

University of Hawai'i State of Hawai'i

**Consolidated Financial Statements,
Required Supplementary Information
and Other Supplementary Information
June 30, 2010 and 2009**

University of Hawai'i
State of Hawai'i
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June 30, 2010 and 2009

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Report of Independent Auditors

To the Board of Regents
University of Hawai'i

In our opinion, based on our audits and the reports of other auditors, the consolidated 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, 2010 and 2009, 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"), which represent 10.6 percent of the total assets and 1.0 percent of the total operating revenues of the University as of and for year ended June 30, 2010, and 10.6 percent of total assets and 1.1 percent of operating revenues of the University as of and for the year ended June 30, 2009. 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 as of and for the years ended June 30, 2010 and 2009, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

The Management's Discussion and Analysis ("MD&A") and Required Supplementary Information ("RSI") Other Than MD&A are not required parts of the financial statements but are supplementary information required by 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2011, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended June 30, 2010. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Acuity LLP

Honolulu, Hawai'i
January 31, 2011

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, 2010 and 2009, with selected information for the year ended June 30, 2008. 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 consisting of fifteen members appointed by the Governor of the State of Hawai'i. The University system is comprised of ten campuses with approximately 60,000 students and 10,000 faculty and staff. The University provides a broad range of 278 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 190 certificate and associate degree programs and in certain areas, baccalaureate degrees. In addition to organized research institutes and administrative service and distance learning centers, the University system 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:

- **Statements 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, there is an indication of deteriorating financial condition.
- **Statements 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 improve or weaken 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.
- **Statements 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, 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, 2010, 2009 and 2008 (in thousands of dollars):

Condensed Consolidated Statements of Net Assets

	2010				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Current assets	\$ 412,261	\$ 46,044	\$ 4,392	\$ (26,291)	\$ 436,406
Noncurrent assets	1,981,726	703	283,912	(15,528)	2,250,813
Total assets	2,393,987	46,747	288,304	(41,819)	2,687,219
Current liabilities	228,314	35,336	2,788	(35,535)	230,903
Noncurrent liabilities	601,394	2,471	6,504	-	610,369
Total liabilities	829,708	37,807	9,292	(35,535)	841,272
Net assets	\$ 1,564,279	\$ 8,940	\$ 279,012	\$ (6,284)	\$ 1,845,947
	2009				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Current assets	\$ 334,878	\$ 41,747	\$ 19,599	\$ (23,191)	\$ 373,033
Noncurrent assets	1,874,878	890	248,307	(15,118)	2,108,957
Total assets	2,209,756	42,637	267,906	(38,309)	2,481,990
Current liabilities	219,254	31,814	3,586	(32,525)	222,129
Noncurrent liabilities	531,819	1,942	6,042	-	539,803
Total liabilities	751,073	33,756	9,628	(32,525)	761,932
Net assets	\$ 1,458,683	\$ 8,881	\$ 258,278	\$ (5,784)	\$ 1,720,058
	2008				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Current assets	\$ 304,013	\$ 38,274	\$ 27,601	\$ (29,662)	\$ 340,226
Noncurrent assets	1,699,645	387	268,017	(6,228)	1,961,821
Total assets	2,003,658	38,661	295,618	(35,890)	2,302,047
Current liabilities	219,515	27,466	3,749	(29,397)	221,333
Noncurrent liabilities	383,105	1,408	6,958	-	391,471
Total liabilities	602,620	28,874	10,707	(29,397)	612,804
Net assets	\$ 1,401,038	\$ 9,787	\$ 284,911	\$ (6,493)	\$ 1,689,243

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Condensed Consolidated Statements of Revenues, Expenses and Changes in Net Assets

	2010				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Operating revenue	\$ 809,677	\$ 5,402	\$ 8,039	\$ (8,931)	\$ 814,187
Operating expenses	1,413,081	5,370	40,388	(14,945)	1,443,894
Operating (loss) income	(603,404)	32	(32,349)	6,014	(629,707)
Nonoperating activity	709,000	27	53,083	(6,514)	755,596
Increase in net assets	105,596	59	20,734	(500)	125,889
Net assets					
Beginning of year	1,458,683	8,881	258,278	(5,784)	1,720,058
End of year	\$ 1,564,279	\$ 8,940	\$ 279,012	\$ (6,284)	\$ 1,845,947
	2009				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Operating revenue	\$ 700,153	\$ 5,485	\$ 7,828	\$ (8,928)	\$ 704,538
Operating expenses	1,431,561	5,545	38,928	(11,715)	1,464,319
Operating loss	(731,408)	(60)	(31,100)	2,787	(759,781)
Nonoperating activity	789,053	(846)	4,667	(2,278)	790,596
Increase (decrease) in net assets	57,645	(906)	(26,433)	509	30,815
Net assets					
Beginning of year	1,401,038	9,787	284,711	(6,293)	1,689,243
End of year	\$ 1,458,683	\$ 8,881	\$ 258,278	\$ (5,784)	\$ 1,720,058
	2008				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Operating revenue	\$ 652,556	\$ 5,261	\$ 8,053	\$ (9,620)	\$ 656,250
Operating expenses	1,318,400	5,587	38,884	(12,412)	1,350,459
Operating loss	(665,844)	(326)	(30,831)	2,792	(694,209)
Nonoperating activity	757,128	453	51,530	(3,929)	805,182
Increase in net assets	91,284	127	20,699	(1,137)	110,973
Net assets					
Beginning of year	1,309,754	9,660	264,212	(5,356)	1,578,270
End of year	\$ 1,401,038	\$ 9,787	\$ 284,911	\$ (6,493)	\$ 1,689,243

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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 presented using fair and current values, respectively. 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, 2010, 2009 and 2008 are summarized as follows (in thousands):

	2010	Percentage of Total Assets	2009	Percentage of Total Assets	2008	Percentage of Total Assets	FY 10 vs 09 Change	FY 09 vs 08 Change
Current assets								
Cash and operating investments	\$ 308,374	11%	\$ 231,654	9%	\$ 181,014	8%	\$ 76,720	\$ 50,640
Receivables, net	107,528	4%	118,990	5%	136,259	6%	(11,462)	(17,269)
Other current assets	<u>20,504</u>	1%	<u>22,389</u>	1%	<u>22,953</u>	1%	<u>(1,885)</u>	<u>(564)</u>
Total current assets	436,406	16%	373,033	15%	340,226	15%	63,373	32,807
Noncurrent assets								
Endowment and other investments	499,332	19%	502,426	20%	465,285	20%	(3,094)	37,141
Capital assets, net	1,356,864	50%	1,275,918	52%	1,188,635	52%	80,946	87,283
Other noncurrent assets	<u>394,617</u>	15%	<u>330,613</u>	13%	<u>307,901</u>	13%	<u>64,004</u>	<u>22,712</u>
Total assets	<u>2,687,219</u>	100%	<u>2,481,990</u>	100%	<u>2,302,047</u>	100%	<u>205,229</u>	<u>179,943</u>
Current liabilities								
	230,903	9%	222,129	9%	221,333	10%	8,774	796
Noncurrent liabilities								
Long-term debt	344,315	13%	351,600	14%	271,990	12%	(7,285)	79,610
Other noncurrent liabilities	<u>266,054</u>	10%	<u>188,203</u>	8%	<u>119,481</u>	5%	<u>77,851</u>	<u>68,722</u>
Total liabilities	<u>841,272</u>	31%	<u>761,932</u>	31%	<u>612,804</u>	27%	<u>79,340</u>	<u>149,128</u>
Net assets								
Invested in capital assets, net of related debt	1,099,820	41%	1,040,144	42%	967,717	43%	59,676	72,427
Restricted								
Nonexpendable	170,706	6%	162,483	6%	152,449	7%	8,223	10,034
Expendable	509,592	19%	428,055	17%	419,005	18%	81,537	9,050
Unrestricted	<u>65,829</u>	2%	<u>89,376</u>	4%	<u>150,072</u>	7%	<u>(23,547)</u>	<u>(60,696)</u>
Total net assets	<u>\$ 1,845,947</u>	69%	<u>\$ 1,720,058</u>	69%	<u>\$ 1,689,243</u>	73%	<u>\$ 125,889</u>	<u>\$ 30,815</u>

A review of the University's Consolidated Statements of Revenues, Expenses and Changes in Net Assets at June 30, 2010, 2009 and 2008 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 existing current assets.

At June 30, 2010, 2009 and 2008, working capital amounted to \$205.5 million, \$150.9 million and \$118.9 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 were \$436.4 million, \$373.0 million and \$340.2 million at June 30, 2010, 2009, and 2008, respectively. Total current assets increased by \$63.4 million, or 17 percent, at June 30, 2010 compared to June 30, 2009, primarily due to increases in operating investments offset by decreases in cash and cash equivalents and due from State of Hawai'i. Operating investments increased by \$82.7 million primarily due to an increase of \$77.0 million in cash invested in TCDs with maturities greater than 90 days and less than one year. This increase was primarily attributable to an increase in tuition revenue as well as decreases in grants and contracts receivable balances and decreased compensation and benefits payments. Cash and cash equivalents decreased by \$6.0 million and due from State of Hawai'i decreased by \$10.8 million. Total current assets increased by \$32.8 million, or 9.6 percent, at June 30, 2009 compared to June 30, 2008, primarily due to an increase in operating investments offset by a decrease in cash and cash equivalents and due from the State of Hawai'i. Operating investments increased by \$103.2 million primarily due to \$98.0 million in cash invested in TCDs with maturities greater than 90 days and less than one year. Cash and cash equivalents decreased by \$52.5 million due to net transfers to TCDs of \$57.5 million. Due from State of Hawai'i, included in net receivables, decreased by \$12.4 million.
- Current liabilities consist primarily of accounts payable, accrued compensation and benefits, advances from sponsors, and deferred revenue. Current liabilities also include amounts due to the State of Hawai'i, the current portion of long-term liabilities and other current liabilities. Total current liabilities were \$230.9 million, \$222.1 million, and \$221.3 million at June 30, 2010, 2009, and 2008, respectively. Total current liabilities increased by \$8.8 million, or 3.9 percent, at June 30, 2010 compared to June 30, 2009, primarily due to increases in accrued compensation and benefits, accounts payable and other current liabilities, offset by a decrease in advances from sponsors. Accrued compensation and benefits increased by \$14.1 million in fiscal year 2010 compared to fiscal year 2009, primarily due to a bargaining unit's payroll lag transition which commenced with the June 30, 2010 pay period. Accounts payable increased by \$4.1 million and other current liabilities increased by \$3.9 million. Advances from sponsors decreased by \$16.8 million in fiscal year 2010 due to decreased unexpended federal and private grant revenues. Total current liabilities increased by \$0.8 million, or 0.4 percent, at June 30, 2009 as compared to June 30, 2008, due primarily to increases in accrued compensation and benefits and the current portion of long-term liabilities, offset by decreases in advances from sponsors, deferred revenue and due to State of Hawai'i.

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Endowment and Other Investments

The University's endowment and other investments, including endowments held with the Foundation, decreased by \$3.1 million to \$499.3 million at June 30, 2010 and increased by \$37.1 million to \$502.4 million at June 30, 2009. Endowments and other investments held with the Foundation amounted to \$234.4 million at June 30, 2010 and \$201.1 million at June 30, 2009. The fiscal year 2009 increase was primarily due to unspent Series 2009A bond proceeds.

At June 30, 2010 and 2009, endowments and other investments include \$89.8 million and \$108.5 million in auction rate securities, respectively. The University classifies its auction rate securities as noncurrent investments as a result of uncertainties surrounding the timing of liquidation of these investments. 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, redemptions totaling \$18.8 million in fiscal year 2010 and \$8.6 million in fiscal year 2009 executed at par value, and the University has no intention of voluntarily settling its auction rate securities at less than par value. In fiscal year 2010, the University's auction rate securities portfolio decreased by \$18.8 million due to redemptions in accordance with contractual terms.

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.

The University's spending rate policy is to limit 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 years 2010 and 2009, the University instituted a four percent distribution rate on restricted and unrestricted endowments. The total restricted and unrestricted distributions available to the University amounted to \$2.2 million for both 2010 and 2009.

Capital and Debt Activities

The University's capital assets are separated into seven categories: land, buildings, infrastructure, land improvements, equipment, library materials, and construction in progress. At June 30, 2010, 2009 and 2008, total capital assets, net of accumulated depreciation amounted to \$1.4 billion, \$1.3 billion and \$1.2 billion, respectively, which represented 50 percent, 52 percent and 52 percent, respectively, of the University's total assets. Capital asset additions totaled \$181.5 million, \$177.9 million and \$195.2 in fiscal years 2010, 2009 and 2008, respectively, while depreciable capital asset disposals, net of accumulated depreciation, amounted to \$13.1 million, \$11.4 million and \$9.4 million, respectively. Of the total capital

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asset additions, \$6.6 million, \$17.7 million and \$16.3 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 2010, 2009 and 2008, respectively. Purchases of equipment, including information technology, amounted to approximately \$23.7 million, \$16.6 million and \$18.6 million and purchases of library materials amounted to approximately \$3.9 million, \$4.0 million and \$6.9 million during fiscal years 2010, 2009 and 2008, 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.

