excellence in service to students, the research community, and the State of Hawai'i. The University remains committed to revenue diversification and cost containment, in order to provide the necessary resources to support and fuel its growth.

Keenly aware that private giving can greatly expand its resources, the University continues to aggressively promote its Centennial Campaign, which is the most ambitious fund-raising campaign in the State's history. On July 1, 2002, the historic Centennial Campaign was launched and is scheduled to continue until June 30, 2009. On November 24, 2008, the University of Hawai'i Foundation was happy to announce that they surpassed their initial fundraising goal. Current Centennial Campaign fundraising contributions total \$264 million.

To execute its long-range plan to modernize and expand its aging teaching and research facilities and develop and construct new facilities, the University will need continued support from the State of Hawai'i capital improvement project program. This strategy addresses the University's growth and the continuing effects of technology on teaching and research methodologies. In fiscal year 2009, the Governor has released over \$68.5 million to fund these types of projects. In July 2008, \$1.2 million was released for the Clarence T.C. Ching (Cooke) field improvements, which was dedicated on February 2, 2009. The turf replacement project is the first phase of the Clarence T.C. Ching Athletics Complex. In August 2008, \$60 million was released for plans, designs and construction for the capital renewal, deferred maintenance, health and safety, and infrastructure projects at University campuses. In September 2008, \$3.5 million was released for the plans, design and construction of the upgrade of the existing air conditioning and ventilation systems at Bilger Addition and the renovation of existing facilities at Hawai'i Community College Manono Campus. In November 2008, \$3.8 million was released for plans and design for an Information Technology and Emergency Operations Center Building.

In October 2008, the University of Hawai'i Board of Regents approved reduced operating budget scenarios for fiscal years 2010 and 2011. The base budget reduction scenarios ranged from \$13.5 million to \$30.6 million, as requested by the Governor. Due to the current economic conditions, further reductions in excess of those levels are likely. Also, the Governor has restricted approximately \$6 million of the University's 2009 fiscal year appropriations and further restrictions are possible.

In January 2009, the University held groundbreaking ceremonies for the new West O'ahu campus in the City of Kapolei. Also that month, the lease negotiations with the Hawai'i Community Development Authority were successfully concluded for the site of the University of Hawai'i's Cancer Research Center of Hawai'i research and clinical trials facility.

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The University will continue to employ its long-term investment strategy to maximize total returns, at an appropriate level of risk, while utilizing a spending rate policy to insulate the University's operations from temporary market volatility.

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	2008	2007
Assets		
Current assets		
Cash and cash equivalents	\$ 105,545	\$ 35,417
Operating investments	75,893	191,931
Due from State of Hawai'i	28,277	13,551
Accounts receivable, net	91,390	100,450
Current portion of notes and contributions receivable, net	14,523	11,351
Accrued interest receivable	2,069	3,255
Inventories	13,416	9,736
Prepaid expenses, deferred charges and other current assets	9,537	9,001
Total current assets	340,650	374,692
Noncurrent assets		
Restricted cash and cash equivalents	138	2,398
Due from State of Hawai'i	246,663	221,333
Endowment and other investments	464,723	379,767
Notes and contributions receivable, net	32,831	32,281
Capital assets, net	1,188,635	1,074,030
Other noncurrent assets	28,407	22,333
Total noncurrent assets	1,961,397	1,732,142
Total assets	\$ 2,302,047	\$ 2,106,834
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 52,786	\$ 48,131
Accrued payroll and fringe benefits	29,654	28,575
Advances from sponsors	59,840	51,441
Deferred revenue	32,560	28,273
Due to State of Hawai'i	8,292	8,021
Current portion of long-term liabilities	33,271	26,501
Other current liabilities	4,930	7,007
Total current liabilities	221,333	197,949
Noncurrent liabilities		
Accrued vacation	37,832	34,995
Accrued workers' compensation liability	8,265	7,369
Postretirement healthcare/life insurance benefits	62,851	-
Due to State of Hawai'i	1,313	2,916
Capital lease obligation	13,360	13,820
Bonds payable	258,630	263,045
Premium on bonds payable	1,864	1,913
Other noncurrent liabilities	7,356	6,557
Total noncurrent liabilities	391,471	330,615
Total liabilities	612,804	528,564
Net assets		
Invested in capital assets, net of related debt	967,717	890,877
Restricted		
Nonexpendable	152,449	133,507
Expendable	417,229	399,626
Unrestricted	151,848	154,260
Total net assets	1,689,243	1,578,270
Total liabilities and net assets	\$ 2,302,047	\$ 2,106,834

The accompanying notes are an integral part of the consolidated financial statements.

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Consolidated Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2008 and 2007
(All dollars reported in thousands)

	2008	2007
Operating revenues		
Student tuition and fees	\$ 203,243	\$ 173,146
Less: Scholarship allowances	52,274	36,196
Net student tuition and fees	150,969	136,950
Federal appropriations, grants and contracts	313,770	316,690
State and local grants and contracts	30,587	24,812
Nongovernmental sponsored programs	35,007	31,735
Sales and services of educational departments, other	36,018	35,452
Auxiliary enterprises		
Bookstores	31,521	28,060
Student housing (net of scholarship allowances of \$856 and \$470)	16,994	16,745
Other auxiliary enterprises revenues	38,118	29,837
Other operating revenues	3,266	2,541
Total operating revenues	<u>656,250</u>	<u>622,822</u>
Operating expenses		
Compensation and benefits	901,678	767,285
Supplies, services and cost of goods sold	185,216	185,582
Depreciation	71,226	65,387
Telephone and utilities	58,553	46,681
Scholarships and fellowships	30,162	31,593
Travel expenses	31,543	27,533
Repairs and maintenance	22,896	20,644
Other operating expenses	49,185	39,389
Total operating expenses	<u>1,350,459</u>	<u>1,184,094</u>
Operating loss	<u>(694,209)</u>	<u>(561,272)</u>
Nonoperating revenues (expenses)		
State appropriations	690,625	623,984
Private gifts	31,543	40,057
Net investment income	10,662	46,549
Interest expense	(10,629)	(3,919)
Transfers (to) from State of Hawai'i for		
Debt service	(83,869)	(80,303)
Fringe benefits	(34,491)	(32,035)
Interest on Tobacco settlement	(1,190)	(46)
Bridge to Hope	781	122
Hawaii Cancer Research	14,957	7,678
Loss on disposal of capital assets	(1,973)	(1,397)
Other nonoperating income (expenses), net	(286)	1,640
Net nonoperating revenues before capital and endowment additions	<u>616,130</u>	<u>602,330</u>
Capital state appropriations	116,910	129,141
Capital federal grants/subsidies	11,059	14,494
Capital gifts and grants	4,884	471
Net transfers from State of Hawai'i for capital assets	15,643	6,184
Transfers from State of Hawai'i, Tobacco settlement	21,272	-
Additions to permanent endowments	19,284	21,548
Total other revenues	<u>189,052</u>	<u>171,838</u>
Net nonoperating revenues	<u>805,182</u>	<u>774,168</u>
Increase in net assets	110,973	212,896
Net assets		
Beginning of year	1,578,270	1,365,374
End of year	<u>\$ 1,689,243</u>	<u>\$ 1,578,270</u>

The accompanying notes are an integral part of the consolidated financial statements.

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Consolidated Statements of Cash Flows
Years Ended June 30, 2008 and 2007
(All dollars reported in thousands)

	2008	2007
Cash flows from operating activities		
Student tuition and fees	\$ 164,921	\$ 139,703
Grants and contracts	442,800	411,051
Sales and services of educational and other departmental activities	32,907	31,293
Auxiliary – Bookstore	31,623	27,911
Auxiliary – Student residence fees	17,331	16,613
Auxiliary – Other	36,955	31,256
Payments to employees	(653,619)	(616,739)
Payments for benefits	(179,363)	(152,195)
Payments to suppliers	(356,607)	(326,972)
Payments for scholarships and fellowships	(39,726)	(27,887)
Payments for program and support services	(31,332)	(26,993)
Payments for clean up efforts from Mānoa flood	(976)	(1,323)
Payments for clean up efforts from UH Lab School fire	(89)	(459)
Student loans issued	(4,792)	(3,708)
Student loans collected	2,998	4,443
Other receipts, net	4,409	6,112
Net cash used in operating activities	<u>(532,560)</u>	<u>(487,894)</u>
Cash flows from noncapital financing activities		
State appropriations	661,474	618,389
Recoveries received from State for Mānoa flood	21,679	3,420
Insurance proceeds for UH Lab school fire	53	2,750
Gifts and grants for other than capital purposes	28,800	24,565
Private gifts for endowment purposes	12,317	1,982
Transfer from State of Hawai'i – Bridge to Hope	782	122
Transfer from State of Hawai'i – Hawaii Cancer Research	14,957	7,678
Transfers to State of Hawai'i for		
Fringe benefits	(34,491)	(32,035)
Interest on Tobacco settlement	(1,190)	(46)
Other receipts	624	632
Net cash provided by noncapital financing activities	<u>705,005</u>	<u>627,457</u>
Cash flows from capital and related financing activities		
Capital appropriations	91,580	63,389
Capital gifts and grants	12,378	14,956
Proceeds from issuance of capital debt	-	235,359
Purchases of capital assets	(175,830)	(121,902)
Principal paid on capital debt and leases	(3,498)	(132,256)
Interest paid on capital debt and leases (net of amounts capitalized)	(10,616)	(15,650)
Transfers to State of Hawai'i for debt service	(83,869)	(80,303)
Transfer from State of Hawai'i, Tobacco settlement	21,272	-
Net cash used in capital and related financing activities	<u>(148,583)</u>	<u>(36,407)</u>
Cash flows from investing activities		
Interest and dividends on investments, net	22,703	20,666
Proceeds from sales and maturities of investments	618,985	592,948
Purchase of investments	(597,682)	(705,458)
Net cash provided by (used in) investing activities	<u>44,006</u>	<u>(91,844)</u>
Net increase in cash and cash equivalents	67,868	11,312
Cash and cash equivalents		
Beginning of year	37,815	26,503
End of year	<u>\$ 105,683</u>	<u>\$ 37,815</u>

The accompanying notes are an integral part of the consolidated financial statements.

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Consolidated Statements of Cash Flows
Years Ended June 30, 2008 and 2007
(All dollars reported in thousands)

	2008	2007
Cash and cash equivalents presented in the accompanying consolidated statements of net assets		
Cash and cash equivalents	\$ 105,545	\$ 35,417
Restricted cash and cash equivalents	138	2,398
	<u>\$ 105,683</u>	<u>\$ 37,815</u>
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (694,209)	\$ (561,272)
Adjustments to reconcile operating loss to net cash used in operating activities		
Write-off of capitalized subscription fees	-	10,452
Depreciation expense	71,226	65,387
Bad debt expense	8,056	1,953
Payments included in other nonoperating expenses for		
Clean-up efforts from Mānoa flood	(976)	(1,323)
Clean-up efforts from UH Lab School fire	(89)	(459)
Changes in operating assets and liabilities		
Accounts receivable	1,761	(21,454)
Notes and contributions receivable	(1,534)	1,097
Inventories	(3,678)	1,691
Prepaid expenses and other assets	656	(1,644)
Accounts payable	2,933	(7,269)
Accrued payroll and fringe benefits	1,080	4,060
Accrued vacation	5,569	3,820
Accrued workers' compensation liability	1,442	(1,085)
Advances from sponsors	8,398	14,291
Deferred revenue	1,234	2,174
Post retirement health care & life insurance benefits	62,851	-
Other payables	2,720	1,687
Net cash used in operating activities	<u>\$ (532,560)</u>	<u>\$ (487,894)</u>
Supplemental information of noncash transactions		
Noncash contributions	\$ 8,769	\$ 19,955
Transfers from State of Hawai'i for capital assets	16,256	7,268
Accounts payable for capital assets	13,377	14,563

The accompanying notes are an integral part of the consolidated financial statements.