Significant capital projects completed during fiscal year 2010, 2009 and 2008 or in progress as of June 30, 2009, 2008, and 2007 included:

- **Biomedical Science Building** – The University is undertaking a project to expand the Biomedical Science Building on the Mānoa campus with a four-story structure. The primary occupant for the addition will be the Center for Microbial Oceanography: Research and Education, an established National Science Foundation sponsored Science and Technology Center. Series 2009A revenue bond proceeds of \$22.5 million have been designated for the addition to the Biomedical Science Building and will be completed in January 2011. This facility will consist of research laboratories and support spaces, offices, classrooms, meeting spaces, laboratory standards, Leadership in Energy and Environmental Design ("LEED") standards, and other aspects of laboratory safety and flexibility.
- **University of Hawaii Hilo Science and Technology Building** – The \$28 million University of Hawai'i Hilo Science and Technology Building is scheduled for completion in January 2011. The physics, astronomy, and chemistry departments and staff will move in to the 41,560 square foot structure. The grand lobby on the first floor will have areas for gatherings and displays. Twenty-six faculty offices are located throughout the building and research rooms will contain state-of-the-art equipment for physics, astronomy, and chemistry research projects.
- **New Frear Hall Student Housing Complex** – Student Housing Services newest residence hall on the Mānoa campus was completed in August 2008 in time for the start of the fall 2008 semester. The \$69 million project is comprised of two interconnected 12-story towers which can accommodate 810 students in four different unit types that provide a housing option that combines community and independent living. Amenities in Frear include private study rooms, bike, moped and surfboard storage area, electronic security and cameras; all within minutes of the main Mānoa campus. Frear Hall is also LEED silver certified, meeting standards for environmentally sustainable construction.
- **Komohana Research and Extension Complex** – The College of Tropical Agriculture and Human Resources ("CTAHR") at the Mānoa campus dedicated the renovations and new construction of the Komohana Research and Extension Complex in Hilo in November 2009. The \$14.5 million project included renovations of faculty offices and the newly constructed John H. Beaumont Research Wing. The administration wing has been named the Todashi Higaki Administrative Wing. The newly-renovated office space and new laboratories for faculty and staff will enhance CTAHR's outreach to support, sustain and enhance Hawai'i's agriculture, environment, communities and families, and serve Hawai'i's people for years to come.

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- **University of Hawai'i Student Life Complex** – The \$14 million University of Hawai'i at Hilo Student Life Center was opened in September 2008. The facility consists of nearly 23,000 square feet of indoor fitness/recreation rooms, a cardio and weight room, dance and aerobics rooms, a lounge with wireless internet, an indoor café, locker rooms, an Olympic-sized swimming pool, and an open deck by the swimming pool. The goal for the Student Life Center facility is to expose as many as possible of the University of Hawai'i Hilo community to activities that will improve their quality of life.
- **Kaua'i Community College One-Stop Center** – The \$14 million first phase of the One-Stop Center project was completed in August 2008. The new 33,000 square foot facility brings together in one place a range of services for students. Admissions and records, student advising, placement testing, career counseling, cashiering, and business office functions, as well as the University Center, are now conveniently located at the front of the campus. Construction of Phase II began in October 2008. The 19,000 square foot facility will house the college's Apprenticeship program, the Office of Continuing Education and Training program classrooms and offices, a computer lab and a new bookstore.
- **University of Hawai'i West O'ahu** – For more than 30 years, the University of Hawai'i-West O'ahu has been located in portable buildings adjacent to Leeward Community College. The University is developing a new four-year undergraduate campus located in Kapolei which will meet the growing needs of communities in Central and Leeward O'ahu. Sustainability is a key concept in the development of the campus, with a goal of gold-level LEED certification.

Series 2009A and 2010B revenue bond proceeds of \$20.0 million and \$48.0 million, respectively, have been designated towards the development of the new campus in Kapolei. In addition, the Governor approved the release of another \$48.0 million in state CIP funds appropriated by the 2010 State Legislature for the initial construction of the campus. In August 2010, the first phase of construction began which includes a classroom building, laboratory building, campus center, library and resource center, administration building and maintenance and mechanical plant building. The buildings are scheduled to be completed in time for the beginning of the fall 2012 classes. Roadwork to provide additional access to the campus is anticipated to begin in 2013.

The State of Hawai'i at times issues general obligation bonds on behalf of the University to finance certain capital projects. At June 30, 2010, 2009 and 2008, amounts due to the State of Hawai'i for general obligation bonds payable amounted to \$1.2 million, \$1.3 million and \$2.9 million, respectively. For fiscal year 2010, debt service paid by the University amounted to \$0.2 million consisting of \$0.1 million in principal and \$0.1 million in interest. For fiscal year 2009, debt service paid by the University amounted to \$1.7 million consisting of \$1.6 million in principal and \$0.1 million in interest. For fiscal year 2008, debt service paid by the University amounted to \$1.9 million consisting of \$1.7 million in principal and \$0.2 million in interest.

General obligation bonds have also been issued by the State of Hawai'i that included financing for University projects. These bonds are carried as liabilities of the State. In fiscal year 2010, the State appropriated funds directly to the Department of Budget and Finance in the amount of \$72.1 million to pay for debt service on general obligation bonds issued for the University. As a result, the University itself received no appropriations and made no transfers for debt service on general obligation bonds for fiscal year 2010. In fiscal years 2009 and 2008, the State appropriated funds to the University to pay for debt service on general obligation bonds in the amount of \$87.7 million and \$83.9 million, respectively. These amounts are reflected in nonoperating revenues in the Consolidated Statements of Revenues, Expenses and Changes in Net Assets.

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The University also uses revenue bond financing for major capital projects. In April 2009, the University issued \$100 million of Series 2009A revenue bonds to finance the acquisition and conversion of apartments for Hilo Student Housing, renovations to the Hale Aloha dormitory on the Mānoa campus, the development of the University of Hawai'i West O'ahu Kapolei campus, the acquisition of the Waianae Education Center, additions to the Biomedical Science building on the Mānoa campus, the bookstore addition to the Campus Center on the Hilo campus, and the repayment of indebtedness issued on behalf of the University to finance the Kau'iokahaloa Nui Faculty Housing. The Series 2009A revenue bonds was assigned municipal bond ratings of "A+", "Aa3", and "AA-" by Standard & Poor's, Moody's Investors Service and Fitch Ratings, respectively. The University Bond System's other two outstanding revenue bonds, Series 2001B and 2006A, were given municipal bond ratings of "AAA", "Aaa" and "AAA" by Standard & Poor's, Moody's Investors Service and Fitch Ratings, respectively, based on bond insurance policies.

At June 30, 2010, 2009 and 2008, revenue bonds payable amounted to \$351.6 million, \$358.6 million and \$263.0 million, respectively. Debt service in fiscal year 2010 amounted to \$23.3 million, consisting of \$7.0 million of principal and \$16.3 million of interest. Debt service in fiscal year 2009 amounted to \$16.1 million, consisting of \$4.4 million of principal and \$11.7 million of interest. Debt service in fiscal year 2008 amounted to \$12.8 million, consisting of \$1.0 million of principal and \$11.8 million of interest. Principal reductions during fiscal year 2010, 2009, and 2008 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. 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. 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 \$12.9 million, \$14.8 million and \$21.3 million in fiscal years 2010, 2009 and 2008, respectively, to cover the debt service due.

As discussed above, in connection with the issuance of the \$100 million Series 2009A revenue bonds, approximately \$13.4 million of the bond proceeds was used to repay the Housing Finance and Development Corporation ("HFDC") obligation in April 2009. Accordingly, ownership of the Kau'iokahaloa Nui Faculty Project was transferred to the University Bond System. The net book value of the Kau'iokahaloa Nui Faculty Project is included in Capital Assets and was \$13.0 million and \$13.5 million at transfer date and June 30, 2008, respectively. At transfer date, the original basis of the capital lease asset of \$20.1 million and accumulated amortization of \$7.1 million was reversed and a new cost basis of \$13.0 million was established for the Kau'iokahaloa Nui Faculty Project.

At June 30, 2010 and 2009, the University had no capital lease obligations. At June 30, 2008, the capital lease obligations amounted to \$13.8 million. Debt service in fiscal year 2008 amounted to \$1.2 million consisting of \$0.4 million for principal and \$0.8 million for interest.

In October 2010, the University issued \$292.7 million in Series 2010A-1 (\$111.3 million), 2010A-2 (\$27.4 million), 2010B-1 (\$127.5 million), and 2010B-2 (\$26.6 million) bonds (collectively, the "Series 2010 Bonds") for the purpose of financing the costs of certain University projects. These University projects may include the construction and maintenance of the University of Hawai'i Cancer Center, renovations and additions to the Mānoa Campus Center, construction and equipment for an Information Technology Building, renovations to the Sinclair Library basement and Edmondson Hall on the Mānoa campus, further development of the West O'ahu campus, construction of a research building on the Hilo

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campus, construction of a new Regional Biocontainment Laboratory, renovations to Hale Haumana on the Maui College campus, and various energy conservations/efficiency projects on the community college campuses on O'ahu, Kaua'i and Maui. The interest rates for the Series 2010 Bonds range from 2.50% – 6.03% (first interest payment due on April 1, 2011) and mature on October 1, 2030 and 2040.

Net Assets

Net assets represent the residual interest in the University's assets after liabilities are deducted. At June 30, 2010, 2009 and 2008, total net assets amounted to \$1.8 billion, \$1.7 billion and \$1.7 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 \$1.1 billion, \$1.0 billion and \$967.7 million at June 30, 2010, 2009 and 2008, respectively. The \$100 million increase in fiscal year 2010, as compared to fiscal year 2009, was primarily attributable to \$181.5 million of capital asset additions, offset by \$87.4 million of depreciation expense. The fiscal year 2009 increase largely represents \$177.9 million of capital asset additions, offset by \$79.2 million of depreciation expense.

Restricted nonexpendable net assets representing the University's and Foundation's permanent endowment funds, which are required to be maintained in perpetuity, amounted to \$170.7 million, \$162.5 million and \$152.4 million at June 30, 2010, 2009 and 2008, respectively. The increases of \$8.2 million and \$10.0 million in fiscal years 2010 and 2009, 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, 2010, 2009 and 2008 (in thousands):

	2010	2009	2008
Plant facilities	\$ 343,958	\$ 263,082	\$ 241,019
Donor-restricted activities	130,691	125,469	148,968
Loan activities	28,389	28,197	27,853
External sponsor activities	6,554	11,307	1,165
	<u>\$ 509,592</u>	<u>\$ 428,055</u>	<u>\$ 419,005</u>

In fiscal year 2010, the overall increase of \$81.5 million in restricted expendable net assets was attributable to increases of \$80.9 million in plant facilities and \$5.2 million in donor-restricted activities, offset by a decrease in external sponsor activities of \$4.8 million. In fiscal year 2009, the overall increase of \$9.1 million in restricted expendable net assets was primarily attributable to increases of \$22.1 million in plant facilities and \$10.1 million in external sponsor activities, offset by a \$23.5 million decrease in donor-restricted activities.

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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 \$25.0 million, \$19.3 million and \$42.2 million were designated for endowment activities at June 30, 2010, 2009 and 2008, respectively. In 2009, the \$22.9 million, or 54.3 percent, decrease in quasi-endowments from 2008 was largely due to net realized and unrealized losses on endowments held by the Foundation. Unrestricted net assets were comprised of the following at June 30, 2010, 2009 and 2008 (in thousands):

	2010	2009	2008
Designated			
Research and training	\$ 36,545	\$ 44,755	\$ 55,428
Contract commitments	39,461	49,010	43,007
Quasi-endowment	25,025	19,264	42,184
Capital projects	37,756	30,717	29,751
Bond System	14,426	17,833	14,346
Other designated net assets	8,563	8,403	8,413
	<u>161,776</u>	<u>169,982</u>	<u>193,129</u>
Undesignated (unfunded obligations for vacation, worker's compensation liabilities, other postemployment benefits, payroll, etc).	<u>(95,947)</u>	<u>(80,606)</u>	<u>(43,057)</u>
	<u>\$ 65,829</u>	<u>\$ 89,376</u>	<u>\$ 150,072</u>

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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 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, 2010, 2009 and 2008, summarized to match revenues supporting core activities with expenses associated with core activities, are as follows (in thousands of dollars):

	2010		2009		2008		Increase (Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	FY 10 vs 09	FY 09 vs 08
Revenues								
Operating								
Tuition and fees, net	\$ 209,588	16.9%	\$ 181,078	12.7%	\$ 150,969	10.9%	\$ 28,510	\$ 30,109
Grants and contracts	474,347	38.4%	399,640	28.0%	379,364	27.3%	74,707	20,276
Sales and services	127,405	10.3%	120,899	8.5%	122,651	8.8%	6,506	(1,752)
Other revenue	2,847	0.2%	2,921	0.2%	3,266	0.2%	(74)	(345)
Total operating revenues	814,187	65.8%	704,538	49.4%	656,250	47.2%	109,649	48,288
Non-operating								
State appropriations	369,948	29.9%	731,394	51.2%	690,625	49.7%	(361,446)	40,769
Net Investment income (expense)	28,146	2.3%	(31,928)	-2.2%	10,662	0.8%	60,074	(42,590)
Private gifts	24,398	2.0%	23,285	1.6%	31,543	2.3%	1,113	(8,258)
Total non-operating revenues	422,492	34.2%	722,751	50.6%	732,830	52.8%	(300,259)	(10,079)
Total revenues supporting core activities	1,236,679	100.0%	1,427,289	100.0%	1,389,080	100.0%	(190,610)	38,209
Expenses								
Operating								
Compensation and benefits	964,094	74.3%	995,777	63.3%	901,678	62.5%	(31,683)	94,099
Supplies and materials	202,521	15.6%	201,618	12.8%	185,216	12.8%	903	16,402
Telecom and utilities	54,541	4.2%	57,959	3.7%	58,553	4.1%	(3,418)	(594)
Scholarships and fellowships	46,314	3.6%	36,297	2.4%	30,162	2.1%	10,017	6,135
Other expense	89,023	6.9%	93,440	5.9%	103,624	7.2%	(4,417)	(10,184)
Total operating expenses	1,356,493	104.6%	1,385,091	88.1%	1,279,233	88.6%	(28,598)	105,858
Non-operating (revenues) expenses								
Transfers (from) to State, net	(160,971)	-12.4%	97,038	6.2%	82,540	5.7%	(258,009)	14,498
Interest expense	14,004	1.1%	11,175	0.7%	10,629	0.7%	2,829	546
Total non-operating (revenues) expenses	(146,967)	-11.3%	108,213	6.9%	93,169	6.5%	(255,180)	15,044
Expenses associated with core activities before depreciation	1,209,526	-	1,493,304	-	1,372,402	-	(283,778)	120,902
Income (loss) from core activities before depreciation	27,153	-	(66,015)	-	16,678	-	93,168	(82,693)
Depreciation	87,401	6.7%	79,228	5.0%	71,226	4.9%	8,173	8,002
Expenses associated with core activities including depreciation	1,296,927	100.0%	1,572,532	100.0%	1,443,628	100.0%	(275,605)	128,904
Loss from core activities	(60,248)		(145,243)		(54,548)		\$ 84,995	\$ (90,695)
Other nonoperating activity								
Capital gifts and grants	191,025		172,118		148,496			
Permanent endowment	6,101		13,479		19,284			
Other revenue (expenses) net	(10,989)		(9,539)		(2,259)			
Other nonoperating income, net	186,137		176,058		165,521			
Increase in net assets	125,889		30,815		110,973			
Net assets								
Beginning of year	1,720,058		1,689,243		1,578,270			
End of year	\$ 1,845,947		\$ 1,720,058		\$ 1,689,243			

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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 and faculty housing, food services, parking and athletics.

Fiscal year 2010 was the fourth year in the University's six-year plan to increase tuition and fee rates. Tuition and fees revenue, net of scholarship allowances, increased by \$28.5 million, or 15.7 percent, to \$209.6 million in fiscal year 2010, and increased by \$30.1 million, or 19.9 percent, to \$181.1 million in fiscal year 2009. Scholarship allowances amounted to \$82.3 million, \$61.3 million and \$52.3 million in fiscal year 2010, 2009 and 2008, respectively. For fiscal year 2010, the increases in tuition and fees revenue and scholarship allowances are primarily attributable to increased enrollment in the UH Mānoa, UH Hilo and community college campuses and undergraduate tuition and fee rate increases for all campuses ranging from 10.5 percent to 15.8 percent. For fiscal year 2009, the increase is primarily attributable to an increase in enrollment in the UH Mānoa, UH Hilo and community college campuses. In addition, undergraduate tuition and fee rates for all campuses increased between 11.7 percent and 18.6 percent.

Revenues from federal, state and local grants and contracts and nongovernmental sponsored programs increased by \$74.7 million, or 18.7 percent, to \$474.3 million in fiscal year 2010, and increased by \$20.3 million, or 5.3 percent, to \$399.6 million in fiscal year 2009. The fiscal year 2010 net increase was attributable to a \$68.3 million and \$10.3 million increase in federal grants and contracts and nongovernmental sponsored programs, respectively, and a decrease of \$4.0 million in local grants and contracts. The fiscal year 2009 increase was attributable to a \$15.9 million increase in federal grants and contracts and \$4.4 million increase in state and local grants and contracts and nongovernmental sponsored programs.

Sales and services revenues, which are mainly comprised of bookstores, student and faculty housing, food services, parking and athletics, increased by \$6.5 million, or 5.8 percent, to \$127.4 million in fiscal year 2010, and decreased by \$1.8 million, or 1.4 percent, to \$120.9 million in fiscal year 2009. In fiscal year 2010, the increase was largely due to increases in sales and services of other educational activities. The fiscal year 2009 decrease was largely due to a \$6.2 million decrease in Mānoa athletics and other auxiliary enterprise revenues, offset by a \$4.2 million increase in student housing revenue.

General state appropriations decreased by \$361.4 million, or 49.4 percent, to \$369.9 million in fiscal year 2010, and increased by \$40.8 million, or 5.9 percent, to \$731.4 million in fiscal year 2009. The decrease in fiscal year 2010 was mainly attributable to a \$307.3 million decrease in general state appropriation support due primarily to Act 162, SLH 2009, which appropriated \$254.2 million directly to the Department of Budget and Finance to pay for debt service and fringe benefits on behalf of the University. Other contributing factors to the fiscal year 2010 decrease was a \$9.9 million decrease in collective bargaining appropriations and a \$44.2 million increase in executive restrictions. A \$57.3 million increase in general state appropriation support and a \$5.4 million increase in collective bargaining appropriations, offset by \$7.9 million in executive restrictions, absence of a \$14.5 million flood appropriation in the prior year and appropriations that lapsed accounted for the net increase in fiscal year 2009.

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The University's net investment income for fiscal year 2010, as compared to fiscal year 2009, increased by \$60.1 million, resulting in net investment income of \$28.1 million. Fiscal year 2009 net investment income decreased by \$42.6 million, resulting in a net investment loss of \$31.9 million compared to \$10.6 million net investment income in fiscal year 2008. The fiscal year 2010 increase was mainly due to a \$58.4 million increase in net unrealized gains and a \$2.6 million decrease in net realized losses, offset by a \$4.7 million decrease in interest and dividend income. The fiscal year 2009 decrease was mainly due to a \$17.6 million increase in net unrealized losses compounded by a \$16.6 million increase in net realized losses and a \$6.5 million decrease in interest and dividend income.

The components of net investment income for the years ended June 30, 2010, 2009 and 2008 were as follows (in thousands):

	2010	2009	2008	Increase (Decrease)	
				FY 10-09	FY 09-08
Interest and dividend income	\$ 11,778	\$ 16,521	\$ 23,023	\$ (4,743)	\$ (6,502)
Net realized gains (losses)	(539)	(3,140)	13,499	2,601	(16,639)
Net unrealized gains (losses)	17,803	(40,582)	(23,001)	58,385	(17,581)
Other, net	(896)	(4,727)	(2,859)	3,831	(1,868)
	<u>\$ 28,146</u>	<u>\$ (31,928)</u>	<u>\$ 10,662</u>	<u>\$ 60,074</u>	<u>\$ (42,590)</u>

Private gifts, most of which are restricted as to use, increased by \$1.1 million, or 4.8 percent, to \$24.4 million in fiscal year 2010 when compared to \$23.3 million in fiscal year 2009. The fiscal year 2010 increase was primarily attributable to various private gifts given to the Foundation. For fiscal year 2009, private gifts, most of which are restricted as to use, decreased by \$8.3 million, or 26.2 percent, to \$23.3 million when compared to \$31.5 million in fiscal year 2008. The fiscal year 2009 decrease was primarily attributable to the effects of the downturn in the economy. This was seen by a decrease in the number of real estate and stock gifts received in 2009. Additionally, the Foundation's operating revenues were negatively impacted by the economy and resulted in an approximate 17 percent reduction in staff, of which over 60 percent were fundraising staff. 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 University is committed to recruiting and retaining outstanding faculty and staff, and providing compensation equivalent to peer institutions and nonacademic employers. Of the University's operating expenses, approximately 66.8 percent during fiscal year 2010, 68.0 percent during fiscal year 2009 and 66.8 percent during fiscal year 2008 were related to compensation and benefits. Compensation and benefits decreased by \$31.7 million, or 3.2 percent, to \$964.1 million in fiscal year 2010 as compared to fiscal year 2009 and increased by \$94.1 million, or 10.4 percent, to \$995.8 million in fiscal year 2009 as compared to fiscal year 2008. The fiscal year 2010 decrease was attributable to the system-wide salary reduction which commenced in December 2009. The fiscal year 2009 increase was attributable to scheduled pay rate increases under collective bargaining agreements and the impact of GASB Statement No. 45 on fringe benefit expense. The University recognized \$101.5 million, \$94.8 million and \$88.6 million related to postretirement health and life insurance benefits in fiscal year 2010, 2009 and 2008, respectively.

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Supplies, services and cost of goods sold expense includes service fees, printing and binding, advertising, dues and subscriptions, controlled property acquisitions, cost of goods sold for resale items and other miscellaneous operating costs. In fiscal year 2010, such expenses increased by \$0.9 million, or 0.4 percent, to \$202.5 million as compared to fiscal year 2009. In fiscal year 2009, supplies, services and cost of goods sold expense increased by \$16.4 million, or 8.9 percent, to \$201.6 million as compared to fiscal year 2008. The increase was primarily attributable to increases in supplies and materials expense.

The University is committed to providing affordable yet quality education to its students. Scholarships and fellowships, primarily comprised of academic and athletic scholarships and fellowships, are payments, other than for tuition, fees, and housing, of financial aid made directly to students. Scholarships and fellowships increased by \$10.0 million, or 27.6 percent, to \$46.3 million in fiscal year 2010 as compared to fiscal year 2009 and increased by \$6.1 million, or 20.3 percent, to \$36.3 million in fiscal year 2009 as compared to fiscal year 2008. The increases in fiscal years 2010 and 2009 were primarily attributable to increased requests for financial aid related to increased enrollment and scheduled tuition increases.

The University depreciates its capital assets over their estimated useful lives using the straight-line method. Depreciation expense increased by \$8.2 million, or 10.3 percent, to \$87.4 million during fiscal year 2010 as compared to fiscal year 2009 and increased by \$8.0 million, or 11.2 percent, to \$79.2 million during fiscal year 2009 as compared to fiscal year 2008. The increases in fiscal years 2010 and 2009 were primarily attributable to depreciation of infrastructure, building and equipment additions and reclassifications from construction in progress.

Transfers from State amounted to \$148.1 million for fiscal year 2010 as compared to Transfers to State of \$111.8 million in fiscal year 2009 and \$103.8 million in fiscal year 2008. For fiscal year 2010, Transfers from State were primarily for fringe benefit expense and the University of Hawai'i Cancer Center cigarette stamp tax collections. Transfers to State increased by \$8.0 million, or 7.7 percent, in fiscal year 2009 as compared to fiscal year 2008. For fiscal year 2009, increases in Transfers to State for debt service on general obligation bonds, fringe benefit expense and executive restrictions were offset by an increase in University of Hawai'i Cancer Center cigarette stamp tax collections and a decrease in interest paid on Tobacco settlement funds.

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 30, 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

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Other Nonoperating Activities

Revenues from other nonoperating activities are generally 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 and state capital appropriations and transfers may only be used for the purchase or construction of specified capital assets. While additions to permanent endowments must be retained in perpetuity, investment earnings thereon may be available in future years to support specified programs.

In fiscal year 2010, capital gifts and grants, including state capital appropriations and transfers, increased by \$18.9 million, or 11.0 percent, to \$191.0 million compared to \$172.1 million in fiscal year 2009. During fiscal year 2010, the State of Hawai'i transferred \$6.1 million in completed construction projects to the University. In addition to the completed projects, the State of Hawai'i appropriated \$174.8 million to the University for building renovations and other capital improvement projects on all campuses throughout the University system. Other capital gifts and grants during fiscal year 2010 included federal capital grants of \$7.1 million and private capital gifts and grants of \$3.0 million.

Capital gifts and grants and state capital appropriations and transfers increased by \$23.6 million, or 15.9 percent, to \$172.1 million in fiscal year 2009 compared to \$148.5 million in fiscal year 2008. During fiscal year 2009, the State of Hawai'i transferred \$16.9 million in completed construction projects to the University. In addition to the completed construction projects, the State of Hawai'i appropriated \$142.7 million to the University for building renovations and other capital improvement projects on all campuses throughout the University system. Other capital gifts and grants during fiscal year 2009 included federal capital grants of \$10.9 million and private capital gifts and grants of \$1.6 million.

Cash Flows

The Consolidated Statements 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, 2010, 2009 and 2008 is as follows (in thousands):

	2010	2009	2008	FY 10 vs. 09 Change	FY 09 vs. 08 Change
Cash received from operations	\$ 804,407	\$ 696,631	\$ 726,537	\$ 107,776	\$ (29,906)
Cash payments for operations	<u>(1,125,901)</u>	<u>(1,310,302)</u>	<u>(1,259,097)</u>	<u>184,401</u>	<u>(51,205)</u>
Net cash used in operating activities	<u>(321,494)</u>	<u>(613,671)</u>	<u>(532,560)</u>	<u>292,177</u>	<u>(81,111)</u>
Net cash provided by noncapital financing activities	420,267	764,561	704,867	(344,294)	59,694
Net cash used in capital and related financing activities	(58,302)	(34,852)	(148,583)	(23,450)	113,731
Net cash (used in) provided by investing activities	<u>(46,473)</u>	<u>(168,550)</u>	<u>44,006</u>	<u>122,077</u>	<u>(212,556)</u>
Net (decrease) increase in cash	(6,002)	(52,512)	67,730	46,510	(120,242)
Cash					
Beginning of year	<u>53,033</u>	<u>105,545</u>	<u>37,815</u>	<u>(52,512)</u>	<u>67,730</u>
End of year	<u>\$ 47,031</u>	<u>\$ 53,033</u>	<u>\$ 105,545</u>	<u>\$ (6,002)</u>	<u>\$ (52,512)</u>

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The University's cash and cash equivalents decreased by \$6.0 million, or 11.3 percent, to \$47.0 million at June 30, 2010 from \$53.0 million at June 30, 2009. During fiscal year 2010, \$321.5 million in cash was used for operating activities, offset by \$420.3 million in cash provided by noncapital financing activities. The University's cash and cash equivalents decreased by \$52.5 million, or 49.8 percent, to \$53.0 million at June 30, 2009 from \$105.5 million at June 30, 2008. During fiscal year 2009, \$613.7 million in cash was used for operating activities, offset by \$764.6 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.

Net cash used in capital and related financing activities amounted to \$58.3 million in fiscal year 2010, \$34.9 million in fiscal year 2009 and \$148.6 million in fiscal year 2008. The \$23.5 million increase in net cash used in capital and related financing activities in fiscal year 2010 as compared to fiscal year 2009 was primarily attributable to a \$100 million decrease in proceeds from capital debt issuance, a \$9.1 million increase in capital asset purchases, a \$5.8 million increase in interest paid on capital debt and leases, a decrease in capital appropriations of \$4.3 million and a \$2.9 million decrease in capital gifts and grants, offset by an \$87.7 million decrease in transfers to the State of Hawai'i for debt service and a \$12.9 million decrease in principal paid on capital debt and leases. The \$113.7 million decrease in net cash used in capital and related financing activities in fiscal year 2009 as compared to fiscal year 2008 was primarily attributable to \$100.0 million in Series A revenue bonds issued by the University Bond System in April 2009 to finance the costs of certain University projects, a \$24.9 million increase in cash provided by capital appropriations and a \$17.0 million decrease in purchases of capital assets, offset by a \$16.7 million increase in principal paid on capital debt and leases, \$3.8 million increase in transfers to the State of Hawai'i for debt service and \$6.5 million decrease in transfers from the State of Hawai'i associated with the Tobacco settlement.