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1. Organization and Summary of Significant Accounting Policies

Financial Reporting Entity

The accompanying consolidated financial statements of the University of Hawai'i (the "University"), include the activities of the University of Hawai'i at Mānoa, University of Hawai'i at Hilo, University of Hawai'i at West O'ahu, University of Hawai'i Community Colleges and its component units. The University has defined its reporting entity in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. The basic criterion for including a potential component unit within the reporting entity is financial accountability. Other criteria include fiscal dependency and the nature and significance of the relationship are such that exclusion would cause the financial statements of the University to be misleading. Accordingly, the financial information of the Research Corporation of the University of Hawai'i (the "Research Corporation") and the University of Hawai'i Foundation (the "Foundation"), have been blended with the University's financial activity in the accompanying consolidated financial statements.

Complete financial statements of the Research Corporation can be obtained at the Research Corporation of the University of Hawai'i, 2800 Woodlawn Drive, Honolulu, HI 96822. The Foundation's federal Form 990 is available for inspection as required by Internal Revenue Code ("IRC") Section 6104 at the University of Hawai'i Foundation, 2444 Dole Street, Bachman Hall, Room 101, Honolulu, HI 96822.

Similarly, the University is fiscally dependent upon the State of Hawai'i (the "State") and therefore, the State is financially accountable for the University as defined by GASB Statement No. 14. Accordingly, the University's financial information is discretely presented as a component unit within the State's comprehensive annual financial report.

The University is classified as a state instrumentality under IRC Section 115, and is therefore exempt from federal income taxes. Certain activities of the University may be subject to taxation as unrelated business income under IRC Sections 511 and 514.

Basis of Presentation

The University follows the reporting model prescribed for special-purpose governments engaged only in business-type activities, as defined in GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, as amended. The consolidated financial statements of the University are presented using the economic resources measurement focus and the accrual basis of accounting in accordance with standards for governmental colleges and universities. Accordingly, the University has adopted all GASB pronouncements and all Financial Accounting Standards Board ("FASB") pronouncements issued on or before November 30, 1989, which do not contradict or conflict with existing GASB pronouncements.

The Foundation's accounting policies conform to generally accepted accounting principles ("GAAP") applicable to not-for-profit organizations as promulgated by the FASB. The Foundation's financial information has been converted to conform to the University's presentation.

The Research Corporation's accounting policies conform to GAAP applicable to enterprise activities of governmental units as promulgated by the GASB. The Research Corporation's financial information was converted to conform to the University's presentation.

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Cash and Cash Equivalents

The University considers all highly liquid debt instruments, including short-term cash investments, purchased with an original maturity of three months or less to be cash equivalents. The carrying amounts reported in the consolidated Statements of Net Assets for cash equivalents approximate fair value due to the short maturity of these instruments.

Restricted Cash and Cash Equivalents

The University considers unspent cash, cash equivalents and investments from the issuance of construction revenue bonds held with an escrow agent and invested until used for the cost of construction to be restricted.

Investments

Investments in money market funds, fixed income securities, equity securities, and mutual funds with readily determinable fair values are reported at fair value based on quoted market prices. Investments in auction rate securities are reported at par value, which approximates fair value based on successful auctions at or near fiscal year-end. Investments in investment agreements, absolute return funds, real assets are reported at fair value, which is generally based on information provided by the respective external investment manager at the most recent valuation date and from the valuation date to fiscal year-end, if applicable. Investments in limited partnerships and real estate are not readily marketable and involve assumptions and methods that are reviewed by management. Because these investments are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investment existed. Unrealized gains and losses on investments are included in the consolidated Statements of Revenues, Expenses and Changes in Net Assets. Realized gains and losses are computed as the difference between the proceeds of the sale and the cost basis of the investment sold. The calculation of realized gains and losses is independent of the calculation of net changes in the fair value of investments.

The title to investment securities is vested in the name of Securities and Exchange Commission ("SEC") registered brokerage firms representing the various investment managers of the University and the Foundation. The title to short-term investments, made from pooled cash, is vested in the name of the University or the Foundation.

Due from State

The State Director of Finance is responsible for the safekeeping of all cash in the State Treasury in accordance with State laws. Currently, separate accounts are not maintained in the State Treasury for the University's general operating and capital appropriations. Although these appropriations are available to the University to expend, custody and ownership of the funds remains with the State. Unspent general and capital appropriations that continue to be available to the University for expenditure at the end of the fiscal year are reported as Due from State of Hawaii in the accompanying consolidated statement of net assets.

Perpetual Trusts

The Foundation is the beneficiary of certain perpetual trusts held and administered by others. The present values of the estimated future cash receipts from the trusts are recognized as assets and contribution revenues at the dates the trusts are established. Distribution revenues from the trusts are recorded as investment income and the carrying value of the assets is adjusted for changes in the estimates of future receipts.

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Split Interest Agreements

The Foundation's split interest agreements with donors consist of irrevocable pooled income funds, charitable remainder trusts and charitable gift annuities for which the Foundation serves as trustee. Assets held under the split interest agreements are included in investments. Contribution revenues are recognized at the date the split interest agreements are established after recording liabilities for the present value (5% discount rate) of the estimated future payments to be made to the donors and/or other beneficiaries. The liabilities are adjusted during the term of the split interest agreements for changes in the fair value of the assets, accretion of the discount, and other changes in the estimates of future benefits.

Accounts Receivable

Accounts receivable are initially recorded at the amount invoiced or otherwise due and normally do not bear interest. The University maintains an allowance for doubtful accounts to reduce receivables to their estimated collectible amount. Management estimates the allowance for doubtful accounts based on a specific review of customer balances, the overall aging of outstanding balances, historical collection experience and current business and economic conditions. Generally, accounts past due by more than 30 days are considered delinquent. Delinquent accounts are written off upon approval of University general counsel and when, in the judgment of management, they are deemed uncollectible based on an evaluation of the specific circumstances.

Contributions

The Foundation receives pledges and bequests of financial support from corporations, foundations, and individuals. Revenue is recognized when a pledge representing an unconditional promise to pay is received and all eligibility requirements, including time requirements, have been met. In absence of such a promise, revenue is recognized when the gift is received. Endowment pledges that do not meet eligibility requirements, as defined by GASB Statement No. 33, are not recorded as assets until the related gift is received.

Capital Assets

Capital assets are recorded at cost, or if donated, at an appraised value at the date of gift. Depreciation of capital assets is provided for on a straight-line basis over the estimated useful lives (3 to 45 years) of the respective assets. Interest incurred on construction financing net of investment income on any unspent financing proceeds is capitalized as a cost of construction. The University does not capitalize works of art or historical treasures that are held for exhibition, education, research and public service. These collections are neither disposed of for financial gain nor encumbered. Accordingly, such collections are not recognized or capitalized for financial statement purposes.

The University evaluates the future service utility of capital assets when events or changes in circumstances have occurred. A diminished service utility of the University's capital assets is reported as an impairment loss and netted against any insurance or appropriated recoveries.

Advances from Sponsors

Amounts received from grant and contract sponsors which have not been earned under the terms of the agreement are deferred and reported as advances from sponsors in the consolidated Statements of Net Assets.

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Deferred Revenue

Deferred revenue includes amounts received in advance of an event such as student tuition and advance sports ticket sales related to future years.

Post Employment Benefits

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was adopted by the University during the year ended June 30, 2008. Statement No. 45 requires accrual-based measurement, recognition and disclosure of other postemployment benefits ("OPEB") expense, such as retiree medical and dental costs, over the employees' years of service, along with the related liability. Previously, the University recorded retiree medical and dental costs as they were paid and did not recognize the liability in its consolidated financial statements. The implementation of GASB Statement No. 45 resulted in the University recording OPEB expense of \$88,560 for the year ended June 30, 2008 and an OPEB obligation liability of \$62,851 as of June 30, 2008. The University remitted \$41,217 in State assessed OPEB contributions, which exceeded the University's actuarially determined minimum OPEB contribution of \$25,709. The \$15,508 excess remittance was reported with Transfers to State for Fringe Benefits. There was no effect on the financial statements for the year ended June 30, 2007.

Bonds Payable

Bonds payable include outstanding amounts due from the issuance of revenue bonds by the University. The University defers recognition of bond refunding and issuance costs, and amortizes these costs as well as the premiums on bonds payable over the life of the bonds.

Net Assets

The University's net assets are classified into the following four net asset categories:

- Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Restricted:
 - Nonexpendable – Net assets subject to externally imposed stipulations that they be maintained permanently by the University. Such assets include the University's permanent endowment funds.
 - Expendable – Net assets that are restricted for specific purposes by sponsors, donors, or law. Restrictions in these assets are released when the University complies with the stipulations required by the sponsor, donor, or legislative act.
- Unrestricted: Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Regents or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted assets are designated for academic and research programs and initiatives, and capital asset programs.

Net Assets Restricted by Enabling Legislation

The University adopted GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34*, which requires that limitations on the use of net assets

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imposed by enabling legislation be reported as restricted net assets. GASB Statement No. 46 also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Restricted net assets at June 30, 2008 and 2007 amounted to \$569,678 and \$533,133, respectively, of which \$237,263 and \$214,461 was restricted by enabling legislation.

Revenue Recognition

Student tuition and fees revenues are recognized in the period earned. Revenues for programs that cross fiscal years are prorated between the two fiscal years.

The University recognizes revenue associated with the direct costs of research and training grants and contracts as the related expenditures are incurred.

Bookstore revenues are recognized at the point of sale. Sales returns (which are not significant) are recognized at the time returns are made.

Room and other rental revenues are recognized over the period the room is occupied. Room and other rental revenues for the summer term are recognized in the fiscal year in which the term primarily falls. Had room and other rental revenues for the summer term been prorated between fiscal years, the difference would not be material.

Scholarships and Fellowships

Scholarships and fellowships, including tuition and fee waivers applied to student accounts, are shown as a reduction to student tuition and student housing revenues. Stipend and other payments made directly to students are reflected as scholarships and fellowships expense.

State Appropriations

The University recognizes general operating and capital appropriations as nonoperating revenue when allotments are made available to the University for expenditure. If restrictions are placed on such appropriations, the restrictions are given separate and discrete accounting recognition.

Operating and Nonoperating Activities

The University's policy for defining operating activities as reported on the consolidated Statements of Revenues, Expenses, and Changes in Net Assets are those that generally result from exchange transactions such as payments received for providing services and payment made for services and goods received. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, as defined by GASB Statement No. 35, including state appropriations, gifts and investment income.

Management's Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions affecting the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates. These estimates, among others, include workers' compensation liabilities, allowances for uncollectible accounts, the useful lives of capital assets, the valuation of investments and the current versus noncurrent classification of assets and liabilities.

The University uses a third party actuary to estimate its workers' compensation liability. Changes in the liability are the result of claims payments made during the fiscal year, new claims filed and

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changes in the estimates of existing claims. Anticipated payments by the third party for the next fiscal year are considered current and payments thereafter are considered noncurrent. The liability at June 30, 2008 and 2007 represents the University's best estimate of workers' compensation liabilities based on available information.

The University also uses a third party actuary to estimate its postretirement healthcare and life insurance benefit obligation. The assumptions used to determine the liability are described in Note 15.

The allowance for doubtful accounts is a valuation account used to estimate the portion of accounts, notes and contributions receivable that are considered uncollectible. Estimates for uncollectible accounts are based on the age of the receivable and likelihood of payment.

The University depreciates their capital assets using useful lives internally or externally determined to represent the expected service period of the asset.

The fair value of investments has been determined using values supplied by independent pricing services.

Reclassifications

Certain amounts in the 2007 consolidated financial statements have been reclassified to conform to the 2008 presentation. Such reclassifications have no impact on the 2007 change in net assets as previously reported.

2. Cash and Investments

The carrying amounts of cash and cash equivalents and time certificates of deposit held outside of the State Treasury as of June 30, 2008 and 2007 were \$90,496 and \$68,961, with corresponding bank balances of \$124,234 and \$96,123, respectively. The portion of such bank balances covered by federal deposit insurance or by collateral held by the State Director of Finance in the name of the University totaled \$122,816 as of June 30, 2008 and \$96,123 as of June 30, 2007. No monies managed by the Foundation were uncollateralized as of June 30, 2008 and 2007. Additional cash equivalent balances of \$11,132 as of June 30, 2008 and \$19,721 as of June 30, 2007 represent deposits with investment brokers covered by the Securities Investor Protection Corporation and additional insurance provided by the investment brokers.