Net cash used in investing activities amounted to \$46.5 million and \$168.6 million in fiscal years 2010 and 2009, respectively, while net cash provided by investing activities was \$44.0 million in fiscal year 2008. The decrease in net cash used in investing activities of \$122.1 million in fiscal year 2010 as compared to fiscal year 2009 is attributable to a \$478.2 million increase in proceeds from the sales and maturities of investments offset by a \$3.7 million decrease in income from interest and dividends on investments and a \$352.4 million increase in investment purchases. The decrease in net cash provided by investing activities of \$212.6 million in fiscal year 2009 as compared to fiscal year 2008 is attributable to an \$8.5 million decrease in net income from interest and dividends on investments, a \$113.9 million decrease in proceeds from the sales and maturities of investments and a \$90.2 million increase in investment purchases.

Looking Forward

Looking toward the future, despite the challenges presented by the current state and national economies, 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.

System-wide enrollment increased in the fall 2009 to an all-time high of approximately 58,000 students and is a contributing factor to the approximately \$29 million increase in tuition and fee revenues. Fall 2010 enrollment exceeded 60,000 and trends are expected to remain strong at all campuses in the foreseeable future as the stagnant economy in the State of Hawai'i and the country continues to encourage individuals to seek retraining and higher education to improve employment opportunities. The University's six-year tuition increase plan which was approved by the Board of Regents in 2005, ends in fall 2011. The University is in the process of evaluating tuition and fees for the next six years beginning in the fall of 2012. The University remains committed to preserving affordability and access as the sole provider of higher education in the State of Hawai'i.

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In fiscal year 2010, secured extramural research and training awards totaled approximately \$450 million, a \$36 million increase from the previous year. Subject to legislative appropriations and restrictions, federal grants are projected to increase in the coming years as the University's research programs and faculty continue to develop and research facilities are modernized and constructed as part of the University's Capital Improvement Program ("CIP").

The State continues to uphold a strong commitment to maintain and upgrade the University's core facilities and infrastructure. Total CIP appropriations for the fiscal biennium 2009 – 2011 increased by 26% over the fiscal biennium 2007 – 2009, with a significant portion due to a 72% increase in general obligation bond funding. In addition, in October 2010, the University issued over \$292 million in revenue bonds for the purpose of funding the costs of certain University projects, including the University of Hawai'i Cancer Center. At present, the University has over \$500 million in capital improvement projects under construction or to begin in the upcoming fiscal year.

In 2009, the University concluded its Centennial Campaign, which was the most ambitious fund-raising campaign in the State's history. The campaign attracted 90,000 donors, 50,000 of whom were new contributors, and raised \$282 million, far surpassing the initial goal of \$250 million. The University of Hawai'i Foundation is now planning for the next major fundraising effort; a seven year campaign that will commence on July 1, 2011.

Due to the unprecedented downturn in the State's economy, and the resulting reductions in the revenue projections for the State by the Council on Revenues, the State Legislature reduced the University's general fund appropriations for fiscal year 2010 by \$46 million. In addition, the Governor further restricted the University's general funds by \$52 million in fiscal year 2010. General fund appropriations for fiscal year 2011 have been reduced by \$108 million from fiscal year 2009 levels. Future general fund appropriations are dependent upon the Legislature and Counsel of Revenues projections. The University's campuses continue to plan for and implement measures to deal with the above level of reductions in general funds, including salary reductions achieved in completed collective bargaining negotiations, hiring restrictions, operational consolidations and savings, and the use of American Recovery and Reinvestment Act ("ARRA") federal stabilization funds provided by the Legislature and Governor, and tuition and other non-general fund sources of revenue. The University remains committed to revenue generation and cost containment in order to provide the necessary resources to support and fuel its operations and unprecedented enrollment growth.

University of Hawai'i
State of Hawai'i
Consolidated Statements of Net Assets
June 30, 2010 and 2009
(All dollars reported in thousands)

	2010	2009
Assets		
Current assets		
Cash and cash equivalents	\$ 47,031	\$ 53,033
Operating investments	261,343	178,621
Due from State of Hawai'i	5,129	15,899
Accounts receivable, net	89,275	88,580
Current portion of notes and contributions receivable, net	11,773	13,019
Accrued interest receivable	1,351	1,492
Inventories	13,470	14,271
Prepaid expenses, deferred charges and other current assets	7,034	8,118
Total current assets	<u>436,406</u>	<u>373,033</u>
Noncurrent assets		
Due from State of Hawai'i	335,480	272,907
Endowment and other investments	499,332	502,426
Notes and contributions receivable, net	32,059	31,979
Capital assets, net	1,356,864	1,275,918
Other noncurrent assets	27,078	25,727
Total noncurrent assets	<u>2,250,813</u>	<u>2,108,957</u>
Total assets	<u>\$ 2,687,219</u>	<u>\$ 2,481,990</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 55,212	\$ 51,082
Accrued payroll and fringe benefits	50,211	36,150
Advances from sponsors	38,290	55,053
Deferred revenue	35,151	30,094
Due to State of Hawai'i	6,253	6,438
Current portion of long-term liabilities	35,462	36,936
Other current liabilities	10,324	6,376
Total current liabilities	<u>230,903</u>	<u>222,129</u>
Noncurrent liabilities		
Accrued vacation	41,888	42,340
Accrued workers' compensation	7,573	8,257
Other postemployment benefits	206,271	127,911
Due to State of Hawai'i	1,032	1,176
Revenue bonds payable	344,315	351,600
Premium on bonds payable	1,630	1,729
Other noncurrent liabilities	7,660	6,790
Total noncurrent liabilities	<u>610,369</u>	<u>539,803</u>
Total liabilities	<u>841,272</u>	<u>761,932</u>
Commitments and contingencies		
Net assets		
Invested in capital assets, net of related debt	1,099,820	1,040,144
Restricted		
Nonexpendable	170,706	162,483
Expendable	509,592	428,055
Unrestricted	65,829	89,376
Total net assets	<u>1,845,947</u>	<u>1,720,058</u>
Total liabilities and net assets	<u>\$ 2,687,219</u>	<u>\$ 2,481,990</u>

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

University of Hawai'i
State of Hawai'i
Consolidated Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2010 and 2009
(All dollars reported in thousands)

	2010	2009
Operating revenues		
Student tuition and fees	\$ 291,890	\$ 242,418
Less: Scholarship allowances	82,302	61,340
Net student tuition and fees	<u>209,588</u>	<u>181,078</u>
Federal appropriations, grants and contracts	397,984	329,646
State and local grants and contracts	28,064	32,038
Nongovernmental sponsored programs	48,299	37,956
Sales and services of educational departments, other	43,808	36,699
Auxiliary enterprises		
Bookstores	30,200	31,090
Student housing (net of scholarship allowances of \$1,898 and \$1,005)	20,535	21,181
Other auxiliary enterprises revenues	32,862	31,929
Other operating revenues	2,847	2,921
Total operating revenues	<u>814,187</u>	<u>704,538</u>
Operating expenses		
Compensation and benefits	964,094	995,777
Supplies, services and cost of goods sold	202,521	201,618
Depreciation	87,401	79,228
Telephone and utilities	54,541	57,959
Scholarships and fellowships	46,314	36,297
Travel expenses	27,207	29,493
Repairs and maintenance	24,965	26,156
Other operating expenses	36,851	37,791
Total operating expenses	<u>1,443,894</u>	<u>1,464,319</u>
Operating loss	<u>(629,707)</u>	<u>(759,781)</u>
Nonoperating revenues (expenses)		
State appropriations	369,948	731,394
Private gifts	24,398	23,285
Net investment income (loss)	28,146	(31,928)
Interest expense	(14,004)	(11,175)
Transfers (to) from State of Hawai'i for		
Debt service	-	(87,675)
Fringe benefits	128,981	(38,208)
Interest on Tobacco settlement	(59)	(75)
Restrictions	-	(5,100)
Bridge to Hope	801	116
University of Hawai'i Cancer Center	18,379	19,117
Loss on disposal of capital assets	(9,260)	(5,975)
Other, net	(1,729)	(3,564)
Net nonoperating revenues before capital and endowment additions	<u>545,601</u>	<u>590,212</u>
Capital – state appropriations	174,776	142,716
Capital – federal grants/subsidies	7,098	10,887
Capital – gifts and grants	3,046	1,628
Net transfers from State of Hawai'i for capital assets	6,105	16,887
Transfers from State of Hawai'i, Tobacco settlement	12,869	14,787
Additions to permanent endowments	6,101	13,479
Total other revenues	<u>209,995</u>	<u>200,384</u>
Net nonoperating revenues	<u>755,596</u>	<u>790,596</u>
Change in net assets	125,889	30,815
Net assets		
Beginning of year	1,720,058	1,689,243
End of year	<u>\$ 1,845,947</u>	<u>\$ 1,720,058</u>

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

University of Hawai'i
State of Hawai'i
Consolidated Statements of Cash Flows
Years Ended June 30, 2010 and 2009
(All dollars reported in thousands)

	2010	2009
Cash flows from operating activities		
Student tuition and fees	\$ 210,154	\$ 184,909
Grants and contracts	468,689	396,150
Other revenues	125,564	115,572
Payments to employees	(733,998)	(917,752)
Payments to suppliers and other	(345,589)	(355,437)
Payments for scholarships and fellowships	(46,314)	(37,113)
Net cash used in operating activities	<u>(321,494)</u>	<u>(613,671)</u>
Cash flows from noncapital financing activities		
State appropriations	380,718	743,686
Gifts and grants for other than capital purposes	29,268	43,862
Transfer from State of Hawai'i for		
Bridge to Hope	801	116
University of Hawai'i Cancer Center	18,379	19,117
Transfers to State of Hawai'i for		
Fringe benefits	(10,044)	(38,207)
Restrictions	-	(5,100)
Interest on Tobacco Settlement	(59)	(75)
Other receipts	1,204	1,162
Net cash provided by noncapital financing activities	<u>420,267</u>	<u>764,561</u>
Cash flows from capital and related financing activities		
Capital appropriations	112,203	116,473
Capital gifts and grants	8,082	11,024
Proceeds from issuance of capital debt	-	100,000
Purchases of capital assets	(167,971)	(158,869)
Principal paid on capital debt and leases	(7,214)	(20,155)
Interest paid on capital debt and leases (net of amounts capitalized)	(16,271)	(10,437)
Transfers to State of Hawai'i for debt service	-	(87,675)
Transfer from State of Hawai'i, Tobacco settlement	12,869	14,787
Net cash used in capital and related financing activities	<u>(58,302)</u>	<u>(34,852)</u>
Cash flows from investing activities		
Interest and dividends on investments, net	10,426	14,176
Proceeds from sales and maturities of investments	983,329	505,122
Purchase of investments	(1,040,228)	(687,848)
Net cash used in investing activities	<u>(46,473)</u>	<u>(168,550)</u>
Net decrease in cash and cash equivalents	(6,002)	(52,512)
Cash and cash equivalents		
Beginning of year	<u>53,033</u>	<u>105,545</u>
End of year	<u>\$ 47,031</u>	<u>\$ 53,033</u>

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

University of Hawai'i
State of Hawai'i
Consolidated Statements of Cash Flows
Years Ended June 30, 2010 and 2009
(All dollars reported in thousands)

	2010	2009
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (629,707)	\$ (759,781)
Adjustments to reconcile operating loss to net cash used in operating activities		
On behalf payments by State for fringe benefits	139,024	-
Depreciation expense	87,401	79,228
Bad debt recoveries, net	(703)	(3,110)
Changes in operating assets and liabilities		
Accounts receivable	671	6,300
Notes and contributions receivable	639	(2,372)
Inventories	801	(856)
Prepaid expenses and other assets	723	(603)
Accounts payable	1,621	(1,321)
Accrued payroll and benefits	12,286	12,576
Accrued workers' compensation liability	(1,032)	199
Advances from sponsors	(16,763)	(4,787)
Other postemployment benefits	78,360	65,060
Other, net	5,185	(4,204)
Net cash used in operating activities	<u>\$ (321,494)</u>	<u>\$ (613,671)</u>
Supplemental information of noncash transactions		
Noncash contributions	\$ 2,555	\$ 2,101
Net transfers from State of Hawai'i for capital assets	6,105	17,696
Accounts payable for capital assets	15,543	13,171

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

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(All dollars reported in thousands)

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 ("CAFR").

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. The University has elected not to apply all Financial Accounting Standards Board ("FASB") pronouncements issued after November 30, 1989.

The Foundation's accounting policies conform to accounting principles generally accepted in the United States ("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 business-type activities of governmental units as promulgated by the GASB. The Research Corporation's financial information has been converted to conform to the University's presentation.

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Cash, Cash Equivalents and Investments

The University considers all cash and investments with original maturities 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 investments.

The University classifies unspent cash, cash equivalents and investments from the issuance of revenue bonds held with an escrow agent and invested until used for the cost of construction as noncurrent assets.

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. Investment agreements, absolute return funds and 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 and Due to 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 remain 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 Hawai'i in the accompanying Consolidated Statements of Net Assets.

Amounts due to the State of Hawai'i are primarily due to operating advances and general obligation bond debt service requirements.

Perpetual Trusts

The Foundation is the beneficiary of certain perpetual trusts held and administered by others. The fair value 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 fair value.

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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 (utilizing discount rates ranging from two percent to five percent) 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 the gift. Depreciation of capital assets is provided for on a straight-line basis over the estimated useful lives (3 to 100 years) of the respective assets. The University's policy is to capitalize tangible, nonexpendable personal property having an estimated useful life of more than one year. 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. Maintenance and repairs, as well as minor replacements, renewals and betterments, are charged to operations. Major renewals, replacements and betterments are capitalized in the year incurred. Capital assets retired or otherwise disposed of are removed from the appropriate asset and related accumulated depreciation accounts. Gains and losses on disposals and the net book value of transfers of capital assets are reflected in operations.

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.

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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.

Deferred Revenue

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

Other Postemployment Benefits

The University applies the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which requires accrual-based measurement and 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.

Revenue Bonds Payable

Revenue 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 using the effective interest rate method.

Net Assets

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

- **Invested in capital assets, net of related debt:** This component of net assets represents the University's total investment in capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those capital 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 not classified as restricted or invested in capital assets and not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Regents ("Board") 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.

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When an expense is incurred for purposes for which both restricted and unrestricted net assets are available to pay the expenses, resources are generally applied proportionate to the benefit realized. For instances in which such a determination is not feasible or if there are cost compliance issues, unrestricted resources are applied first.

Net Assets Restricted by Enabling Legislation

GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34*, requires that limitations on the use of net assets 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, 2010 and 2009 amounted to \$680,298 and \$590,538, respectively, of which \$440,633 and \$395,771 were restricted by enabling legislation.

Operating and Nonoperating Activities

The University's policies 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 goods and payments 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.

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 expenses 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.

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Management's Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. These estimates, among others, include workers' compensation liabilities, postemployment benefit liabilities, allowances for doubtful accounts, the useful lives of capital assets, the valuation of investments and the current versus noncurrent classification of assets and liabilities.

With respect to workers' compensation insurance, the University is self-insured for the first \$500 per occurrence and annual aggregate and obtains excess insurance of \$50,000 from a commercial insurance company. The University records a liability for risk financing and insurance related losses if it is determined that a loss has been incurred and the amount can be reasonably estimated. 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 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 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 health care and life insurance benefit obligations. 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.

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

In general, the fair value of investments has been determined using values supplied by independent pricing services.

Reclassifications

Certain amounts in the 2009 consolidated financial statements have been reclassified to conform to the 2010 presentation. Such reclassifications have no impact on the 2009 change in net assets as previously reported.

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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, 2010 and 2009, classified as cash and cash equivalents and operating investments, were \$228,935 and \$157,748, with corresponding bank balances of \$242,733 and \$161,438, respectively. The portion of such bank balances covered by the Federal Deposit Insurance Corporation or by collateral held by the State Director of Finance in the name of the University totaled \$237,921 as of June 30, 2010 and \$160,635 as of June 30, 2009. Additional cash equivalent balances of \$1,342 as of June 30, 2010 and \$16,744 as of June 30, 2009 represent deposits with investment brokers covered by the Securities Investor Protection Corporation and additional insurance provided by the investment brokers.

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.

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 \$11,767 and \$15,671 at June 30, 2010 and 2009, 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. Use of the income is either restricted by the donor or unrestricted and designated by the Board.

The Uniform Prudent Management of Institutional Funds Act ("HUPMIFA"), established under Hawai'i Revised Statute §517E, was enacted by the State of Hawai'i on July 1, 2009. HUPMIFA requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result, the University classifies as restricted nonexpendable net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in restricted nonexpendable net assets is classified as restricted expendable net assets until those amounts are expended and distributed by the University in accordance with its Board approved spending rate policy and in a manner consistent with the standard of prudence prescribed by HUPMIFA. In fiscal years 2010 and 2009, the University's spending rate policy provided for annual distributions ranging from three percent to five percent of the five-year moving average of the endowment fair value.

Investment management fees incurred by the University during fiscal years 2010 and 2009 approximated \$1,308 and \$1,354, respectively.

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At June 30, 2010 and 2009, the University's investments were comprised of the following:

	2010		2009	
	Fair Value	Cost	Fair Value	Cost
Money market funds	\$ 23,989	\$ 23,989	\$ 26,283	\$ 26,283
Fixed income securities	272,959	268,800	285,046	281,168
Equity securities	26,468	27,067	24,143	26,687
Mutual funds	50,675	50,439	39,398	43,449
Time certificates of deposit	181,997	181,997	104,979	104,979
Student loan auction rate securities	89,750	89,750	108,500	108,500
Limited partnerships	39,650	49,160	37,874	51,471
Absolute return	23,525	22,033	17,436	18,494
Real estate	10,629	12,216	9,182	10,241
Other investments	41,033	42,108	28,206	34,462
Total investments	760,675	767,559	681,047	705,734
Less: Current portion	261,343	260,521	178,621	177,855
Total noncurrent investments	\$ 499,332	\$ 507,038	\$ 502,426	\$ 527,879

Due to uncertainties surrounding the timing of liquidation of our auction rate securities, which are comprised primarily of AAA-rated student-loan-backed taxable securities, all of the University's investments in such securities are classified as long-term investments in the Consolidated Statements of Net Assets. 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, redemptions totaling \$18.8 million in fiscal year 2010 and \$8.6 million in fiscal year 2009 were executed at par value, and the University has no intention of voluntarily 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 the University's investments for the year ended June 30, 2010 were as follows:

	Fair Value	Cost Basis	Net Unrealized Gain (Loss)	Net Realized Gain (Loss)
University Endowment Pool				
End of year	\$ 51,162	\$ 52,387	\$ (1,225)	
Beginning of year	49,936	53,857	(3,921)	
Net change	<u>1,226</u>	<u>(1,470)</u>	<u>2,696</u>	\$ 487
Foundation Endowment Pool				
End of year	168,980	175,890	(6,910)	
Beginning of year	146,214	166,861	(20,647)	
Net change	<u>22,766</u>	<u>9,029</u>	<u>13,737</u>	(692)
Associated Students of the University of Hawai'i				
End of year	6,021	5,975	46	
Beginning of year	5,583	5,816	(233)	
Net change	<u>438</u>	<u>159</u>	<u>279</u>	135
School of Medicine				
End of year	11,990	11,961	29	
Beginning of year	11,936	11,920	16	
Net change	<u>54</u>	<u>41</u>	<u>13</u>	2
University Bond System				
End of year	105,676	106,347	(671)	
Beginning of year	124,619	124,489	130	
Net change	<u>(18,943)</u>	<u>(18,142)</u>	<u>(801)</u>	(193)
Operating investments				
End of year	261,343	260,522	821	
Beginning of year	178,621	177,855	766	
Net change	<u>82,722</u>	<u>82,667</u>	<u>55</u>	60
Auction rate securities				
End of year	89,750	89,750	-	
Beginning of year	108,500	108,500	-	
Net change	<u>(18,750)</u>	<u>(18,750)</u>	<u>-</u>	-
Other				
End of year	65,753	64,727	1,026	
Beginning of year	55,638	56,436	(798)	
Net change	<u>10,115</u>	<u>8,291</u>	<u>1,824</u>	(338)
Total investments				
End of year	760,675	767,559	(6,884)	
Beginning of year	681,047	705,734	(24,687)	
Net change	<u>\$ 79,628</u>	<u>\$ 61,825</u>	<u>\$ 17,803</u>	<u>\$ (539)</u>

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Changes in the University's investments for the year ended June 30, 2009 were as follows:

	Fair Value	Cost Basis	Net Unrealized Gain (Loss)	Net Realized Gain (Loss)
University Endowment Pool				
End of year	\$ 49,936	\$ 53,857	\$ (3,921)	
Beginning of year	56,732	56,530	202	
Net change	<u>(6,796)</u>	<u>(2,673)</u>	<u>(4,123)</u>	\$ (4,633)
Foundation Endowment Pool				
End of year	146,214	166,861	(20,647)	
Beginning of year	182,338	167,308	15,030	
Net change	<u>(36,124)</u>	<u>(447)</u>	<u>(35,677)</u>	1,883
Associated Students of the University of Hawai'i				
End of year	5,583	5,816	(233)	
Beginning of year	6,718	6,856	(138)	
Net change	<u>(1,135)</u>	<u>(1,040)</u>	<u>(95)</u>	(1,073)
School of Medicine				
End of year	11,936	11,920	16	
Beginning of year	11,788	11,769	19	
Net change	<u>148</u>	<u>151</u>	<u>(3)</u>	-
University Bond System				
End of year	124,619	124,489	130	
Beginning of year	48,273	48,273	-	
Net change	<u>76,346</u>	<u>76,216</u>	<u>130</u>	-
Operating investments				
End of year	178,621	177,855	766	
Beginning of year	75,469	75,047	422	
Net change	<u>103,152</u>	<u>102,808</u>	<u>344</u>	269
Auction rate securities				
End of year	108,500	108,500	-	
Beginning of year	117,050	117,050	-	
Net change	<u>(8,550)</u>	<u>(8,550)</u>	<u>-</u>	-
Other				
End of year	55,638	56,436	(798)	
Beginning of year	42,386	42,026	360	
Net change	<u>13,252</u>	<u>14,410</u>	<u>(1,158)</u>	414
Total investments				
End of year	681,047	705,734	(24,687)	
Beginning of year	540,754	524,859	15,895	
Net change	<u>\$ 140,293</u>	<u>\$ 180,875</u>	<u>\$ (40,582)</u>	<u>\$ (3,140)</u>

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	2010	2009
Summary of net investment income		
Change in unrealized net gain (loss)	\$ 17,803	\$ (40,582)
Net realized loss	<u>(539)</u>	<u>(3,140)</u>
	17,264	(43,722)
Interest in perpetual trusts	268	(1,916)
Split interest agreements	597	(1,736)
Amounts held for others	(170)	419
Investment income used to finance construction costs	(283)	(140)
Interest and dividend income	<u>11,778</u>	<u>16,521</u>
Investment income (loss) before management fees	29,454	(30,574)
Less: Management fees	<u>1,308</u>	<u>1,354</u>
Net investment income (loss)	<u>\$ 28,146</u>	<u>\$ (31,928)</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 or collateralized 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.

The University's investment strategy incorporates certain financial instruments, which involve, to varying degrees, elements of market risk and credit risk. 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 is not represented by the contract or notional amounts of the instruments.

Investment Risk Factors

There are many factors that affect the value of investments. Some, such as custodial credit risk, concentration 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.

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Concentration Risk

Concentration 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 five percent of the total fixed income portion of the portfolio. Individual equities are limited to not more than five percent of the total market value of the stock portfolio. In addition, investment in any one stock is not to exceed five percent of a corporation's outstanding common stock.

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 ("S&P"), 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 percent of the fixed income investments may be graded with an S&P quality rating below "A".

The composition of fixed income securities at June 30, 2010 and 2009, along with credit quality ratings, is summarized below:

2010	Fair Value	Credit Quality Rating				
		U.S. Govt- Exempt	AAA	AA	A	BBB
U.S. Treasury	\$ 97,628	\$ 97,628	\$ -	\$ -	\$ -	\$ -
U.S. government agencies	147,813	-	147,813	-	-	-
Corporate bonds	27,518	100	3,200	13,602	7,263	3,353
Total fixed income securities	<u>\$ 272,959</u>	<u>\$ 97,728</u>	<u>\$ 151,013</u>	<u>\$ 13,602</u>	<u>\$ 7,263</u>	<u>\$ 3,353</u>

2009	Fair Value	Credit Quality Rating				
		U.S. Govt- Exempt	AAA	AA	A	BBB
U.S. Treasury	\$ 6,492	\$ 6,492	\$ -	\$ -	\$ -	\$ -
U.S. government agencies	254,495	357	254,138	-	-	-
Corporate bonds	24,059	258	3,367	11,581	6,099	2,754
Total fixed income securities	<u>\$ 285,046</u>	<u>\$ 7,107</u>	<u>\$ 257,505</u>	<u>\$ 11,581</u>	<u>\$ 6,099</u>	<u>\$ 2,754</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, are more volatile than those with shorter maturities.

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At June 30, 2010, the composition of the University's fixed income investments and maturities are summarized below:

2010	Fair Value	Investment Maturities (in Years)			
		Less than 1	1 to 5	6 to 10	More than 10
U.S. Treasury	\$ 97,628	\$ 65,426	\$ 30,626	\$ 1,530	\$ 46
U.S. government agencies	147,813	61,582	84,564	1,424	243
Corporate bonds	27,518	338	15,614	11,550	16
Total fixed income securities	\$ 272,959	\$ 127,346	\$ 130,804	\$ 14,504	\$ 305

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 investments in publicly-traded foreign securities.

At June 30, 2010 and 2009, the University's exposure to foreign currency risk expressed in U.S. dollars was as follows:

	2010	2009
Equity securities		
British pound	\$ 6,633	\$ 6,474
Euro	13,799	11,581
Hong Kong dollar	1,520	1,237
Japanese yen	10,567	10,155
Korean won	1,315	1,405
Singapore dollar	1,351	1,247
Swiss franc	2,820	1,493
Other (26 countries)	6,425	5,425
	<u>44,430</u>	<u>39,017</u>
Fixed income securities		
Australian dollar	984	612
British pound	1,176	157
Euro	928	2,265
Japanese yen	2,311	2,035
Other (4 countries)	505	1,038
	<u>5,904</u>	<u>6,107</u>
Total exposure to foreign currency risk	<u>\$ 50,334</u>	<u>\$ 45,124</u>

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3. Accounts Receivable

The composition of accounts receivable at June 30, 2010 and 2009 is summarized as follows:

	2010	2009
U.S. government	\$ 48,233	\$ 55,878
State and local government	6,635	7,869
Private agencies	8,093	10,310
Other	38,499	28,496
	<u>101,460</u>	<u>102,553</u>
Less: Allowance for doubtful accounts	12,185	13,973
	<u>\$ 89,275</u>	<u>\$ 88,580</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 \$40,678 in 2010 and \$39,589 in 2009. During fiscal year 2010, the University expended 98.36 percent and 1.64 percent of this cost recovery on research and training programs and discovery and inventions, respectively. During fiscal year 2009, the University expended 98.11 percent and 1.89 percent 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, 2010 and 2009 is summarized as follows:

	2010	2009
Student notes		
Federal loan programs	\$ 19,253	\$ 20,614
State loan programs	7,943	7,536
University loan funds	67	61
Other notes receivable	86	125
	<hr/>	<hr/>
Total student and other notes outstanding	27,349	28,336
Less: Allowance for doubtful accounts	5,828	5,912
	<hr/>	<hr/>
Total student and other notes receivable, net	21,521	22,424
	<hr/>	<hr/>
Contributions receivable	23,634	23,983
Less: Allowance for uncollectible pledges	1,178	1,062
Less: Discount to present value	145	347
	<hr/>	<hr/>
Total contributions receivable, net	22,311	22,574
	<hr/>	<hr/>
Total student notes and contributions receivable, net	43,832	44,998
Less: Current portion, net	11,773	13,019
	<hr/>	<hr/>
	\$ 32,059	\$ 31,979