The University's investment strategy incorporates certain financial instruments, which involve, to varying degrees, elements of market risk and credit risk in excess of amounts recorded in the financial statements. Market risk is the potential for changes in the value of financial instruments due to market changes, including interest and foreign exchange rate movements and fluctuations embodied in forward and futures, commodity or security prices. Market risk is directly impacted by the volatility and liquidity of the markets in which the related underlying assets are traded. Credit risk is the possibility that a loss may occur due to the failure of a counterparty to perform according to the terms of the contract. The University's risk of loss in the event of counterparty default is typically limited to the amounts recognized in the consolidated Statements of Net Assets and are not represented by the contract or notional amounts of the instruments.

Endowment funds are combined in investment pools with each individual account subscribing to or disposing of shares on the basis of the market value per share.

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Cost of securities sold is determined using the first-in first-out method.

As a result of market declines, the fair market value of certain donor-restricted endowments was less than the historical cost value of such funds by \$500 and \$29 at June 30, 2008 and 2007, respectively. These unrealized losses have been recorded as reductions in unrestricted net assets. Future market gains will be used to restore this deficiency in unrestricted net assets before any net appreciation above the historical cost value of such funds increases restricted expendable net assets.

Endowment funds are received from benefactors who, by the terms of their conveying instruments, have stipulated that the principal of their gifts may never be expended, and use of the income is generally restricted.

Quasi-endowment funds are funds that have been transferred to the endowment funds by the Board of Regents ("Board"). Use of the income is either restricted by the donor or unrestricted and designated by the Board.

State law allows spending of net appreciation, realized and unrealized in the fair value of the assets, of an endowment fund over the historic dollar value of the fund as is prudent under the standard established by Hawai'i Revised Statute §517D-4. The University distributes its endowment fund income in accordance with its Board approved spending rate policy, which is consistent with state law. In fiscal years 2008 and 2007, the University's spending rate policy provided for annual distributions ranging from 3% to 5% of the five-year moving average of the endowment fair value.

Investment management fees paid by the University during fiscal years 2008 and 2007 approximated \$1,640 and \$1,311, respectively.

At June 30, 2008 and 2007, the University's investments were comprised of the following:

	2008		2007	
	Fair Value	Cost	Fair Value	Cost
Money market funds	\$ 19,704	\$ 19,704	\$ 4,724	\$ 4,724
Fixed income securities	147,297	145,093	127,391	127,922
Equity securities	30,660	29,690	34,394	28,068
Mutual funds	57,903	55,430	85,553	70,518
Time certificates of deposit	3,968	3,968	59,417	59,417
Student loan auction rate securities	117,050	117,050	64,000	64,000
Investment agreements	48,273	48,273	89,871	89,871
Limited partnerships	33,840	37,299	39,680	33,774
Absolute return	24,869	23,140	23,744	22,350
Real assets	28,637	16,357	24,328	15,560
Other investments	28,415	28,717	18,596	16,598
Total investments	540,616	524,721	571,698	532,802
Less: Current portion	75,893	75,471	191,931	192,063
Total noncurrent investments	\$ 464,723	\$ 449,250	\$ 379,767	\$ 340,739

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Due to uncertainties surrounding the timing of liquidation of our auction rate securities, which are comprised of AAA-rated student-loan-backed taxable securities, all of the University's investments in such securities were reclassified to long-term investments in the consolidated statements of net assets as of June 30, 2008. Liquidity for these auction rate securities is typically provided by an auction process which allows holders to sell their notes and resets the applicable interest rate at pre-determined intervals, usually every 7 to 28 days. On an industry-wide basis, many auctions have failed, and there is, as yet, no meaningful secondary market for these instruments. The securities held by the University for which auctions have failed continue to earn interest at the contractual rate and are auctioned every 7 to 28 days until either the auction succeeds, the issuer calls the securities, or they mature. While the University's ability to liquidate the carrying value of its auction rate securities in the near term may be limited, management believes it is appropriate to report the University's auction rate securities at par value since the University continues to receive its contractual interest payments in a timely manner, recent successful auctions have been executed at par value, and the University has no intention of settling its auction rate securities at less than par value. Management also believes that the current lack of liquidity of auction rate securities will not have a material adverse effect upon the University's operational capabilities.

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Changes in University's investments for the year ended June 30, 2008 were as follows:

	Fair Value	Cost Basis	Net Unrealized Gain/(Loss)	Net Realized Gain/(Loss)
University Endowment Pool				
End of year	\$ 56,732	\$ 56,530	\$ 202	
Beginning of year	<u>60,882</u>	<u>55,251</u>	<u>5,631</u>	
Net change	<u>(4,150)</u>	<u>1,279</u>	<u>(5,429)</u>	\$ 1,050
Foundation Endowment Pool				
End of year	182,338	167,308	15,030	
Beginning of year	<u>176,388</u>	<u>144,123</u>	<u>32,265</u>	
Net change	<u>5,950</u>	<u>23,185</u>	<u>(17,235)</u>	11,733
Associated Students of the University of Hawai'i				
End of year	6,718	6,856	(138)	
Beginning of year	<u>7,284</u>	<u>6,475</u>	<u>809</u>	
Net change	<u>(566)</u>	<u>381</u>	<u>(947)</u>	325
School of Medicine				
End of year	11,650	11,631	19	
Beginning of year	<u>12,150</u>	<u>12,134</u>	<u>16</u>	
Net change	<u>(500)</u>	<u>(503)</u>	<u>3</u>	-
University Bond System				
End of year	48,273	48,273	-	
Beginning of year	<u>89,871</u>	<u>89,871</u>	<u>-</u>	
Net change	<u>(41,598)</u>	<u>(41,598)</u>	<u>-</u>	-
Operating investments				
End of year	75,893	75,470	423	
Beginning of year	<u>127,931</u>	<u>128,063</u>	<u>(132)</u>	
Net change	<u>(52,038)</u>	<u>(52,593)</u>	<u>555</u>	257
Auction rate securities				
End of year	117,050	117,050	-	
Beginning of year	<u>64,000</u>	<u>64,000</u>	<u>-</u>	
Net change	<u>53,050</u>	<u>53,050</u>	<u>-</u>	-
Other				
End of year	41,962	41,603	359	
Beginning of year	<u>33,192</u>	<u>32,885</u>	<u>307</u>	
Net change	<u>8,770</u>	<u>8,718</u>	<u>52</u>	134
Total investments				
End of year	540,616	524,721	15,895	
Beginning of year	<u>571,698</u>	<u>532,802</u>	<u>38,896</u>	
Net increase (decrease)	<u>\$ (31,082)</u>	<u>\$ (8,081)</u>	<u>\$ (23,001)</u>	<u>\$ 13,499</u>

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Changes in University's investments for the year ended June 30, 2007 were as follows:

	Fair Value	Cost Basis	Net Unrealized Gain/(Loss)	Net Realized Gain/(Loss)
University Endowment Pool				
End of year	\$ 60,882	\$ 55,251	\$ 5,631	
Beginning of year	<u>55,279</u>	<u>51,722</u>	<u>3,557</u>	
Net change	<u>5,603</u>	<u>3,529</u>	<u>2,074</u>	\$ 3,235
Foundation Endowment Pool				
End of year	176,388	144,123	32,265	
Beginning of year	<u>142,027</u>	<u>120,888</u>	<u>21,139</u>	
Net change	<u>34,361</u>	<u>23,235</u>	<u>11,126</u>	6,222
Associated Students of the University of Hawai'i				
End of year	7,284	6,475	809	
Beginning of year	<u>6,592</u>	<u>6,219</u>	<u>373</u>	
Net change	<u>692</u>	<u>256</u>	<u>436</u>	265
School of Medicine				
End of year	12,150	12,134	16	
Beginning of year	<u>15,074</u>	<u>16,079</u>	<u>(1,005)</u>	
Net change	<u>(2,924)</u>	<u>(3,945)</u>	<u>1,021</u>	(1,004)
University Bond System				
End of year	89,871	89,871	-	
Beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	
Net change	<u>89,871</u>	<u>89,871</u>	<u>-</u>	-
Operating investments				
End of year	191,931	192,063	(132)	
Beginning of year	<u>164,224</u>	<u>165,123</u>	<u>(899)</u>	
Net change	<u>27,707</u>	<u>26,940</u>	<u>767</u>	27
Other				
End of year	33,192	32,885	307	
Beginning of year	<u>30,065</u>	<u>30,303</u>	<u>(238)</u>	
Net change	<u>3,127</u>	<u>2,582</u>	<u>545</u>	558
Total investments				
End of year	571,698	532,802	38,896	
Beginning of year	<u>413,261</u>	<u>390,334</u>	<u>22,927</u>	
Net increase	<u>\$ 158,437</u>	<u>\$ 142,468</u>	<u>\$ 15,969</u>	<u>\$ 9,303</u>

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	2008	2007
Summary of net investment income		
Change in unrealized net gain (loss)	\$ (23,001)	\$ 15,969
Realized net gain	<u>13,499</u>	<u>9,303</u>
	(9,502)	25,272
Interest in perpetual trusts	(1,003)	771
Split interest agreements	262	106
Amounts held for others	40	(176)
Investment income used to finance construction costs	(518)	(802)
Net interest and dividend income	<u>21,383</u>	<u>21,378</u>
Net investment income	<u>\$ 10,662</u>	<u>\$ 46,549</u>

The Board is responsible for the establishment of policies over and monitoring of operating investments and endowments held by the University. Investments authorized by the Board include equity investments, bond investments, certificates of deposit, money market funds, U.S. Government, its Agencies, or its Instrumentalities securities, securities guaranteed by or collateralized by securities guaranteed by the U.S. Government, its Agencies or its Instrumentalities and other types of investments.

The Board of Directors of the Foundation is responsible for the establishment of policies over and monitoring of investments and endowments held by the Foundation.

Investment Risk Factors

There are many factors that affect the value of investments. Some, such as custodial credit risk, concentration of credit risk and foreign currency risk may affect both equity and fixed income securities. Equity securities respond to such factors as economic conditions, individual company earnings performance and market liquidity, while fixed income securities are particularly sensitive to credit risks and changes in interest rates.

Credit Risk

Credit risk for fixed income securities is the risk that the issuer will not fulfill its obligations. Nationally recognized statistical rating organizations, such as Moody's and Standard and Poor's, assign credit ratings to security issuers and issues that indicate a measure of potential credit risk to investors. To manage credit risk, the University specifies that all nonconvertible bonds should have at least a "BBB" rating or higher and be readily marketable. In addition, no more than 15% of the fixed income investments may be graded with an S&P quality rating below "A".

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The composition of fixed income securities at June 30, 2008 and 2007, along with credit quality ratings is summarized below:

	FY 2008 Fair Value	Credit Quality Rating				
		U.S. Govt- Exempt	AAA	AA	A	BBB
U.S. Treasury	\$ 3,994	\$ 3,994	\$ -	\$ -	\$ -	\$ -
U.S. government agencies	126,423	1,993	124,430	-	-	-
Corporate bonds	16,880	314	8,332	2,074	4,468	1,692
Total fixed income securities	<u>\$ 147,297</u>	<u>\$ 6,301</u>	<u>\$ 132,762</u>	<u>\$ 2,074</u>	<u>\$ 4,468</u>	<u>\$ 1,692</u>

	FY 2007 Fair Value	Credit Quality Rating				
		U.S. Govt- Exempt	AAA	AA	A	BBB
U.S. Treasury	\$ 12,090	\$ 12,090	\$ -	\$ -	\$ -	\$ -
U.S. government agencies	107,430	600	106,830	-	-	-
Corporate bonds	7,871	-	680	2,537	3,419	1,235
Total fixed income securities	<u>\$ 127,391</u>	<u>\$ 12,690</u>	<u>\$ 107,510</u>	<u>\$ 2,537</u>	<u>\$ 3,419</u>	<u>\$ 1,235</u>

Interest Rate Risk

Interest rate risk is the risk that the value of fixed income securities will decline because of changing interest rates. The prices of fixed income securities with a longer time to maturity tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with shorter maturities.