The allowance for doubtful accounts at June 30, 2010 and 2009 is comprised of:

	2010	2009
Federal Perkins loan program	\$ 3,379	\$ 3,352
State of Hawai'i Higher Education loans	2,350	2,471
Nursing/Health Profession loans	32	30
Hawai'i Educator loans	2	-
Short-term loans	65	59
	<hr/>	<hr/>
	\$ 5,828	\$ 5,912

Payments on contributions receivable at June 30, 2010 are expected to be collected in:

Less than one year	\$ 9,800
One year to five years	13,834
	<hr/>
	\$ 23,634

The principal repayment and interest rate terms of federal and University loans vary considerably. The allowance for doubtful accounts 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 profession 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, Hawai'i Educator 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 that do not meet eligibility requirements, as defined by GASB Statement No. 33, are not recorded as assets until the related gift is received. Accordingly, permanent endowment pledges totaling approximately \$8,295 and \$5,337 at June 30, 2010 and 2009, 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, 2010 and 2009 are summarized below:

		2010	2009
University of Hawai'i Bookstore merchandise inventory	Lower of cost or market using the first-in, first-out retail inventory method	\$ 11,145	\$ 11,700
University of Hawai'i Chemistry Stockroom	Cost applied on the first-in, first-out basis.	1,130	1,202
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.	760	905
University of Hawai'i other cost of goods sold	Cost applied on the first-in, first-out basis.	435	464
		<u>\$ 13,470</u>	<u>\$ 14,271</u>

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7. Capital Assets

A summary of capital assets at June 30, 2010 and 2009 is as follows:

	Beginning Balance	Additions	Deductions	Transfers	Ending Balance
2010					
Nondepreciable capital assets					
Land	\$ 12,486	\$ -	\$ -	\$ -	\$ 12,486
Construction in progress	171,701	141,221	7,586	(134,592)	170,744
Total capital assets not being depreciated	184,187	141,221	7,586	(134,592)	183,230
Depreciable capital assets					
Land improvements	83,353	64	-	5,104	88,521
Infrastructure	82,890	6,966	75	5,468	95,249
Buildings	1,352,529	5,648	14,154	102,928	1,446,951
Equipment	277,954	23,657	9,320	21,092	313,383
Library materials	162,404	3,915	1,682	-	164,637
Total capital assets being depreciated	1,959,130	40,250	25,231	134,592	2,108,741
Less: Accumulated depreciation	867,399	87,401	19,693	-	935,107
Capital assets, net	\$ 1,275,918	\$ 94,070	\$ 13,124	\$ -	\$ 1,356,864
2009					
Nondepreciable capital assets					
Land	\$ 12,486	\$ -	\$ -	\$ -	\$ 12,486
Construction in progress	211,866	136,798	4,478	(172,485)	171,701
Total capital assets not being depreciated	224,352	136,798	4,478	(172,485)	184,187
Depreciable capital assets					
Land improvements	79,703	191	1,672	5,131	83,353
Infrastructure	74,888	368	-	7,634	82,890
Buildings	1,188,899	19,918	8,839	152,551	1,352,529
Equipment	269,778	16,588	15,581	7,169	277,954
Library materials	160,337	4,036	1,969	-	162,404
Total capital assets being depreciated	1,773,605	41,101	28,061	172,485	1,959,130
Less: Accumulated depreciation	809,322	79,228	21,151	-	867,399
Capital assets, net	\$ 1,188,635	\$ 98,671	\$ 11,388	\$ -	\$ 1,275,918

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Capital assets consist of land, land improvements, infrastructure, buildings, equipment, library materials, and construction in progress. Construction in progress ("CIP") additions represent costs for new projects, net of the amount of capital assets placed in service. CIP is not depreciated until the asset is placed in service. 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 percent of the University's property, are 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") administers 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 \$6,616 and \$17,696 and in 2010 and 2009, respectively.

8. Other Noncurrent Assets

Other noncurrent assets at June 30, 2010 and 2009 were comprised of:

	2010	2009
Interest in beneficial trusts held by others	\$ 16,769	\$ 17,108
Deferred bond refunding and issuance costs (Note 11)	8,197	8,619
Other	2,112	-
	<u>\$ 27,078</u>	<u>\$ 25,727</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, 2010 and 2009 were as follows:

	2010		2009	
	Due from	Due to	Due from	Due to
State appropriations for current operations	\$ 5,129		\$ 15,899	
State capital appropriations-noncurrent	<u>335,480</u>		<u>272,907</u>	
Total due from State of Hawai'i	<u>\$ 340,609</u>		<u>\$ 288,806</u>	
Imprest/petty cash advances		\$ 93		\$ 264
Advance		6,000		6,000
General obligation bonds – current		144		137
Employee fringe adjustments		16		37
Due to State of Hawai'i – current		<u>6,253</u>		<u>6,438</u>
General obligation bonds – noncurrent		<u>1,032</u>		<u>1,176</u>
Total due to State of Hawai'i		<u>\$ 7,285</u>		<u>\$ 7,614</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, 2010 is as follows:

	Original Amount	Beginning Balance	Principal Repayment	Ending Balance
Series DB (interest rate, 2.80% to 5.25%)				
Student Housing				
Mānoa	\$ 731	\$ 665	\$ 70	\$ 595
Hilo	143	130	14	116
Parking Structure Phase I	425	386	40	346
	<u>1,299</u>	<u>1,181</u>	<u>124</u>	<u>1,057</u>
Series DG (interest rate, 5.00%)				
Student Housing				
Mānoa	82	75	8	67
Hilo	16	14	1	13
Parking Structure Phase I	47	43	4	39
	<u>145</u>	<u>132</u>	<u>13</u>	<u>119</u>
	<u>\$ 1,444</u>	<u>\$ 1,313</u>	<u>\$ 137</u>	<u>\$ 1,176</u>

Activity related to amounts due to the State of Hawai'i for general obligation bonds for the year ended June 30, 2009 is as follows:

	Original Amount	Beginning Balance	Principal Repayment	Ending Balance
Series CS (interest rate, 5.00% to 5.25%)				
Student Housing				
Mānoa	\$ 5,019	\$ 829	\$ 829	\$ -
Hilo	979	162	162	-
Parking Structure Phase I	2,915	481	481	-
	<u>8,913</u>	<u>1,472</u>	<u>1,472</u>	<u>-</u>
Series DB (interest rate, 2.80% to 5.25%)				
Student Housing				
Mānoa	731	731	67	664
Hilo	143	143	13	130
Parking Structure Phase I	425	425	39	386
	<u>1,299</u>	<u>1,299</u>	<u>119</u>	<u>1,180</u>
Series DG (interest rate, 5.00%)				
Student Housing				
Mānoa	82	82	7	75
Hilo	16	16	1	15
Parking Structure Phase I	47	47	4	43
	<u>145</u>	<u>145</u>	<u>12</u>	<u>133</u>
	<u>\$ 10,357</u>	<u>\$ 2,916</u>	<u>\$ 1,603</u>	<u>\$ 1,313</u>

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General obligation bonds are payable in annual installments, including semi-annual interest payments, with final payment due in July 2017. The bonds mature in designated numerical sequence and are payable from the operations of the University. The interest and principal payments are due as follows:

	Principal	Interest
Series DB	September 1	March 1 and September 1
Series DG	July 1	January 1 and July 1

At June 30, 2010, principal and interest maturities on general obligation bonds for each of the next five years, and the next subsequent five-year period and thereafter are as follows:

Year ending June 30,	Principal	Interest
2011	\$ 144	\$ 6
2012	151	6
2013	159	5
2014	167	4
2015	175	3
2016–2018	380	2
	<u>\$ 1,176</u>	<u>\$ 26</u>

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

In June 2005, the State issued \$772,600 in general obligation Series DG (refunding bonds), of which the University's portion was approximately \$145, with a five percent 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 \$1,299, with interest rates ranging from 2.80 percent to 5.25 percent to advance refund approximately \$1,299 (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 162, SLH 2009, Section 57, provided \$72,093 in general fund appropriations directly to the Department of Budget and Finance to pay for debt service on general obligation bonds issued for the University. As a result, the University itself received no appropriations and made no transfers for debt service on general obligation bonds for the year ended June 30, 2010.

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Act 158, SLH 2008, Section 4, provided general fund appropriations to the University 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. Appropriations for debt service amounted to \$87,675 for the year ended June 30, 2009.

11. Long-Term Liabilities

Long-term liability activity for the years ended June 30, 2010 and 2009 is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
2010					
Bonds payable					
Revenue bonds payable	\$ 358,630	\$ -	\$ 7,030	\$ 351,600	\$ 7,285
Other liabilities					
Workers' compensation	12,777	3,655	4,687	11,745	4,172
Accrued vacation	67,679	20,106	21,892	65,893	24,005
Postretirement health care/life insurance benefits (Note 15)	127,911	101,521	23,161	206,271	-
Installment contract payable	47	-	47	-	-
Total other liabilities	208,414	125,282	49,787	283,909	28,177
Total long-term liabilities	\$ 567,044	\$ 125,282	\$ 56,817	\$ 635,509	\$ 35,462
2009					
Leases and bonds payable					
Revenue bonds payable	\$ 263,045	\$ 100,000	\$ 4,415	\$ 358,630	\$ 7,030
Capital lease payable	13,820	-	13,820	-	-
Total leases and bonds payable	276,865	100,000	18,235	358,630	7,030
Other liabilities					
Workers' compensation	12,579	5,157	4,959	12,777	4,520
Accrued vacation	61,598	26,439	20,358	67,679	25,339
Postretirement health care/life insurance benefits (Note 15)	62,851	94,770	29,710	127,911	-
Installment contract payable	364	-	317	47	47
Total other liabilities	137,392	126,366	55,344	208,414	29,906
Total long-term liabilities	\$ 414,257	\$ 226,366	\$ 73,579	\$ 567,044	\$ 36,936

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Revenue Bonds Payable

The University's revenue bonds payable at June 30, 2010 and 2009 is as follows:

	Series	Date Issued	Authorized	2010	2009
Student Housing System at Mānoa and Telecommunications System (interest rate, 3.0% to 5.25%)	2001B	December 19, 2001	\$ 18,665	\$ 11,315	\$ 12,425
University Health & Wellness Center (interest rate, 2.70% to 5.59%)	2002A	June 27, 2002	150,000	9,800	12,820
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	98,120	100,000
University Health & Wellness Center (interest rate, 3.5% to 5.0%)	Ref 2006A	October 25, 2006	133,810	132,940	133,385
Various acquisition and construction projects (interest rate, 2.5% to 6.0%)	2009A	April 15, 2009	100,000	99,425	100,000
			<u>\$ 502,475</u>	<u>\$ 351,600</u>	<u>\$ 358,630</u>

In April 2009, the University issued \$100,000 Series 2009A Bonds for the purpose of financing the costs of certain University projects. These University projects include the identification and acquisition of an existing apartment complex on O'ahu for conversion to faculty housing, the development of new faculty housing units on O'ahu, the acquisition and conversion of apartments on the Hilo campus for student housing, renovations to student housing at Hale Aloha, the development of the University of Hawai'i West O'ahu Kapolei campus, the acquisition of Waianae Education Center, the repayment of indebtedness issued on behalf of the University by the Housing Finance and Development Corporation in November 1995 to finance the Kau'ioakahaloa Nui Faculty Housing, additions to the University Biomedical Science Building on the Mānoa campus, and additions to the Campus Center on the Hilo campus.

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 \$12,869 in 2010 and \$14,787 in 2009.

The revenue bonds are paid from certain unrestricted revenues in annual installments, including semi-annual interest payments ranging from \$174 to \$5,002 with the final payment due in October 2038. Series 2001B, 2006A and 2009A 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 monies on deposit in any special fund or revolving fund of the University, excluding monies 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 2001B, 2006A and 2009A bonds, interest and premiums (if any).

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At June 30, 2010, future maturities of revenue bonds are as follows:

Year ending June 30,	Principal	Interest
2011	\$ 7,285	\$ 16,257
2012	9,140	15,930
2013	9,485	15,568
2014	9,880	15,180
2015	10,330	14,720
2016–2020	55,850	66,205
2021–2025	64,870	51,892
2026–2030	77,350	35,094
2031–2035	73,965	17,414
2036–2039	33,445	3,261
	<u>\$ 351,600</u>	<u>\$ 251,521</u>

In October 2010, the University issued \$292,730 in Series 2010A-1 (\$111,265), 2010A-2 (\$27,375), 2010B-1 (\$127,535), and 2010B-2 (\$26,555) bonds (collectively, the "Series 2010 Bonds") for the purpose of financing the costs of certain University projects. These University projects may include the construction and maintenance of the University's Cancer Research Center of Hawai'i, renovations and additions to the Mānoa Campus Center, construction and equipment for an Information Technology Building, renovations to the Sinclair Library basement and Edmondson Hall on the Mānoa campus, further development of the West O'ahu campus, construction of a research building on the Hilo campus, construction of a new Regional Biocontainment Laboratory, renovations to Hale Haumana on the Maui College campus, and various energy conservation/efficiency projects on the community college campuses on O'ahu, Kaua'i and Maui. The coupon interest rates for the Series 2010 Bonds range from 2.50 percent – 6.03 percent (first interest payment due on April 1, 2011) and mature on October 1, 2030 and 2040.

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Bond Premiums

Activity related to the premiums on general obligation and revenue bonds for the years ended June 30, 2010 and 2009 is as follows:

	Series	Beginning Balance	Additions	Reductions	Ending Balance
2010					
Student Housing System at Mānoa and Telecommunications System	2001B	\$ 108	\$ -	\$ 27	\$ 81
John A. Burns School of Medicine	Ref 2006A	1,577	-	62	1,515
General obligation	DB	38	-	9	29
General obligation	DG	6	-	1	5
		<u>\$ 1,729</u>	<u>\$ -</u>	<u>\$ 99</u>	<u>\$ 1,630</u>
2009					
Student Housing System at Mānoa and Telecommunications System	2001B	\$ 141	\$ -	\$ 33	\$ 108
John A. Burns School of Medicine	Ref 2006A	1,667	-	90	1,577
General obligation	DB	47	-	9	38
General obligation	DG	9	-	3	6
		<u>\$ 1,864</u>	<u>\$ -</u>	<u>\$ 135</u>	<u>\$ 1,729</u>

Deferred Bond Refunding and Issuance Costs

Activity related to issuance costs for general obligation and revenue bonds for the years ended June 30, 2010 and 2009 is as follows:

	Series	Beginning Balance	Additions	Reductions	Ending Balance
2010					
Student Housing System at Mānoa and Telecommunications System	2001B	\$ 349	\$ -	\$ 87	\$ 262
John A. Burns School of Medicine	Ref 2006A	8,235	-	327	7,908
General obligation	DB	29	-	7	22
General obligation	DG	6	-	1	5
		<u>\$ 8,619</u>	<u>\$ -</u>	<u>\$ 422</u>	<u>\$ 8,197</u>
2009					
Student Housing System at Mānoa and Telecommunications System	2001B	\$ 457	\$ -	\$ 108	\$ 349
John A. Burns School of Medicine	Ref 2006A	8,706	-	471	8,235
General obligation	DB	36	-	7	29
General obligation	DG	7	-	1	6
		<u>\$ 9,206</u>	<u>\$ -</u>	<u>\$ 587</u>	<u>\$ 8,619</u>

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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, 2011. 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 3.28 percent at June 30, 2010 and 2009. At June 30, 2010 and 2009, 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:

Year ending June 30,	Lease Amount
2011	\$ 2,734
2012	1,751
2013	1,423
2014	592
2015	606
2016–2020	411
2021–2025	356
Thereafter	2,057
	<u>\$ 9,930</u>

Rent expense for outside space for the years ended June 30, 2010 and 2009 approximated \$6,200 and \$5,296, respectively.

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 only of 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

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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 full retirement benefits 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 two percent 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 Hawai'i Revised Statutes ("HRS") Chapter 88 and amended by the Hawai'i 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 percent of salary for the Contributory Plan and 6.0 percent 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, 2010, 2009, and 2008 were \$75,609, \$79,724 and \$65,570, respectively. Effective July 1, 2008, the employer contribution rate increased from 13.75 percent to 15.00 percent 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.

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

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.

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Other Benefits

The State absorbs the fringe benefit cost for employees paid from State and federal appropriations. In fiscal year 2010, the State appropriated funds to the Department of Budget and Finance to pay for these fringe benefit costs on behalf of the University while in fiscal year 2009, the University received the appropriations directly from the State. Fringe benefit costs included in total revenue and total expenditures amounted to \$139,024 and \$156,203 for fiscal years 2010 and 2009, 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. As of June 30, 2010 and 2009, accumulated sick leave approximated \$391,795 and \$421,568, respectively.

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 2010 and 2009 were \$1,864 and \$1,949, respectively. Temporary wage loss payments for fiscal years 2010 and 2009 amounted to \$425 and \$452, 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.

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Plan Description

The State contributes to the Hawai'i Employer-Union Health Benefits Trust Fund ("EUTF"), an agent, multiple-employer defined benefit plan that replaced the Hawai'i 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:

Hawai'i 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 percent of the base monthly contribution for employees retiring with fewer than ten years of credited service. Retirees may elect a 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 percent of the base monthly contribution. For those retiring with at least 15 years, but fewer than 25 years of service, the State pays 75 percent of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100 percent of the base monthly contribution. Retirees in this category may elect a family plan to cover dependents.

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 percent of the base monthly contribution. For those retiring with at least 15 years, but fewer than 25 years of service, the State pays 75 percent of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100 percent of the base monthly contribution. Only single plan coverage is paid for retirees in this category. Retirees may 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 parameters 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 tables present the annual OPEB cost and the percentage of annual OPEB cost contributed to the plan for the fiscal year ended June 30, 2010:

Projected June 30, 2010 Net OPEB Obligation ("NOO")

July 1, 2009 net OPEB obligation	\$ 127,911
Plus: Annual OPEB cost	101,521
Less: Employer contributions (estimated "pay as you go" method)	<u>23,161</u>
Equals: Expected June 30, 2010 net OPEB obligation	<u>\$ 206,271</u>

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The University remitted \$33,205 and \$47,372 in State assessed OPEB contributions for the years ended June 30, 2010 and 2009, respectively, which exceeded the University's actuarially determined minimum OPEB contribution of \$23,161 and \$29,710, respectively. The excess remittance is reported net with Transfers from (to) State for Fringe Benefits in the accompanying Consolidated Statements of Revenues, Expenses and Changes in Net Assets.

OPEB Summary

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$101,521	22.8%	\$206,271
June 30, 2009	\$94,770	31.3%	\$127,911
June 30, 2008	\$88,560	29.0%	\$62,851

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,

	2009	2008
Actuarial value of assets	\$ -	\$ -
Actuarial accrued liability	<u>1,277,492</u>	<u>1,206,264</u>
Unfunded actuarial accrued liability ("UAAL")	<u>\$ 1,277,492</u>	<u>\$ 1,206,264</u>
Funded ratio	0%	0%
Covered payroll (active plan members)	\$ 511,626	\$ 534,667
UAAL as a percentage of covered payroll	249.7%	225.6%

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.

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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:

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

16. Other Noncurrent Liabilities

Other noncurrent liabilities at June 30, 2010 and 2009 are comprised of:

	2010	2009
Liabilities under split interest agreements	\$ 4,484	\$ 4,204
Amounts held for others	2,020	1,838
Other	1,156	748
	<u>\$ 7,660</u>	<u>\$ 6,790</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 2009 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 they are 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, 2010 and 2009 were \$369,948 and \$174,776 and \$731,394 and \$142,716, respectively.

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Net general and capital appropriations for the year ended June 30, 2010 were as follows:

General appropriations	
Act 162, SLH 2009, Appropriation Warrant No. 16	\$ 422,591
Act 3, SP SLH 2009, Appropriation Warrant No. 37 (G 301)	70
	<u>422,661</u>
Total funds lapsed	(556)
G 301 Lapse adjustment	(70)
Executive restrictions	<u>(52,087)</u>
Total general appropriations	<u>\$ 369,948</u>
 Capital appropriations	
Act 162, SLH 2009	\$ 141,590
Section 125, Act 213, SLH 2009	3,494
Section 125 & 152, Act 213, SLH 2007, as amended by Act 158, SLH 2008	6,720
Section 213, SLH 2007, as amended & renumbered by Act 158, SLH 2008	45,399
Total funds lapsed	<u>(22,427)</u>
Total capital appropriations	<u>\$ 174,776</u>

Net general and capital appropriations for the year ended June 30, 2009 were as follows:

General appropriations	
Act 158, SLH 2008, Appropriation Warrant No. 38	\$ 728,300
Act 111, SLH 2007, Appropriation Warrant No. 24 (G 302)	1,402
Act 111, SLH 2007, Appropriation Warrant No. 24 (G 303)	175
Act 11, SLH 2007, Appropriation Warrant No. 84 (G 322)	150
	<u>730,027</u>
 Others	
Allotments for salary increases and other adjustment	
Act 136, 137, & 138, SLH 2007	<u>9,909</u>
	739,936
Total funds lapsed	(258)
G 302 Lapse adjustment	(376)
Executive restrictions	<u>(7,908)</u>
Total general appropriations	<u>\$ 731,394</u>
 Capital appropriations	
Act 158, SLH 2008	\$ 62,717
Act 213, SLH 2007, as amended by Act 158, SLH 2008	80,779
Section 125 & 160, Act 213, SLH 2007, as amended by Act 158, SLH 2008	(682)
Total funds lapsed	<u>(98)</u>
Total capital appropriations	<u>\$ 142,716</u>

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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.

The unrestricted net assets at June 30, 2010 and 2009 were as follows:

	2010	2009
Unrestricted net assets		
Designated		
Research and training	\$ 36,545	\$ 44,755
Contract commitments	39,461	49,010
Quasi-endowment	25,025	19,264
Capital projects	37,756	30,717
Bond System	14,426	17,833
Other designated net assets	<u>8,563</u>	<u>8,403</u>
Total designated	161,776	169,982
Undesignated (unfunded obligations for vacation, worker's compensation liabilities, payroll, etc.)	<u>(95,947)</u>	<u>(80,606)</u>
Total unrestricted net assets	<u>\$ 65,829</u>	<u>\$ 89,376</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 service 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 bond resolutions adopted in November 2001 and February 2009. The bond resolutions 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 bond

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resolutions provide that all revenues collected or received from the Network be used to support the Network (which includes the University projects of the University Bond System) and bond related expenses.

The following summary financial information of the Bond System as of June 30, 2010 and 2009 is presented before elimination of certain intra-University transactions.

	2010	2009
Condensed statements of net assets		
Assets		
Current assets	\$ 62,336	\$ 57,537
Capital assets, net	184,877	165,717
Other assets	105,965	125,003
Total assets	<u>\$ 353,178</u>	<u>\$ 348,257</u>
Liabilities		
Current liabilities	\$ 27,745	\$ 19,229
Noncurrent liabilities	207,506	211,308
Total liabilities	<u>235,251</u>	<u>230,537</u>
Net assets		
Invested in capital assets, net of related debt	71,077	74,678
Restricted expendable	1,037	1,037
Unrestricted	45,813	42,005
Total net assets	<u>117,927</u>	<u>117,720</u>
Total liabilities and net assets	<u>\$ 353,178</u>	<u>\$ 348,257</u>

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	2010	2009
Condensed statements of revenues, expenses and changes in net assets		
Operating revenues		
Bookstores	\$ 30,203	\$ 31,105
Room and other rentals	22,313	21,111
Parking	5,946	5,188
Telecommunications	3,576	3,783
Other operating revenues	7,178	6,094
Total operating revenues	<u>69,216</u>	<u>67,281</u>
Operating expenses (including \$10,036 and \$7,724 in depreciation expense in 2010 and 2009, respectively)	<u>(67,080)</u>	<u>(68,193)</u>
Operating income (loss)	2,136	(912)
Nonoperating revenues	5,482	31,182
Nonoperating expenses	<u>(7,411)</u>	<u>(5,152)</u>
Change in net assets	207	25,118
Net assets		
Beginning of year	<u>117,720</u>	<u>92,602</u>
End of year	<u>\$ 117,927</u>	<u>\$ 117,720</u>
	2010	2009
Condensed statements of cash flows		
Net cash flows provided by operating activities	\$ 12,934	\$ 2,403
Net cash flows provided by non-capital financing activities	1,720	1,322
Net cash flows (used in) provided by capital and related financing activities	(28,163)	68,207
Net cash flows provided by investing activities	<u>939</u>	<u>5,873</u>
Net (decrease) increase in cash and cash equivalents	(12,570)	77,805
Cash and cash equivalents		
Beginning of year	<u>167,152</u>	<u>89,347</u>
End of year	<u>\$ 154,582</u>	<u>\$ 167,152</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 State and the Office of Hawaiian Affairs ("OHA") are involved in an ongoing dispute relating to certain lands transferred by the former Republic of Hawai'i to the United States which were reconveyed to the State upon Hawai'i's admission to the Union in 1959. These lands (collectively, the "ceded lands") are the subject of a number of claims, litigation and legislation, which are being addressed by the State on behalf of all State agencies, including the University. These matters are more fully described in the State's Comprehensive Annual Financial Report ("CAFR") that includes financial statements and required supplementary information which may be obtained from the following address:

State of Hawai'i Department of Accounting and General Services
1151 Punchbowl Street
Honolulu, Hawai'i 96813

Although the ultimate outcome and financial impact to the University of these OHA matters are not presently known, the University has come to an agreement with the State with respect to the University's estimated pro rata portion of its obligation due to OHA related to revenues generated from ceded lands. The University's financial statements reflect the liabilities and disbursements in connection with this agreement.

Risk Management

In general, the University obtains third party insurance coverage directly from third party insurers or is covered under the umbrella of the State's insurance program. However, the University is partially or entirely self-insured for certain risks, such as unemployment and workers' compensation claims.

With respect to workers' compensation insurance, the University is self-insured for the first \$500 per occurrence and annual aggregate and obtains excess insurance of \$50,000 from a commercial insurance company. The University records a liability for risk financing and insurance related losses if it is determined that a loss has been incurred and the amount can be reasonably estimated. The University's estimated liability for workers' compensation claims is included in "Other Liabilities" in the accompanying Statements of Net Assets (see Note 11).

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Construction and Other Contracts

The University is committed under contracts awarded for construction and other services. These commitments amounted to approximately \$205,570 and \$114,955 as of June 30, 2010 and 2009.

Collective Bargaining Agreements

Personnel costs are a significant component of the University's expenses. Employees of the University belong to one of eight collective bargaining units and are represented by the Hawai'i Government Employees Association ("HGEA"), except for faculty members who are represented by the University of Hawai'i Professional Assembly ("UHPA"). The University enters into collective bargaining agreements with unions representing its employees which commit to wages and benefits for its employees in the future. The University may make strategic and operational decisions that require the consent of one or more of its labor unions and cannot assure that the labor unions will not require additional wages, benefits or other consideration in return for their consent.

All of the collective bargaining agreements (except for faculty members) are for a two-year period beginning July 1, 2009 and ending June 30, 2011. These bargaining units agreed to temporary salary reductions in the form of furloughs or across-the-board pay reductions and comparable leave with pay, equivalent to five percent per year over the contract year.

In January 2010, faculty members ratified a new six-year collective bargaining agreement to temporarily reduce faculty salaries by 6.67 percent for 18 months beginning January 1, 2010. After June 30, 2011, faculty salaries will revert back to original salaries at December 31, 2009. One-time stipends will be paid in fiscal years 2013, 2014 and 2015 to faculty who took reductions as a result of this agreement and are still employed at the University, totaling the amount of their reduction. There will be three percent salary increases on July 1, 2013 and July 1, 2014.