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At June 30, 2008 and 2007, the composition of the University's fixed income investments and maturities are summarized below:

	2008 Fair Value	Investment Maturities (in Years)			
		Less than 1	1 to 5	6 to 10	More than 10
U.S. Treasury	\$ 3,994	\$ 959	\$ 1,264	\$ 1,677	\$ 94
U.S. government agencies	126,423	14,237	106,584	3,049	2,553
Corporate bonds	16,880	745	3,742	12,128	265
Total fixed income securities	<u>\$ 147,297</u>	<u>\$ 15,941</u>	<u>\$ 111,590</u>	<u>\$ 16,854</u>	<u>\$ 2,912</u>

	2007 Fair Value	Investment Maturities (in Years)			
		Less than 1	1 to 5	6 to 10	More than 10
U.S. Treasury	\$ 12,090	\$ 8,489	\$ 1,357	\$ 2,177	\$ 67
U.S. government agencies	107,430	40,201	61,839	3,379	2,011
Corporate bonds	7,871	1,278	2,878	3,629	86
Total fixed income securities	<u>\$ 127,391</u>	<u>\$ 49,968</u>	<u>\$ 66,074</u>	<u>\$ 9,185</u>	<u>\$ 2,164</u>

Concentration of Credit Risk

Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the organization to greater risks resulting from adverse economic, political, regulatory, geographic or credit development. The University limits its risk of concentration of assets by limiting individual bond positions other than obligations of the U.S. government to not more than 5% of the total fixed income portion of the portfolio. Individual equities are limited to not more than 5% of the total market value of the stock portfolio. In addition, investment in any one stock is not to exceed 5% of a corporation's outstanding common stock.

Foreign Currency Risk

Foreign currency risk is the risk that investments denominated in foreign currencies may lose value due to adverse fluctuations in the value of the U.S. dollar relative to foreign currencies. The University's investment policy permits investment in publicly traded foreign securities.

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At June 30, 2008 and 2007, the University's exposure to foreign currency risk expressed in U.S. dollars was as follows:

	2008	2007
Equity securities		
Australian Dollar	\$ 265	\$ 278
Bermudian dollar	571	652
Brazilian real	1,357	1,027
British pound	9,398	6,894
Canadian dollar	301	807
Chinese Yuan	86	34
Danish Krone	68	-
Euro	16,503	21,690
Hong Kong dollar	1,373	265
Indian Rupee	351	55
Indonesian Ruphia	40	7
Israeli Shekel	41	-
Japanese yen	16,382	14,067
Korean won	1,614	4,053
Malaysian Ringgit	171	5
Mexican peso	1,133	1,184
North Korean Won	246	34
New Zealand dollar	229	361
Norwegian Krone	14	-
Philippine Peso	52	3
Russian Ruble	37	27
Singapore dollar	1,405	557
South African Rand	65	139
Sri Lankan Rupee	22	-
Swedish Krona	839	-
Swiss franc	1,731	2,678
Taiwanese dollar	880	706
Thai Baht	350	145
	<u>\$ 55,524</u>	<u>\$ 55,668</u>
Total exposure to foreign currency risk		

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3. Accounts Receivable

The composition of accounts receivable at June 30, 2008 and 2007 are summarized as follows:

	2008	2007
U.S. government	\$ 51,273	\$ 65,082
State and local government	12,211	10,549
Private agencies	17,532	10,939
Other	28,041	24,439
	<u>109,057</u>	<u>111,009</u>
Less: Allowance for doubtful accounts	<u>(17,667)</u>	<u>(10,559)</u>
	<u>\$ 91,390</u>	<u>\$ 100,450</u>

4. U.S. Government Funding

The federal government reimburses the University for certain overhead costs (e.g., facilities and administrative costs) incurred in support of federally sponsored programs based on cost reimbursement rates negotiated with the University's cognizant agency, the U.S. Department of Health and Human Services. These reimbursements amounted to approximately \$38,369 in fiscal year 2008 and \$35,642 in fiscal year 2007. During fiscal year 2008, the University expended 98.92% and 1.08% of this cost recovery on research and training programs and discovery and inventions, respectively. During fiscal year 2007, the University expended 97.99% and 2.01% of this cost recovery on research and training programs and discovery and inventions, respectively.

The University's federal grants and contracts are subject to periodic audit by federal examiners. In the opinion of the University, any adjustments which may be required as a result of these audits would not be material to the overall financial position of the University.

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5. Notes and Contributions Receivable

The composition of notes and contributions receivable at June 30, 2008 and 2007 are summarized as follows:

	2008	2007
Student notes		
Federal loan programs	\$ 19,658	\$ 17,556
State loan programs	6,098	6,697
University loan funds	58	52
Other notes receivable	149	123
Total student and other notes outstanding	<u>25,963</u>	<u>24,428</u>
Less: Allowance for doubtful notes receivable	<u>5,955</u>	<u>5,336</u>
Total student and other notes receivable, net	<u>20,008</u>	<u>19,092</u>
Contributions receivable	28,698	26,143
Less: Allowance for uncollectible pledges	351	911
Less: Discount to present value	1,001	692
Total contributions receivable, net	<u>27,346</u>	<u>24,540</u>
Total notes and contributions receivable, net	47,354	43,632
Less: Current portion, net	<u>14,523</u>	<u>11,351</u>
	<u>\$ 32,831</u>	<u>\$ 32,281</u>

The allowance for doubtful notes receivable at June 30, 2008 and 2007 are comprised of:

	2008	2007
Federal Perkins loan program	\$ 3,564	\$ 2,947
State of Hawai'i Higher Education loans	2,268	2,279
Nursing/Health Profession loans	66	60
Short-term loans	57	50
	<u>\$ 5,955</u>	<u>\$ 5,336</u>

Payments on contributions receivable at June 30, 2008 are expected to be collected in:

Less than one year	\$ 1,379
One year to five years	<u>27,319</u>
	<u>\$ 28,698</u>

The principal repayment and interest rate terms of federal and University loans vary considerably. The allowance for doubtful notes receivable only applies to University funded notes and the University's portion of federal student loans, as the University is not obligated to fund the federal portion of uncollected student loans. Federal loan programs are funded principally with federal advances to the University under the Perkins and various health professions loan programs.

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The Federal Perkins loan program provides for the assignment of uncollectible loans to the U.S. Department of Education for collection. Uncollectible Nursing and Health Profession loans may be written off with the approval of the U.S. Department of Health and Human Services, Division of Financing Services. Uncollectible State of Hawai'i Higher Education loans and University short-term loans may be written off with the approval of the University's General Counsel.

As discussed in Note 1 to the consolidated financial statements, pledges for permanent endowments do not meet eligibility requirements, as defined by GASB Statement No. 33, until the related gift is received. Accordingly, permanent endowment pledges totaling approximately \$5,072 and \$3,515 at June 30, 2008 and 2007, respectively, were not recognized as assets in the accompanying consolidated financial statements because of uncertainties with regard to their realizability, valuation, bequest intentions and other conditional promises until the specified conditions are met.

Unconditional promises to give (contributions receivable) that are expected to be collected within one year are recorded at net realizable value. Pledges receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using the risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in private gift revenues.

6. Inventories

The inventories and the methods of valuation at June 30, 2008 and 2007 are comprised of:

		2008	2007
University of Hawai'i Bookstore merchandise inventory	Retail cost method FY2008. At the lower of cost (determined by the weighted average cost method) or market FY2007.	\$ 10,722	\$ 7,173
University of Hawai'i Chemistry Stockroom	Cost applied on the first-in, first-out basis.	1,222	1,255
University of Hawai'i Press merchandise inventory	Job order or specific identification method. Books remaining in the inventory after the first year of publication are written off on the straight-line basis over a five-year period.	922	875
University of Hawai'i other cost of goods sold	Cost applied on the first-in, first-out basis.	550	433
		<u>\$ 13,416</u>	<u>\$ 9,736</u>

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7. Capital Assets

A summary of capital assets at June 30, 2008 and 2007 is as follows:

	Beginning Balance	Additions	Deductions	Transfers	Ending Balance
2008					
Nondepreciable capital assets					
Land	\$ 11,827	\$ 659	\$ -	\$ -	\$ 12,486
Construction in progress	146,623	151,988	1,490	(85,255)	211,866
Total capital assets not being depreciated	158,450	152,647	1,490	(85,255)	224,352
Depreciable capital assets					
Land improvements	75,816	49	676	4,514	79,703
Infrastructure	55,327	139	-	19,422	74,888
Buildings	1,130,857	16,889	16,186	57,339	1,188,899
Equipment	255,785	18,573	8,560	3,980	269,778
Library materials	153,664	6,942	269	-	160,337
Total capital assets being depreciated	1,671,449	42,592	25,691	85,255	1,773,605
Less: Accumulated depreciation	755,869	71,226	17,773	-	809,322
Capital assets, net	\$ 1,074,030	\$ 124,013	\$ 9,408	\$ -	\$ 1,188,635
2007					
Nondepreciable capital assets					
Land	\$ 11,827	\$ -	\$ -	\$ -	\$ 11,827
Construction in progress	89,963	101,647	740	(44,247)	146,623
Total capital assets not being depreciated	101,790	101,647	740	(44,247)	158,450
Depreciable capital assets					
Land improvements	70,575	250	-	4,991	75,816
Infrastructure	50,900	151	-	4,276	55,327
Buildings	1,100,813	6,407	8,445	32,082	1,130,857
Equipment	238,763	22,255	8,131	2,898	255,785
Library materials	156,775	8,075	11,186	-	153,664
Total capital assets being depreciated	1,617,826	37,138	27,762	44,247	1,671,449
Less: Accumulated depreciation	704,190	65,387	13,708	-	755,869
Capital assets, net	\$ 1,015,426	\$ 73,398	\$ 14,794	\$ -	\$ 1,074,030

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Capital assets consist of land, land improvements, infrastructure, buildings, equipment, library books, and construction in progress. Assets acquired are recorded at cost, or if donated, at appraised value at the date of the gift. Land parcels comprising 1,581 acres or 93% of the University's property is recorded at the State's value of \$1 per parcel. Assets owned by the federal government, although in the custody of the University, are not included in the capital asset total.

The State Department of Accounting and General Services ("DAGS") administer a few of the University's construction projects. Upon completion, the University records the total project cost, including amounts funded from state and federal sources. Capital assets transferred to the University from DAGS amounted to \$16,256 and \$7,268 in 2008 and 2007, respectively.

8. Other Noncurrent Assets

Other noncurrent assets at June 30, 2008 and 2007 were comprised of:

	2008	2007
Interest in perpetual trusts held by others	\$ 19,201	\$ 12,882
Deferred bond refunding and issuance costs (Note 11)	9,206	9,451
	<u>\$ 28,407</u>	<u>\$ 22,333</u>

9. Due From and Due To the State of Hawai'i

Amounts due from and due to the State of Hawai'i at June 30, 2008 and 2007 were as follows:

	2008		2007	
	Due from	Due to	Due from	Due to
State appropriations for current operations	\$ 28,192		\$ 13,547	
Employer fringe adjustments	85		4	
Due from State of Hawai'i – current	28,277		13,551	
State capital appropriations-noncurrent	246,663		221,333	
Total due from State of Hawai'i	<u>\$ 274,940</u>		<u>\$ 234,884</u>	
Imprest/petty cash advances		\$ 278		\$ 291
Advance		6,000		6,000
General obligation bonds – current		1,603		1,716
Other		411		14
Due to State of Hawai'i – current		8,292		8,021
General obligation bonds – noncurrent		1,313		2,916
Total due to State of Hawai'i		<u>\$ 9,605</u>		<u>\$ 10,937</u>

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10. Due to the State of Hawai'i for General Obligation Bonds

Activity related to amounts due to the State of Hawai'i for general obligation bonds for the year ended June 30, 2008 was as follows:

	Original Amount	Beginning Balance	Principal Repayment	Ending Balance
Series X (interest rate, 4.00% to 5.00%):				
Mānoa Student Housing Phase II	\$ 3,000	\$ 185	\$ 185	\$ -
Mānoa Campus Center	2,125	130	130	-
	<u>5,125</u>	<u>315</u>	<u>315</u>	<u>-</u>
Series CS (interest rate, 5.00% to 5.25%):				
Student Housing				
Mānoa	5,019	1,618	789	829
Hilo	979	316	154	162
Parking Structure Phase I	2,915	939	458	481
	<u>8,913</u>	<u>2,873</u>	<u>1,401</u>	<u>1,472</u>
Series DB (interest rate 2.80% to 5.25%)				
Student Housing				
Mānoa	731	731	-	731
Hilo	143	143	-	143
Parking Structure Phase I	425	425	-	425
	<u>1,299</u>	<u>1,299</u>	<u>-</u>	<u>1,299</u>
Series DG (interest rate 5.00%):				
Student Housing				
Mānoa	82	82		82
Hilo	16	16		16
Parking Structure Phase I	47	47		47
	<u>145</u>	<u>145</u>	<u>-</u>	<u>145</u>
	<u>\$ 15,482</u>	<u>\$ 4,632</u>	<u>\$ 1,716</u>	<u>\$ 2,916</u>

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Activity related to amounts due to the State of Hawai'i for general obligation bonds for the year ended June 30, 2007 was as follows:

	Original Amount	Beginning Balance	Principal Repayment	Ending Balance
Series X (interest rate, 4.00% to 5.00%):				
Mānoa Student Housing Phase II	\$ 3,000	\$ 360	\$ 175	\$ 185
Mānoa Campus Center	2,125	255	125	130
	<u>5,125</u>	<u>615</u>	<u>300</u>	<u>315</u>
Series CS (interest rate, 5.00% to 5.25%):				
Student Housing				
Mānoa	5,019	2,369	751	1,618
Hilo	979	463	147	316
Parking Structure Phase I	2,915	1,376	437	939
	<u>8,913</u>	<u>4,208</u>	<u>1,335</u>	<u>2,873</u>
Series DB (interest rate 2.80% to 5.25%)				
Student Housing				
Mānoa	731	731	-	731
Hilo	143	143	-	143
Parking Structure Phase I	425	425	-	425
	<u>1,299</u>	<u>1,299</u>	<u>-</u>	<u>1,299</u>
Series DG (interest rate 5.00%):				
Student Housing				
Mānoa	82	82	-	82
Hilo	16	16	-	16
Parking Structure Phase I	47	47	-	47
	<u>145</u>	<u>145</u>	<u>-</u>	<u>145</u>
	<u>\$ 15,482</u>	<u>\$ 6,267</u>	<u>\$ 1,635</u>	<u>\$ 4,632</u>

General obligation bonds are payable in annual installments, including semi-annual interest payments, ranging from \$129 to \$3,393 with payment due in July 2017. The bonds mature in designated numerical sequence and are payable from the operations of the University. The first principal payment on Series DB and DG is due on September 1, 2008 and July 1, 2009, respectively. The interest and principal payments are due as follows:

	Principal	Interest
Series X	August 1	February 1 and August 1
Series CS	April 1	April 1 and October 1
Series DB	September 1	March 1 and September 1
Series DG	July 1	January 1 and July 1

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At June 30, 2008, principal and interest maturities on general obligation bonds for each of the next five years, the next subsequent five-year payments and thereafter are as follows:

Year ending June 30	Principal	Interest
2009	\$ 1,603	\$ 82
2010	137	7
2011	144	6
2012	151	5
2013	159	5
2014–2018	722	9
	<u>\$ 2,916</u>	<u>\$ 114</u>

The general obligation bonds have provisions for early redemption. The premiums on bond redemption, as a percentage of bond principal redeemed, range from 0.5% to 2%.

The U.S. Department of Housing and Urban Development, under its College Housing Program subsidizes the University for interest payments, which represent the excess of the average annual debt service costs on the bonds over the average annual debt service that would have been required during the life of the bonds at an interest rate of 3%. Such subsidies amounted to \$2 and \$31 for the years ended June 30, 2008 and 2007, respectively.

In June 2005, the State issued \$772,600 and \$18,700 in general obligation Series DG and DH bonds (refunding bonds), respectively, of which the University's portion was approximately \$145 and \$4, with a 5% interest rate to advance refund approximately \$152 (University's portion) of outstanding general obligation Series CG bonds (refunded bonds) which have been partially defeased. The net proceeds from the issuance of the refunding bonds were placed in an irrevocable trust and were used to purchase securities of the United States government at various interest rates and maturities sufficient to meet the debt service requirements of the refunded bonds.

In September 2003, the State issued \$188,700 in general obligation Series DB bonds (refunding bonds) of which the University's portion was approximately \$1,300, with interest rates ranging from 2.80% to 5.25% to advance refund approximately \$1,300 (University's portion) of outstanding general obligation Series CG bonds (refunded bonds) which have been partially defeased. The net proceeds from the issuance of the refunding bonds were placed in an irrevocable trust and were used to purchase securities of the United States government at various interest rates and maturities sufficient to meet the debt service requirements of the refunding bonds.

Act 213-SLH 2007, Section 97 provided general fund appropriation to pay for debt service on general obligation bonds issued for the University and transferred to the financial administration program of the Department of Budget and Finance. Appropriation for debt service amounted to \$83,869 and \$80,303 for the years ended June 30, 2008 and 2007, respectively.

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11. Long-Term Liabilities

Long-term liability activity for the years ended June 30, 2008 and 2007 are summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
2008					
Leases and bonds payable					
Revenue bonds payable	\$ 264,065	\$ -	\$ 1,020	\$ 263,045	\$ 4,415
Capital lease payable (Note 11)	14,255	-	435	13,820	460
Total leases and bonds payable	278,320	-	1,455	276,865	4,875
Other liabilities					
Workers' compensation	11,137	3,567	2,125	12,579	4,314
Accrued vacation	56,030	23,699	18,131	61,598	23,766
Notes payable – RCUH	89	-	89	-	-
Postretirement healthcare / life insurance benefits (Note 15)	-	88,560	25,709	62,851	-
Installment contract payable (Note 16)	249	352	237	364	316
Total other liabilities	67,505	116,178	46,291	137,392	28,396
Total long-term liabilities	\$ 345,825	\$ 116,178	\$ 47,746	\$ 414,257	\$ 33,271
2007					
Leases and bonds payable					
Revenue bonds payable	\$ 160,280	\$ 233,810	\$ 130,025	\$ 264,065	\$ 1,020
Capital lease payable (Note 11)	14,670	-	415	14,255	435
Total leases and bonds payable	174,950	233,810	130,440	278,320	1,455
Other liabilities					
Workers' compensation	12,220	3,702	4,785	11,137	3,768
Accrued vacation	52,210	20,919	17,099	56,030	21,035
Notes payable – RCUH	239	-	150	89	89
Installment contract payable (Note 16)	281	-	32	249	154
Total other liabilities	64,950	24,621	22,066	67,505	25,046
Total long-term liabilities	\$ 239,900	\$ 258,431	\$ 152,506	\$ 345,825	\$ 26,501

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Revenue Bonds Payable

The University's revenue bonds payable at June 30, 2008 and 2007 are as follows:

	Series	Date Issued	Authorized	2008	2007
Student Housing System at Mānoa and Telecommunications System (interest rate, 3.0% to 5.25%)	2001B	December 19, 2001	\$ 18,665	\$ 13,500	\$ 14,520
University Health & Wellness Center (interest rate 2.70% to 5.59%)	2002A	June 27, 2002	150,000	15,735	15,735
Frear Hall Construction, Student Housing System at Mānoa, Food Service System and Student Housing System at Hilo (interest rate, 3.25% to 5.0%)	2006A	December 13, 2006	100,000	100,000	100,000
University Health & Wellness Center (interest rate. 3.5% to 5.0%)	Ref 2006A	October 25, 2006	133,810	133,810	133,810
			<u>\$ 402,475</u>	<u>\$ 263,045</u>	<u>\$ 264,065</u>

In October 2006, the University issued \$133,810 in Refunding Series 2006A bonds to constructively retire (advance refund) \$129,035 of the outstanding Series 2002A revenue bonds. The proceeds of the Refunding Series 2006A bonds were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the advance refunded Series 2002A bonds. Accordingly, the trust account assets and the liabilities relating to the defeased revenue bonds are not recorded in the financial statements of the University. The defeasance resulted in an accounting gain of \$8,281 and an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$6,639.

The University receives funds from the State of Hawai'i Tobacco Settlement Special Fund, which are solely applied to the payment of principal and interest on the Series 2002A and Refunding Series 2006A bonds. The funds received from the State of Hawai'i Tobacco Settlement Special Fund amounted to \$21,272 in 2008. No funds were received in 2007.

The revenue bonds are paid from certain unrestricted revenues in annual installments, including semi-annual interest payments ranging from \$153 to \$12,452 with the final payment due in October 2036. Series 2001A, 2001B and 2006A interest is payable semi-annually on April 1 and October 1, and the principal is payable on October 1 of each year. The Series 2002A and Refunding Series 2006A interest is payable semi-annually on January 15 and July 15, and the principal is payable on July 15 of each year. The Bond Resolution adopted on May 17, 2002 stipulates that all available moneys on deposit in any special fund or revolving fund of the University, excluding moneys on deposit in the University Revenue – Undertakings Fund ("University Bond System") are pledged to the payment of the Series 2002A bonds, interest and premiums (if any). All available moneys on deposit in any special fund or revolving fund of the University, including moneys on deposit in the University Bond System are pledged to the payment of the Series 2006A bonds, interest and premiums (if any).

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At June 30, 2008, future maturities of revenue bonds are as follows:

Years ending June 30	Principal	Interest
2009	\$ 4,415	\$ 11,676
2010	6,455	11,470
2011	6,715	11,211
2012	6,985	10,935
2013	7,265	10,644
2014–2018	41,565	47,831
2019–2023	43,760	37,690
2024–2028	55,395	25,810
2029–2033	67,660	13,439
2034–2037	22,830	2,355
	<u>\$ 263,045</u>	<u>\$ 183,061</u>

Bond Premiums

Activity related to the premiums on general obligation and revenue bonds for the years ended June 30, 2008 and 2007 are as follows:

	Series	Beginning Balance	Additions	Reductions	Ending Balance
2008					
Student Housing System at Mānoa and Telecommunications System	2001B	\$ 122	\$ 19	\$ -	\$ 141
John A. Burns School of Medicine	Ref 2006A	1,724	-	57	1,667
General obligation	DB	57	-	10	47
General obligation	DG	10	-	1	9
		<u>\$ 1,913</u>	<u>\$ 19</u>	<u>\$ 68</u>	<u>\$ 1,864</u>
Total bond premiums					
2007					
Student Housing System at Mānoa and Telecommunications System	2001B	\$ 153	\$ -	\$ 31	\$ 122
John A. Burns School of Medicine	2002A	2,666	-	2,666	-
John A. Burns School of Medicine	Ref 2006A	-	1,724	-	1,724
General obligation	DB	67	-	10	57
General obligation	DG	12	-	2	10
		<u>\$ 2,898</u>	<u>\$ 1,724</u>	<u>\$ 2,709</u>	<u>\$ 1,913</u>
Total bond premiums					

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Deferred Bond Refunding and Issuance Costs

Activity related to issuance costs for general obligation and revenue bonds for the years ended June 30, 2008 and 2007 are as follows:

	Series	Beginning Balance	Additions	Reductions	Ending Balance
2008					
Student Housing System at Mānoa and Telecommunications System	2001B	\$ 395	\$ 62	\$ -	\$ 457
John A. Burns School of Medicine	Ref 2006A	9,004	-	298	8,706
General obligation	DB	44	-	8	36
General obligation	DG	8	-	1	7
		<u>\$ 9,451</u>	<u>\$ 62</u>	<u>\$ 307</u>	<u>\$ 9,206</u>
2007					
Student Housing System at Mānoa and Telecommunications System	2001B	\$ 495	\$ -	\$ 100	\$ 395
John A. Burns School of Medicine	2002A	1,458	-	1,458	-
John A. Burns School of Medicine	Ref 2006A	-	9,004	-	9,004
General obligation	DB	52	-	8	44
General obligation	DG	9	-	1	8
		<u>\$ 2,014</u>	<u>\$ 9,004</u>	<u>\$ 1,567</u>	<u>\$ 9,451</u>

Capital Lease Obligation

On November 1, 1995, the Housing Finance and Development Corporation ("HFDC") issued \$17,680 in revenue bonds with interest rates ranging from 4.00% to 5.75%. The revenue bonds are payable by HFDC in annual installments, including semiannual interest payments, with the final installment due in October 2025. The revenue bonds were issued to provide permanent financing for the University's Kau'iokahaloa Nui Faculty Housing Project. At the time of issuance, HFDC entered into a lease and sublease agreement with the University. The University agreed to give a ground lease for 30 years and 8 months to HFDC and HFDC agreed to lease the improvements and sublease the ground lease to the University for the same term.