The University cannot assure that future agreements with its employees' unions will be on terms in line with expectations or comparable to agreements entered into by others, and any future agreements may increase labor costs or otherwise adversely affect the University. If the University is unable to reach an agreement with any unionized work group, it may be subject to future work interruptions and/or stoppages, which may hamper or halt operations.

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21. New Accounting Pronouncements

The GASB has recently issued the following accounting pronouncements:

- Statement No. 59, *Financial Instruments Omnibus*, issued in June 2010. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2010.
- Statement No. 57, *Determining the Annual Required Contribution Adjustment for Postemployment Benefits*, issued in December 2009. The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer OPEB plans. The requirement to coordinate actuarial valuation dates is effective for valuations first used to report funded status information in plan financial statements for periods beginning after June 15, 2011.
- Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, issued in March 2009. The objective of this Statement is to incorporate the hierarchy of GAAP for state and local governments into the GASB's authoritative literature. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2010.

The University is currently evaluating the above noted accounting pronouncements and believes that these pronouncements will not have a material effect on the University's financial statements.

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

University of Hawai'i
State of Hawai'i
Schedule of Funding Progress (Unaudited)
Year Ended June 30, 2010
(All dollars reported in thousands)

Postemployment Benefits Other than Pensions

REQUIRED SUPPLEMENTARY INFORMATION
Schedule 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
University of Hawai'i

The report on our audits of the consolidated financial statements of the University of Hawai'i as of June 30, 2010 and 2009, 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, VI and VII) 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 audits 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
January 31, 2011

University of Hawai'i
State of Hawai'i
Condensed Statements of Net Assets
Condensed Statements of Revenues, 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, 2010 and 2009
(All dollars reported in thousands)

Schedule I

	2010	2009
Condensed statements of net assets		
Assets		
Current assets	\$ 275,634	\$ 195,874
Noncurrent assets	<u>71,695</u>	<u>86,154</u>
Total assets	<u>\$ 347,329</u>	<u>\$ 282,028</u>
Liabilities		
Current liabilities	\$ 87,635	\$ 79,957
Noncurrent liabilities	<u>9,600</u>	<u>3,654</u>
Total liabilities	<u>97,235</u>	<u>83,611</u>
Net assets		
Unrestricted	<u>250,094</u>	<u>198,417</u>
Total net assets	<u>250,094</u>	<u>198,417</u>
Total liabilities and net assets	<u>\$ 347,329</u>	<u>\$ 282,028</u>
Condensed statements of revenues, expenses and changes in net assets		
Operating revenues	\$ 310,578	\$ 260,332
Operating expenses	<u>272,761</u>	<u>262,302</u>
Operating income (loss)	37,817	(1,970)
Nonoperating revenues and transfers	47,312	39,325
Nonoperating expenses and transfers	<u>33,452</u>	<u>7,268</u>
Change in net assets	51,677	30,087
Net assets		
Beginning of year	<u>198,417</u>	<u>168,330</u>
End of year	<u>\$ 250,094</u>	<u>\$ 198,417</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. The financial information of the Research Corporation of the University of Hawai'i and the University of Hawai'i Foundation is not reflected in this schedule.

In accordance with University policy, the University's liability for other postemployment benefits is not allocated internally to individual departments and funds. Accordingly, no liability for other postemployment benefits is reflected in this schedule.

University of Hawai'i
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Condensed Statements of Net Assets
Condensed Statements of Revenues, Expenses and Changes in Net Assets
Current Unrestricted Funds Excluding General Fund and
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Schedule I

2. Reclassification

Certain amounts in the 2009 condensed statement of net assets and related condensed statement of revenues, expenses and changes in net assets – Current Unrestricted Funds Excluding General Fund and University Bond System have been reclassified to conform to the 2010 presentation. Such reclassifications have no impact on the 2009 change in net assets as previously reported.

University of Hawai'i
State of Hawai'i
Schedules of Series 2002A Revenue Bond Proceeds Activity
Years Ended June 30, 2010 and 2009
(All dollars reported in thousands)

Schedule II

	2010	2009
Beginning balance	\$ 11,936	\$ 11,788
Additions		
Interest and investment income	43	157
Other	21	-
Total additions	<u>64</u>	<u>157</u>
Deductions		
Payments – building, construction in progress, other	-	-
Management fees	10	9
Total deductions	<u>10</u>	<u>9</u>
Ending balance	<u>\$ 11,990</u>	<u>\$ 11,936</u>

1. Basis of Presentation

The accompanying schedules of Series 2002A revenue bond proceeds activity present 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. The financial information of the Research Corporation of the University of Hawai'i and the University of Hawai'i Foundation is not reflected in this schedule.

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 to be utilized to service the outstanding balance of the new debt.

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Condensed Statements of Net Assets
Condensed Statements of Revenues, Expenses and Changes in Net Assets
Current Unrestricted Funds Excluding General Fund
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Schedule III

	2010	2009
Condensed statements of net assets		
Assets		
Current assets	\$ 305,008	\$ 227,176
Noncurrent assets	71,695	86,154
Total assets	<u>\$ 376,703</u>	<u>\$ 313,330</u>
Liabilities		
Current liabilities	\$ 101,240	\$ 93,190
Noncurrent liabilities	10,594	4,605
Total liabilities	<u>111,834</u>	<u>97,795</u>
Net assets		
Unrestricted	<u>264,869</u>	<u>215,535</u>
Total net assets	<u>264,869</u>	<u>215,535</u>
Total liabilities and net assets	<u>\$ 376,703</u>	<u>\$ 313,330</u>
Condensed statements of revenues, expenses and changes in net assets		
Operating revenues	\$ 379,794	\$ 327,613
Operating expenses	326,206	318,684
Operating income	<u>53,588</u>	<u>8,929</u>
Nonoperating revenues and transfers	47,718	40,378
Nonoperating expenses and transfers	51,972	16,491
Change in net assets	<u>49,334</u>	<u>32,816</u>
Net assets		
Beginning of year	<u>215,535</u>	<u>182,719</u>
End of year	<u>\$ 264,869</u>	<u>\$ 215,535</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. The financial information of the Research Corporation of the University of Hawai'i and the University of Hawai'i Foundation is not reflected in this schedule.

In accordance with University policy, the University's liability for other postemployment benefits is not allocated internally to individual departments and funds. Accordingly, no liability for other postemployment benefits is reflected in this schedule.

**University of Hawai'i
State of Hawai'i
Condensed Statements of Net Assets
Condensed Statements of Revenues, Expenses and Changes in Net Assets
Current Unrestricted Funds Excluding General Fund
As of and for the Years Ended June 30, 2010 and 2009
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Schedule III

2. Reclassification

Certain amounts in the 2009 condensed statement of net assets and related condensed statement of revenues, expenses and changes in net assets – Current Unrestricted Funds Excluding General Fund have been reclassified to conform to the 2010 presentation. Such reclassifications have no impact on the 2009 change in net assets as previously reported.

University of Hawai'i
State of Hawai'i
Schedules of Series 2006A Revenue Bond Proceeds Activity
Years Ended June 30, 2010 and 2009
(All dollars reported in thousands)

Schedule IV

	2010	2009
Beginning balance	\$ 36,601	\$ 48,273
Additions		
Interest and investment income	58	1,721
Total additions	<u>58</u>	<u>1,721</u>
Deductions		
Payments – building, construction in progress, other	10,363	12,091
Transfers – retire indebtedness	-	1,300
Management fees	24	2
Total deductions	<u>10,387</u>	<u>13,393</u>
Ending balance	<u>\$ 26,272</u>	<u>\$ 36,601</u>

1. Basis of Presentation

The accompanying schedules of Series 2006A revenue bond proceeds activity present 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. The financial information of the Research Corporation of the University of Hawai'i and the University of Hawai'i Foundation is not reflected in this schedule.

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Schedules of Series 2009A Revenue Bond Proceeds Activity
Years Ended June 30, 2010 and 2009
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Schedule V

	2010	2009
Beginning balance	\$ 88,018	\$ -
Additions		
Bond proceeds	-	101,556
Interest and investment income	378	13
Total additions	<u>378</u>	<u>101,569</u>
Deductions		
Repayment of capital lease	-	13,392
Payments – building, construction in progress, other	8,923	150
Management fees	69	9
Total deductions	<u>8,992</u>	<u>13,551</u>
Ending balance	<u>\$ 79,404</u>	<u>\$ 88,018</u>

1. Basis of Presentation

The accompanying schedules of Series 2009A revenue bond proceeds activity present the sources and uses of Series 2009A revenue bond proceeds associated with the financing of costs of certain University projects. The financial information of the Research Corporation of the University of Hawai'i and the University of Hawai'i Foundation is not reflected in this schedule.

University of Hawai'i
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Statements of Net Assets – Community College System
June 30, 2010 and 2009
(All dollars reported in thousands)

Schedule VI

	2010	2009
Assets		
Current assets		
Cash and cash equivalents	\$ 2,079	\$ 4,136
Operating investments	45,480	27,540
Due from State of Hawai'i	-	3,135
Accounts receivable, net	5,900	7,517
Current portion of notes and contributions receivable, net	167	217
Accrued interest receivable	91	87
Inventories	4,563	4,400
Prepaid expenses, deferred charges and other current assets	741	362
Total current assets	<u>59,021</u>	<u>47,394</u>
Noncurrent assets		
Due from State of Hawai'i	75,987	87,053
Endowment and other investments	18,622	21,261
Notes and contributions receivable, net	1,479	1,489
Capital assets, net	222,017	214,918
Other noncurrent assets	1,559	1,823
Total noncurrent assets	<u>319,664</u>	<u>326,544</u>
Total assets	<u>\$ 378,685</u>	<u>\$ 373,938</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 6,322	\$ 8,223
Accrued payroll and fringe benefits	7,645	4,723
Advances from sponsors	1,221	1,418
Due to RCUH	520	1,199
Deferred revenue	6,381	6,043
Due to State of Hawai'i	109	94
Current portion of long-term liabilities	5,767	5,763
Other current liabilities	26	22
Total current liabilities	<u>27,991</u>	<u>27,485</u>
Noncurrent liabilities		
Accrued vacation	8,669	8,839
Accrued workers' compensation	1,280	1,433
Revenue bonds payable	1,979	1,979
Total noncurrent liabilities	<u>11,928</u>	<u>12,251</u>
Net assets		
Invested in capital assets, net of related debt	220,038	212,939
Restricted – expendable	79,615	89,170
Unrestricted	39,113	32,093
Total net assets	<u>338,766</u>	<u>334,202</u>
Total liabilities and net assets	<u>\$ 378,685</u>	<u>\$ 373,938</u>

The accompanying notes are an integral part of Schedule VI.

University of Hawai'i
State of Hawai'i
Statements of Revenues, Expenses and Changes in Net Assets –
Community College System
Years Ended June 30, 2010 and 2009
(All dollars reported in thousands)

Schedule VII

	2010	2009
Operating revenues		
Student tuition and fees	\$ 64,343	\$ 54,580
Less: Scholarship allowances	<u>15,497</u>	<u>8,967</u>
Net student tuition and fees	48,846	45,613
Federal appropriations, grants and contracts	60,272	39,655
State and local grants and contracts	1,863	2,947
Nongovernmental sponsored programs	1,170	1,033
Sales and services of educational departments, other	8,389	7,870
Auxiliary enterprises		
Bookstores	11,536	11,312
Student housing (net of scholarship allowances of \$0 and \$23)	-	46
Other auxiliary enterprises revenues	1,404	1,524
Other operating revenues	<u>53</u>	<u>75</u>
Total operating revenues	<u>133,533</u>	<u>110,075</u>
Operating expenses		
Compensation and benefits	187,433	196,701
Supplies, services and cost of goods sold	37,171	36,094
Scholarships and fellowships	19,955	13,717
Depreciation	10,598	13,009
Telephone and utilities	10,549	10,520
Repairs and maintenance	3,718	3,486
Travel expenses	2,186	2,319
Other operating expenses	<u>4,297</u>	<u>3,368</u>
Total operating expenses	<u>275,907</u>	<u>279,214</u>
Operating loss	<u>(142,374)</u>	<u>(169,139)</u>
Nonoperating revenues (expenses)		
State appropriations	105,096	125,893
Private gifts	1	8
Net investment income	478	913
Interest expense	(24)	(21)
Transfers from State of Hawai'i for fringe benefits	38,060	40,787
Loss on disposal of capital assets	(426)	(52)
Other, net	<u>(1,909)</u>	<u>(2,668)</u>
Net nonoperating revenues before capital and endowment additions	<u>141,276</u>	<u>164,860</u>
Capital – state appropriations	5,067	67,566
Capital – federal grants/subsidies	313	537
Capital – gifts and grants	1,014	451
Net transfers (to) from State of Hawai'i for capital assets	(79)	16,939
Transfers to other funds	<u>(653)</u>	<u>(1,931)</u>
Total other revenues	<u>5,662</u>	<u>83,562</u>
Net nonoperating revenues	<u>146,938</u>	<u>248,422</u>
Change in net assets	4,564	79,283
Net assets		
Beginning of year	<u>334,202</u>	<u>254,919</u>
End of year	<u>\$ 338,766</u>	<u>\$ 334,202</u>

The accompanying notes are an integral part of Schedule VII.

University of Hawai'i
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Notes to Schedules VI and VII
June 30, 2010 and 2009
(All dollars reported in thousands)

1. Basis of Presentation

The accompanying statements of net assets and related statements of revenues, expenses and changes in net assets – Community College System present the financial position and results of operations of the Community College System, and are presented on the accrual basis of accounting. The financial information of the Research Corporation of the University of Hawai'i and the University of Hawai'i Foundation is not reflected in these schedules.

In accordance with University policy, the University's liability for other postemployment benefits is not allocated internally to individual departments and funds. Accordingly, no liability for other postemployment benefits is reflected in these schedules.

2. Reclassification

Certain amounts in the 2009 statement of net assets and related statement of revenues, expenses and changes in net assets – Community College System have been reclassified to conform to the 2010 presentation. Such reclassifications have no impact on the 2009 change in net assets as previously reported.