Pursuant to the agreement, the University agreed to operate the Kau'iokahaloa Nui Faculty Housing Project at its own expense and make lease rental payments to HFDC sufficient to pay the principal, premium, if any, and interest on the revenue bonds as they become due and payable. Upon retirement of the revenue bonds, HFDC's rights, title and interest in the Kau'iokahaloa Nui Faculty Housing Project will terminate and the University will be the owner of the Kau'iokahaloa Nui Faculty Housing Project.

The lease agreement has been accounted for as a capital lease by the University. The capitalized cost of \$20,130 and accumulated depreciation as of June 30, 2008 and 2007 of \$6,581 and \$6,065, respectively, are included in capital assets.

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At June 30, 2008, the future minimum lease payments are as follows:

	Lease Amount
Years ending June 30	
2009	\$ 1,232
2010	1,235
2011	1,232
2012	1,232
2013	1,230
2014–2018	6,136
2019–2023	6,107
2024–2026	<u>3,644</u>
	22,048
Less: Amount representing interest	<u>8,228</u>
	<u><u>\$ 13,820</u></u>

12. Line of Credit (Research Corporation)

The Research Corporation has a revolving line of credit with First Hawaiian Bank in the amount of \$2,000 for short-term working capital, expiring on February 1, 2010. The terms of the revolving line of credit require repayment as specified in the credit agreement. All borrowings are collateralized by a security agreement over accounts receivable. The rate of interest on borrowings was 3.75% and 6.19% at June 30, 2008 and 2007, respectively. At June 30, 2008 and 2007, there were no borrowings under this line.

13. Property Leases

The University has entered into real property operating lease agreements with future minimum payments as follows:

	Lease Amount
Years ending June 30	
2009	\$ 1,438
2010	1,315
2011	1,078
2012	961
2013	1,040
2014–2018	584
2019–2025	<u>467</u>
	<u><u>\$ 6,883</u></u>

Lease expenditures for outside space for the years ended June 30, 2008 and 2007 approximated \$4,598 and \$3,966, respectively.

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14. Employee Benefits

Employees' Retirement System

Substantially all eligible employees of the University are members of the Employees' Retirement System of the State of Hawai'i ("ERS"), a cost-sharing multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits.

Prior to July 1, 1984, the ERS consisted of only a contributory option. In 1984, legislation was enacted to add a new noncontributory option for members of the ERS who are also covered under Social Security. Persons employed in positions not covered by Social Security are precluded from the noncontributory option. The noncontributory option provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory option or to elect the new noncontributory option and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and noncontributory options, respectively. Both options provide a monthly retirement allowance based on the employee's age, years of credited service and average final compensation ("AFC"). If the employee became a member prior to January 1, 1971, the AFC is the average salary earned during the five highest paid years of service, including the vacation payment, or three highest paid years of service, excluding the vacation payment. The AFC for members hired on or after that date is based on the three highest paid years of service, excluding the vacation payment. Contributions are based upon negotiated collective bargaining agreements, and the majority is funded by the State general fund as accrued. Subsequently, if an employee is paid from another funding source, contributions will be made from that same source. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liability.

On July 1, 2006, a new hybrid contributory plan became effective pursuant to Act 179, SLH of 2004. Members in the hybrid plan will be eligible for retirement at age 62 with 5 years of credited service or age 55 with 30 years of credited service. Members will receive a benefit multiplier of 2% for each year of credited service in the hybrid plan. The benefit payment options are similar to the current contributory plan. Almost 58,000 current members, all members of the noncontributory plan and certain members of the contributory plan were eligible to join the new hybrid plan. Most of the new employees hired from July 1, 2006 will be required to join the hybrid plan.

Contribution requirements are not actuarially determined, but are established by the Hawaii Revised Statutes (HRS) Chapter 88 and amended by the Hawaii state legislature. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. The employee contribution rate is 7.8% of salary for the Contributory Plan and 6.0% of salary for the Hybrid Plan. There is no employee contribution for the Noncontributory Plan. Employer contributions are calculated as part of the State's total contribution requirements and are reimbursed to the State's General Fund as part of the fringe benefit rate on the University employees' actual salaries. The required employer contributions for the years ended June 30, 2008, 2007, and 2006 were \$65,570, \$58,141, and \$54,172 respectively, which represented 13.75% of payroll for each year. Effective July 1, 2008, the employer contribution rate will increase to 15.00% of salary.

Actuarial valuation is prepared for the entire ERS and not separately computed for the University. Information on vested and nonvested benefits and other aspects of the ERS is also not available at the University level.

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ERS issues a Comprehensive Annual Financial Report ("CAFR") that includes financial statements and required supplementary information which may be obtained from the following address:

Employees' Retirement System of the State of Hawai'i
210 Merchant Street, Suite 1400
Honolulu, Hawai'i 96813

The following data was obtained from the disclosures contained in the CAFR for the year ended June 30, 2007 is as follows:

Number of employers as of March 31, 2007 was:

State	1
Counties	4
Total employers	5

Basis of Accounting – The financial statements of the ERS are prepared using the accrual basis of accounting. Employer and member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments – Plan investments are reported at fair value. Where appropriate, the fair value includes disposition costs. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments and real estate owned are based on independent appraisals and estimated values.

Other Benefits

The State absorbs the fringe benefit cost for employees paid from State and Federal appropriations. The University receives a State appropriation for these fringe benefit costs. Fringe benefit costs included in total revenue and total expenditures amounted to \$135,059 and \$116,614 for fiscal years 2008 and 2007, respectively.

All regular employees, with certain exceptions, earn vacation leave at the rate of 14 hours for each month of service. Employees who are entitled to annual vacation may accumulate for the succeeding year or years up to 15 working days annual vacation allowance, provided that the total accumulation shall not exceed 90 working days at the end of the calendar year. Accumulated vacation leave, earned but not taken, is reflected as an accrual in the accompanying consolidated financial statements. When termination of services takes place, the employees are paid for their vacation allowance in a lump sum.

Sick leave accumulates at the rate of 14 hours for each full month of service without limit, but can be taken only in the event of an illness and is not convertible to pay upon termination of employment. Accordingly, accumulated sick leave, earned but not taken, is not reflected as an accrual in the accompanying consolidated financial statements. Employees who retire with 60 days of unused sick leave are entitled to three months of service credit in the ERS. For each additional 20 days or major fraction thereof of unused sick leave they have in excess of 60 days, their service period is increased by one month.

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The University's regular employees may enter into deferred compensation arrangements directly with authorized insurance companies or agencies through a payroll deduction plan. Accordingly, the University has no deferred compensation or withholding payable.

The University manages its workers' compensation program. Medical related payments for fiscal years 2008 and 2007 were \$1,627 and \$2,172, respectively. Temporary wage loss payments for fiscal years 2008 and 2007 amounted to \$278 and \$295, respectively.

15. Postemployment Benefits Other than Pensions

In addition to providing pension benefits, the State of Hawai'i, pursuant to HRS Chapter 87, provides other postemployment benefits ("OPEB") such as health care and life insurance benefits to all retired University employees. Effective July 1, 2007, the University implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, prospectively which establishes standards for the measurement, recognition, and display of OPEB expense and related liabilities, note disclosure and required supplementary information in the financial reports.

Plan Description

The State contributes to the Hawaii Employer-Union Health Benefits Trust Fund ("EUTF"), an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003, pursuant to Act 88, SLH of 2001. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The EUTF issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to:

Hawaii Employer-Union Health Benefits Trust Fund
City Financial Tower
210 Merchant Street, Suite 1520
Honolulu, Hawai'i 96813

For employees hired before July 1, 1996, the State pays the entire base monthly contribution for employees retiring with 10 years or more of credited service, and 50% of the base monthly contribution for employees retiring with fewer than ten years of credited service. A retiree can elect family plan to cover dependents.

For employees hired after June 30, 1996, but before July 1, 2001, and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years, but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years, but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Retirees in this category can elect family plan to cover dependents.

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For employees hired on or after July 1, 2001 and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years, but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years, but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Only single plan coverage is paid for retirees in this category. Retirees can elect family coverage, but must pay the difference.

Funding Policy and Annual OPEB Cost

Employer contributions are financed on a pay-as-you-go basis. The University's contributions are calculated as part of the State's total contribution requirements and are reimbursed to the State's General Fund as part of the fringe benefit rate on the University employees' actual salaries. The University's annual OPEB cost is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameter of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table presents the annual OPEB cost and the percentage of annual OPEB cost contributed to the plan for the fiscal year ended June 30, 2008 (amounts in thousands):

Projected June 30, 2008 Net OPEB Obligation ("NOO")

July 1, 2007 net OPEB obligation (initial assumed)	\$	-
Plus: Annual OPEB cost		88,560
Less: Employer contributions (estimated "pay as you go" method)		<u>25,709</u>
Equals: Expected June 30, 2008 net OPEB obligation	<u>\$</u>	<u>62,851</u>

OPEB Summary

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2008	\$88,560	29.0%	\$62,851

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Funded Status

Actuarial valuations represent a long-term perspective and involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, investment return and health care cost trends. The projection of benefits does not explicitly incorporate the potential effects of the results of collective bargaining discussions on the contribution rate. Actuarially determined amounts are subject to periodic revisions as actual rates are compared with past expectations and new estimates are made about the future.

Funding Status as of July 1, 2007

Actuarial value of assets	\$ -
Actuarial accrued liability	<u>1,135,855</u>
Unfunded actuarial accrued liability ("UAAL")	<u>\$ 1,135,855</u>
Funded ratio	0%
Covered payroll (active plan members)	478,812
UAAL as a percentage of covered payroll	237.2%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, is designed to present multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Significant methods and assumptions used were as follows:

Actuarial valuation date	July 1, 2007
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll
Remaining amortization period	30 years
Asset valuation method	N/A
Actuarial assumptions	
Investment rate of return	5%
Projected salary increases	3.5%
Healthcare inflation rate	
Medical and Rx Pre-65	9.5% initial, 5% ultimate
Medical and Rx Post-65	10.0% initial, 5% ultimate

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16. Other Noncurrent Liabilities

Other noncurrent liabilities at June 30, 2008 and 2007 are comprised of:

	2008	2007
Liabilities under split interest agreements	\$ 4,599	\$ 4,114
Amounts held for others	2,359	2,348
Installment contract payable	48	95
Other	350	-
	<u>\$ 7,356</u>	<u>\$ 6,557</u>

17. State Appropriations

By statutory provision, the University prepares a biennium budget for its programs. Budgeted expenditures are derived primarily from the General Appropriations Act of 2007, and from other specific appropriations acts in various Session Laws of Hawai'i ("SLH").

An allotment system and encumbrance accounting are utilized by the University for statutory budgetary control purposes. Obligations in the form of purchase orders or contracts are recorded as encumbrances at the time purchase orders or contracts are awarded and executed. To the extent not expended or encumbered, general fund appropriations generally lapse at the end of the fiscal year. The State Legislature specifies the lapse date and any other particular conditions relating to terminating the authorizations for other appropriations.

The net amount of the University's State general and capital appropriations for the years ended June 30, 2008 and 2007 were \$690,625 and \$116,910, and \$623,984 and \$129,141, respectively.

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Net general and capital appropriations for the year ended June 30, 2008 were as follows:

General appropriations

Act 213, SLH 2007, Appropriation Warrant No. 18	\$ 670,485
Act 111, SLH 2007, Appropriation Warrant No. 59 (G 301)	261
Act 111, SLH 2007, Appropriation Warrant No. 59 (G 302)	1,402
Act 111, SLH 2007, Appropriation Warrant No. 59 (G 303)	175
Act 111, SLH 2007, Appropriation Warrant No. 59 (G 304)	175
Act 254, SLH 2007, Appropriation Warrant No. 94 (G 308)	50
Act 11, SLH2007, Appropriation Warrant No. 127 (G 322)	150
	<u>672,698</u>

Others

Allotments for salary increases and other adjustment	
Act 94, 97, & 98, SLH 2005	4,496
	<u>677,194</u>
Total funds lapsed	(916)
G-08-020 reinstated in FY2009	(160)
G 319 (Flood) net encumbrance remaining that carries forward to FY 2009	14,507
Total general appropriations	<u>\$ 690,625</u>

Capital appropriations

Section 125, Act 213, SLH 2007	\$ 106,910
Section 85 & 114, Act 178, SLH 2005	250
Section 85 & 114, Act 178, SLH 2005 as amended by Act 160, SLH 2006	11,296
Section 85 & 122, Act 178 SLH 2005 as amended by Act 160, SLH 2006	(1,033)
Total funds lapsed	<u>(513)</u>
Total capital appropriations	<u>\$ 116,910</u>

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Net general and capital appropriations for the year ended June 30, 2007 were as follows:

General appropriations

Act 178, SLH 2005, Appropriation Warrant No. 51	\$ 614,890
Act 187, SLH 2006, Appropriation Warrant No. 105 (G 330)	200
Act 248, SLH 2006, Appropriation Warrant No. 122 (G 331)	400
Act 240 SLH 2006, Appropriation Warrant No. 156 (G 334)	100
	<u>615,590</u>

Others

Allotments for salary increases and other adjustment	
Act 94, 97, & 98, SLH 2005	7,759
	<u>623,349</u>
Total funds lapsed	(315)
G 319 (Flood) net encumbrance remaining that carries forward to FY 2008	950
Total general appropriations	<u>\$ 623,984</u>

Capital appropriations

Act 178, SLH 2005, Section 85	\$ 3,448
Act 178, SLH 2005, Section 85 & 114	25,000
Act 178, SLH 2005, Section 85, as amended by Act 160, SLH2006	4,451
Act 178, SLH 2005, Section 85 & 114, as amended by Act 160, SLH2006	96,400
Act 178, SLH 2005, Section 85, 114, & 122, as amended by Act 160, SLH2006	(23)
Total funds lapsed	<u>(135)</u>
Total capital appropriations	<u>\$ 129,141</u>

18. Unrestricted Net Assets

Unrestricted net assets, as defined by GASB Statement No. 35, are not subject to externally imposed stipulations; however, they are subject to internal restrictions. Accordingly, unrestricted net assets may be designated for specific purposes by action of management or the Board or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are internally designated for academic and research programs and initiatives, and capital programs. Some designated unrestricted net assets may be used to fund certain unfunded liabilities included in the undesignated unrestricted net assets.

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The unrestricted net assets at June 30, 2008 and 2007 were as follows:

	2008	2007
Unrestricted net assets		
Designated		
Research and training	\$ 55,428	\$ 49,922
Contract commitments	43,007	24,189
Quasi-endowment	42,184	43,140
Capital projects	29,751	28,551
Bond System	14,346	20,175
Other designated net assets	8,413	8,059
Total designated	<u>193,129</u>	<u>174,036</u>
Undesignated (unfunded obligations for vacation, worker's compensation liabilities, payroll, etc.)	<u>(41,281)</u>	<u>(19,776)</u>
Total unrestricted net assets	<u>\$ 151,848</u>	<u>\$ 154,260</u>

19. Segment Information

A segment is an identifiable activity reported as a stand-alone entity for which one or more revenue bonds are outstanding. A segment has a specific identifiable revenue stream pledged in support of revenue bonds and has related expenses, gains and losses, assets and liabilities that are required by an external party to be accounted for separately. The University has one segment that meets the reporting requirement of GASB Statement No. 35.

The University Bond System consists of several University projects funded by bond proceeds. The University projects, operated and maintained jointly as a system include: (1) all existing University housing units located on the Mānoa campus and connecting food service facilities; (2) the University's student center known as the Campus Center and food services activities on the Mānoa campus; (3) all existing University housing units located on the Hilo campus and connecting food service facilities; (4) the telecommunication system located on the Mānoa campus; (5) all existing bookstores located on any campus of the University; (6) all University parking units located on any campus of the University which were financed in whole or in part from certain revenue or general obligation bonds; and (7) certain other University projects.

The University Bond System's outstanding debt was issued pursuant to a master resolution as amended in November 2001. The master resolution established a network of the University consisting of the University Bond System and any University purpose, which, at the election of the Board is included in the network pursuant to a supplemental resolution. The master resolution provides that all revenues collected or received from the Network should be used to support the Network (which includes the University projects of the University Bond System) and bond related expenses.

Management identified \$522 in unrecorded receivables and room rental revenues that should have been recorded in 2007. To correct this error, the 2007 financial statements have been restated to increase the "Accounts receivable, less allowance for doubtful accounts" line item in the Statement of Net Assets and the "Room and other rentals" line item in the Statement of Changes in Net Assets by \$522.

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Effective July 1, 2007, the University Bond System changed its method of accounting for bookstore inventories from the weighted average cost method to the retail method of accounting. The new method of accounting for inventory was adopted because the University Bond System believes the retail method provides a more meaningful presentation of its financial position. Comparative financial statements for the University Bond System of prior years have been restated to apply the new method retrospectively effective July 1, 2006. The consolidated financial statements of the University have not been restated as management believes that the effect is not material.

The following summary financial information as of June 30, 2008 and 2007 is presented before elimination of certain intra-University transactions.

	2008	Restated 2007
Condensed statements of net assets		
Assets		
Current assets	\$ 58,206	\$ 54,193
Capital assets, net	135,004	98,396
Other assets	48,773	93,567
Total assets	<u>\$ 241,983</u>	<u>\$ 246,156</u>
Liabilities		
Current liabilities	\$ 21,054	\$ 18,798
Noncurrent liabilities	128,327	131,544
Total liabilities	<u>149,381</u>	<u>150,342</u>
Net assets		
Invested in capital assets, net of related debt	52,206	51,082
Restricted expendable	4,081	6,561
Unrestricted	36,315	38,171
Total net assets	<u>92,602</u>	<u>95,814</u>
Total liabilities and net assets	<u>\$ 241,983</u>	<u>\$ 246,156</u>

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Notes to Consolidated Financial Statements
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(All dollars reported in thousands)

	2008	Restated 2007
Condensed statements of revenues, expenses and changes in net assets		
Operating revenues		
Bookstores	\$ 31,510	\$ 28,060
Room and other rentals	18,385	17,629
Parking	4,785	4,908
Telecommunications	3,433	3,090
Other operating revenues	4,785	3,505
Total operating revenues	<u>62,898</u>	<u>57,192</u>
Operating expenses (including \$5,245 and \$5,235 in depreciation expense in 2008 and 2007, respectively)	<u>(69,008)</u>	<u>(57,941)</u>
Operating loss	(6,110)	(749)
Nonoperating revenues	6,680	8,008
Nonoperating expenses	<u>(3,782)</u>	<u>(2,544)</u>
Increase (decrease) in net assets	(3,212)	4,715
Net assets		
Beginning of year	<u>95,814</u>	<u>91,099</u>
End of year	<u>\$ 92,602</u>	<u>\$ 95,814</u>
	2008	2007
Condensed statements of cash flows		
Net cash flows provided by (used in) operating activities	\$ (3,104)	\$ 5,100
Net cash flows provided by non-capital financing activities	2,411	3,515
Net cash flows provided by (used in) capital and related financing activities	(48,038)	81,281
Net cash flows provided by investing activities	<u>7,741</u>	<u>6,359</u>
Net increase (decrease) in cash and cash equivalents	(40,990)	96,255
Cash and cash equivalents		
Beginning of year	<u>130,337</u>	<u>34,082</u>
End of year	<u>\$ 89,347</u>	<u>\$ 130,337</u>

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20. Litigation, Other Contingent Liabilities and Commitments

Hawai'i Revised Statutes §304A-108 stipulates that any liability arising from a claim, action, or suit brought against the University shall be payable solely from the moneys and property of the University and shall not constitute a general obligation of the State. The Board of Regents is not precluded from requesting and securing legislative appropriations to fund the settlement of any such claim or judgment against the University.

The University is contingently liable in connection with certain other claims and contracts, including those currently in litigation, arising in the normal course of its activities. Although there are inherent uncertainties in any litigation, the University's management and general counsel are of the opinion that the outcome of such matters will not have a material effect on the University's financial position.

Substantial amounts are received and expended by the University under federal and state programs which are subject to audit by cognizant governmental agencies, and independent auditors under OMB Circular A-133. This funding relates to research, student aid and other programs. University management believes that any liabilities arising from such audits will not have a material effect on the University's financial position.

The University's significant construction commitments at June 30, 2008 are as follows:

Systemwide Facility Improvements	\$ 44,666
UHWO Campus Development	32,050
Hilo – Science & Technology	25,046
Systemwide Fire, Health & Safety Improvements	20,962
Kauai - One-Stop Center building	9,059
Frear Hall Redevelopment	8,521
Komohana Agricultural Complex	7,136
Other Projects – State	5,897
Other	<u>28,538</u>
Total commitments	<u>\$ 181,875</u>

In January 2008, the Office of Hawaiian Affairs (“OHA”) and the State announced a settlement resolving the ceded land revenues dispute, which is subject to legislative approval. No further action was taken on House Bill 266 (State OHA settlement) during the 2008 legislative session. In March 2008, the Senate voted to hold the settlement bill (Senate Bill 2733) and requested a management and financial audit of OHA. The auditor's findings will be submitted for the 2009 Regular Legislative Session.

Also in January 2008, the Hawaii Supreme Court ruled that the State cannot sell or transfer ceded lands formerly owned by the Hawaiian Monarchy. The State appealed the ruling and the U.S. Supreme Court has agreed to hear the State's appeal. A decision from the U.S. Supreme Court will likely come in June 2009.

The University has estimated its pro rata portion of the payment due to OHA for fiscal years 2004 to 2008 to be \$1,967, which is accrued as a liability at June 30, 2008.

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21. New Accounting Pronouncements

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, effective for the University's fiscal year beginning July 1, 2009. Statement No. 51 requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. The University is currently evaluating the effect that Statement No. 51 will have on its financial statements.

In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for the University's fiscal year beginning July 1, 2009. Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The University is currently evaluating the effect that Statement No. 53 will have on its financial statements.

22. Subsequent Events

In the first half of fiscal year 2009, over \$68,500 in capital improvement program funds were released by the Governor for University projects. In July 2008, \$1,200 was released for the Clarence T.C. Ching (Cooke) field improvements, which was dedicated on February 2, 2009. The turf replacement project is the first phase of the Clarence T.C. Ching Athletics Complex. In August 2008, \$60,000 was released for plans, designs and construction for the capital renewal, deferred maintenance, health and safety, and infrastructure projects at University campuses. In September 2008, \$3,500 was released for the plans, design and construction of the upgrade of the existing air conditioning and ventilation systems at Bilger Addition and the renovation of existing facilities at Hawaii Community College Manono Campus. In November 2008, \$3,800 was released for plans and design for an Information Technology and Emergency Operations Center Building.

In October 2008, the University of Hawaii Board of Regents approved a reduced operating budget for fiscal years 2010 and 2011. The University reduced the base budget by \$13,500, as requested by the Governor. Due to the current economic conditions, further restrictions are highly likely and may affect the 2009 fiscal year appropriated funds.

In January 2009, the University had groundbreaking ceremonies for the new West Oahu campus in the City of Kapolei. Also that month, the lease negotiations with the Hawaii community Development Authority were successfully concluded for the site of the University of Hawai'i's Cancer Research Center of Hawaii research and clinical trials facility.

In March 2009, the University sold \$100,000 of Series 2009A Revenue Bonds to fund capital projects and refinance a portion of previously issued bonds. \$22,500 will be used towards the capital additions of the Biomed building and \$16,500 for student housing renovations at the University of Hawai'i at Mānoa campus. \$20,000 will finance campus development at the University of Hawai'i at West Oahu Kapolei campus with an additional \$7,000 for bookstore campus center additions at the University of Hawai'i at Hilo. \$13,300 will refund bonds issued in 1995 for a faculty housing project, resulting in a savings of approximately \$1,300. The remainder of the \$100,000 will be used to purchase and convert apartments for University of Hawai'i at Hilo student housing and the acquisition of a facility for the Waianae Education Center administered by Leeward Community College.

**Required Supplementary Information
Other Than Management's
Discussion and Analysis**

University of Hawai'i
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Schedule of Funding Progress (Unaudited)
Year Ended June 30, 2008
(All dollars reported in thousands)

Post Employment Benefits Other than Pensions

REQUIRED SUPPLEMENTARY INFORMATION
Schedules of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b) - (a)	Funded Ratio (a) / (b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b) - (a) / (c)
July 1, 2007	\$0	\$1,135,855	\$1,135,855	0%	\$478,812	237.2%

Other Supplementary Information

Report of Independent Auditors on Supplemental Information

To the Board of Regents of the
University of Hawai'i

The report on our audits of the consolidated financial statements of the University of Hawai'i as of June 30, 2008 and 2007, and for the years then ended, appears on page 1. Those audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplemental information (Schedules I, II, III, IV, V, and VI) included hereinafter is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects in relation to the consolidated financial statements taken as a whole.

Acuity LLP

Honolulu, Hawai'i

March 20, 2009, except for Note 22 to the consolidated financial statements and Schedules V and VI which are as of May 29, 2009

University of Hawai'i
State of Hawai'i
Condensed Statements of Net Assets
Condensed Statements of Revenue, Expenses and Changes in Net Assets
Current Unrestricted Funds Excluding General Fund and
University Bond System
As of and for the Years Ended June 30, 2008 and 2007
(All dollars reported in thousands)

Schedule I

	2008	2007
Condensed statements of net assets		
Assets		
Current assets	\$ 251,385	\$ 171,141
Total assets	<u>\$ 251,385</u>	<u>\$ 171,141</u>
Liabilities		
Current liabilities	\$ 76,600	\$ 68,445
Noncurrent liabilities	2,776	2,534
Total liabilities	<u>79,376</u>	<u>70,979</u>
Net assets		
Unrestricted	<u>172,009</u>	<u>100,162</u>
Total net assets	<u>172,009</u>	<u>100,162</u>
Total liabilities and net assets	<u>\$ 251,385</u>	<u>\$ 171,141</u>
Condensed statements of revenues, expenses and changes in net assets		
Operating revenues	\$ 269,802	\$ 228,044
Operating expenses	<u>(242,547)</u>	<u>(200,044)</u>
Operating income	27,255	28,000
Nonoperating revenues	46,636	16,314
Nonoperating expenses and transfers	<u>(2,044)</u>	<u>(11,294)</u>
Increase in net assets	71,847	33,020
Net assets		
Beginning of year	<u>100,162</u>	<u>67,142</u>
End of year	<u>\$ 172,009</u>	<u>\$ 100,162</u>

1. Basis of Presentation

The accompanying condensed statements of net assets and related condensed statements of revenues, expenses and changes in net assets present the financial position and results of operations of certain of the University's Special and Revolving Funds, which are pledged as collateral on the University's Series 2002A revenue bonds and Refunding Series 2006A bonds, and are presented on the accrual basis of accounting.

University of Hawai'i
State of Hawai'i
Schedules of Series 2002A Revenue Bond Proceeds Activity
Years Ended June 30, 2008 and 2007
(All dollars reported in thousands)

Schedule II

	2008	2007
Beginning balance	\$ 13,277	\$ 15,263
Additions		
Interest and investment income	549	912
Total additions	<u>549</u>	<u>912</u>
Deductions		
Payments – building, construction in progress, other	2,027	2,886
Management fees	11	12
Total deductions	<u>2,038</u>	<u>2,898</u>
Ending balance	<u>\$ 11,788</u>	<u>\$ 13,277</u>

1. Basis of Presentation

The accompanying schedules of Series 2002A revenue bond proceeds activity presents the sources and uses of Series 2002A revenue bond proceeds associated with the construction of the John A. Burns School of Medicine facility at Kaka'ako.

2. Refinancing

In October 2006, the University refinanced a majority of the outstanding Series 2002A revenue bonds through the issuance of Refunding Series 2006A bonds. Proceeds from the State's settlement agreement with tobacco companies are expected be utilized to service the outstanding balance of the new debt.

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Condensed Statements of Net Assets
Condensed Statements of Revenue, Expenses and Changes in Net Assets
Current Unrestricted Funds Excluding General Fund
As of and for the Year Ended June 30, 2008 and 2007
(All dollars reported in thousands)

Schedule III

	2008	2007
Condensed statements of net assets		
Assets		
Current assets	\$ 282,044	\$ 203,455
Total assets	<u>\$ 282,044</u>	<u>\$ 203,455</u>
Liabilities		
Current liabilities	\$ 92,036	\$ 79,323
Noncurrent liabilities	<u>3,610</u>	<u>3,392</u>
Total liabilities	<u>95,646</u>	<u>82,715</u>
Net assets		
Unrestricted	<u>186,398</u>	<u>120,740</u>
Total net assets	<u>186,398</u>	<u>120,740</u>
Total liabilities and net assets	<u>\$ 282,044</u>	<u>\$ 203,455</u>
Condensed statements of revenues, expenses and changes in net assets		
Operating revenues	\$ 332,140	\$ 284,714
Operating expenses	<u>(300,599)</u>	<u>(250,402)</u>
Operating income	31,541	34,312
Nonoperating revenues	48,440	18,420
Nonoperating expenses and transfers	<u>(14,323)</u>	<u>(18,688)</u>
Increase in net assets	65,658	34,044
Net assets		
Beginning of year	<u>120,740</u>	<u>86,696</u>
End of year	<u>\$ 186,398</u>	<u>\$ 120,740</u>

1. Basis of Presentation

The accompanying condensed statements of net assets and related condensed statements of revenues, expenses and changes in net assets present the financial position and results of operations of certain of the University's Special and Revolving Funds, which are pledged as collateral on the University's Series 2006A revenue bonds, and are presented on the accrual basis of accounting.

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Schedules of Series 2006A Revenue Bond Proceeds Activity
Year Ended June 30, 2008 and 2007
(All dollars reported in thousands)

Schedule IV

	2008	2007
Beginning balance	\$ 89,871	\$ -
Additions		
Bond proceeds	-	100,987
Investment income	3,511	2,113
Total additions	<u>3,511</u>	<u>103,100</u>
Deductions		
Payments – building, construction in progress, other	42,509	12,449
Transfers – retire indebtedness	2,600	780
Total deductions	<u>45,109</u>	<u>13,229</u>
Ending balance	<u>\$ 48,273</u>	<u>\$ 89,871</u>

1. Basis of Presentation

The accompanying schedules of Series 2006A revenue bond proceeds activity presents the sources and uses of Series 2006A revenue bond proceeds associated with the construction of the Frear Hall dormitory at the Mānoa campus and repair and maintenance of various housing projects.

University of Hawai'i
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Statements of Net Assets — Community College System
June 30, 2008 and 2007
(All dollars reported in thousands)

Schedule V

	2008	2007
Assets		
Current assets		
Cash and cash equivalents	\$ 38,686	\$ 30,457
Due from State of Hawaii	2,911	3,888
Accounts receivables, net	6,636	7,166
Current portion of notes and contributions receivable, net	258	286
Accrued interest receivable	52	115
Merchandise inventories	4,893	2,385
Prepaid expenses, deferred charges and other current assets	162	171
Total current assets	<u>53,598</u>	<u>44,468</u>
Noncurrent assets		
Restricted cash and cash equivalents	306	303
Due from State of Hawaii	30,094	23,990
Notes and contributions receivable, net	1,372	1,344
Capital assets, net	198,382	179,115
Other noncurrent assets	5,725	5,103
Total noncurrent assets	<u>235,879</u>	<u>209,855</u>
Total assets	<u>\$ 289,477</u>	<u>\$ 254,323</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 7,018	\$ 5,693
Accrued payroll and fringe benefits	4,326	4,056
Advances from sponsors	1,072	1,024
Due to RCUH	278	184
Deferred revenue	4,620	5,370
Due to State of Hawai'i	85	48
Current portion of long-term liabilities	5,475	5,051
Other current liabilities	11	24
Total current liabilities	<u>22,885</u>	<u>21,450</u>
Noncurrent liabilities		
Accrued vacation	7,802	7,005
Accrued workers' compensation liability	1,211	1,467
Due to campuses and funds	2,660	2,903
Total noncurrent liabilities	<u>11,673</u>	<u>11,375</u>
Net assets		
Invested in capital assets, net of related debt	198,382	179,115
Restricted – expendable	2,585	2,110
Unrestricted	53,952	40,273
Total net assets	<u>254,919</u>	<u>221,498</u>
Total liabilities and net assets	<u>\$ 289,477</u>	<u>\$ 254,323</u>

University of Hawai'i
State of Hawai'i
Statements of Revenues, Expenses and Changes in Net Assets –
Community College System
Years Ended June 30, 2008 and 2007
(All dollars reported in thousands)

Schedule VI

	2008	2007
Operating revenues		
Student tuition and fees	\$ 46,320	\$ 41,344
Less: Scholarship allowances	6,266	4,901
Net student tuition and fees	<u>40,054</u>	<u>36,443</u>
Federal appropriations, grants and contracts	33,994	31,385
State and local grants and contracts	1,668	1,199
Nongovernmental sponsored programs	1,123	1,038
Sales and services of educational departments, other	7,422	6,670
Auxiliary enterprises		
Bookstores	9,899	9,005
Student housing (net of scholarship allowances of \$18 and \$21)	132	137
Other auxiliary enterprises revenues	1,535	1,462
Other operating revenues	70	78
Total operating revenues	<u>95,897</u>	<u>87,417</u>
Operating expenses		
Compensation and benefits	172,957	153,760
Supplies, services and cost of goods sold	29,631	27,429
Scholarships and fellowships	10,838	8,266
Depreciation	10,306	8,123
Telephone and utilities	11,413	9,153
Repairs and maintenance	3,241	2,867
Travel expenses	2,563	2,160
Other operating expenses	3,557	3,073
Total operating expenses	<u>244,506</u>	<u>214,831</u>
Operating loss	<u>(148,609)</u>	<u>(127,414)</u>
Nonoperating revenues (expenses)		
State appropriations	115,096	103,935
Private gifts	-	(2)
Net investment income	1,523	1,316
Transfers from State of Hawai'i for		
Fringe benefits	34,603	29,811
Loss on disposal of capital assets	(116)	(81)
Other transfers	34	(9)
Other nonoperating expenses, net	(4,899)	(2,522)
Net nonoperating revenues before		
capital and endowment additions	<u>146,241</u>	<u>132,448</u>
Capital state appropriations	20,221	7,140
Capital federal grants/subsidies	386	-
Capital gifts and grants	1,051	439
Transfers from State of Hawai'i for capital assets	15,971	-
Transfers to other funds	(1,840)	(1,799)
Total other revenues	<u>35,789</u>	<u>5,780</u>
Net nonoperating revenues	<u>182,030</u>	<u>138,228</u>
Increase in net assets	33,421	10,814
Net assets		
Beginning of year	<u>221,498</u>	<u>210,684</u>
End of year	<u>\$ 254,919</u>	<u>\$ 221,498</u>