CERTIFIED PUBLIC ACCOUNTANTS

University of Hawai‘i
State of Hawai‘i

Consolidated Financial Statements
Required Supplementary Information
and Other Supplementary Information

June 30, 2009 and 2008

Quality Integrity Insight

University of Hawai‘i
State of Hawai‘i
Index
June 30, 2009 and 2008

CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditors

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

In our opinion, based on our audits and the reports of other auditors, the financial statements listed in the accompany 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, 2009 and 2008, 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 1.1 percent of the total operating revenues of the University as of and for year ended June 30, 2009. We did not audit the financial statements of the Foundation and the Research Corporation of the University of Hawai‘i (the “Research Corporation”), which collectively represent 14.4 percent of the total assets and 2.0 percent of the total operating revenues of the University as of and for year ended June 30, 2008. 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, 2009 and 2008 and the Research Corporation as of and for the year ended June 30, 2008, 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 consolidated 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 March 26, 2010, 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, 2009. 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.

Accuity LLP

Honolulu, Hawai‘i
March 26, 2010

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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, 2009 and 2008, with selected information for the year ended June 30, 2007. 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 represented by ten campuses with approximately 58,000 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 also houses more than a hundred centers with a research, instruction, or public service purpose. The University is also engaged in instructional research and service activities at hundreds of Hawai‘i schools, hospitals and community sites, and carries out these activities across the Pacific Islands and in foreign countries.

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, this 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 improved or weakened the University’s financial condition. Changes in net assets are reported when the underlying event occurs (accrual basis of accounting), which may be different from actual cash flows. The Consolidated Statements of Revenues, Expenses and Changes in Net Assets also distinguish operating from non-operating revenues and expenses. Tuition and fees revenue and student housing fees revenue are reported net of scholarships and fellowships, including tuition and fee waivers applied to student accounts. Sales and services revenue primarily includes ticket sales for athletic events and distributions from the Western Athletic Conference and the National Collegiate Athletic Association. It is anticipated that the University will consistently report an operating loss since certain significant revenue sources relied upon for core operational needs, including state appropriations, private gifts and investment income, are considered non-operating revenues.

- **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.

Related Entities

The University maintains close relationships with two other entities, considered to be component units, and whose financial information is blended into the University’s accompanying consolidated financial statements. The University of Hawai‘i Foundation (the “Foundation”) is a not-for-profit organization established to solicit and manage funds for the benefit of the University. The Research Corporation of the University of Hawai‘i (the “Research Corporation”) provides administrative support services for research and training programs of the University. Both of the University’s component units prepare stand-alone financial statements with footnotes, which are audited by independent auditors. The following tables summarize the individual components of the University’s consolidated financial position and results of operations for the years ended June 30, 2009, 2008 and 2007 (in thousands of dollars):

2009	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Current assets	$ 345,148	$ 41,747	$ 19,599	$ (33,461)	$ 373,033
Noncurrent assets	1,873,883	890	248,307	(14,123)	2,108,957
Total assets	2,219,031	42,637	267,906	(47,584)	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	$ 1,467,958	$ 8,881	$ 258,278	$ (15,059)	$ 1,720,058

2008	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Current assets	$ 307,692	$ 38,274	$ 27,601	$ (33,341)	$ 340,226
Noncurrent assets	1,699,645	387	268,017	(6,228)	1,961,821
Total assets	2,007,337	38,661	295,618	(39,569)	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	$ 1,404,717	$ 9,787	$ 284,911	$ (10,172)	$ 1,689,243

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

	2009				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Operating revenue	$ 700,153	$ 5,485	$ 7,828	$ (8,928)	$ 704,538
Operating expense	1,424,970	5,545	38,928	(5,124)	1,464,319
Operating income (loss)	(724,817)	(60)	(31,100)	(3,804)	(759,781)
Nonoperating activity	788,058	(846)	4,667	(1,283)	790,596
Increase (decrease) in net assets	63,241	(906)	(26,433)	(5,087)	30,815
Net assets					
Beginning of year	1,404,717	9,787	284,711	(9,972)	1,689,243
End of year	$ 1,467,958	$ 8,881	$ 258,278	$ (15,059)	$ 1,720,058

	2008				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Operating revenue	$ 656,235	$ 5,261	$ 8,053	$ (13,299)	$ 656,250
Operating expense	1,318,400	5,587	38,884	(12,412)	1,350,459
Operating income (loss)	(662,165)	(326)	(30,831)	(887)	(694,209)
Nonoperating activity	757,128	453	51,530	(3,929)	805,182
Increase (decrease) in net assets	94,963	127	20,699	(4,816)	110,973
Net assets					
Beginning of year	1,309,754	9,660	264,212	(5,356)	1,578,270
End of year	$ 1,404,717	$ 9,787	$ 284,911	$ (10,172)	$ 1,689,243

	2007				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Operating revenue	$ 619,558	$ 5,363	$ 6,655	$ (8,754)	$ 622,822
Operating expense	1,159,069	5,107	31,232	(11,314)	1,184,094
Operating income (loss)	(539,511)	256	(24,577)	2,560	(561,272)
Nonoperating activity	691,126	(2,022)	88,094	(3,030)	774,168
Increase (decrease) in net assets	151,615	(1,766)	63,517	(470)	212,896
Net assets					
Beginning of year	1,158,139	11,426	200,695	(4,886)	1,365,374
End of year	$ 1,309,754	$ 9,660	$ 264,212	$ (5,356)	$ 1,578,270

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, 2009, 2008 and 2007 are summarized as follows (in thousands):

	2009	Percentage of Total Assets	2008	Percentage of Total Assets	2007	Percentage of Total Assets	FY 09 vs 08 Change	FY 08 vs 07 Change
Current assets								
Cash and operating investments	$ 231,654	9%	$ 181,014	8%	$ 227,348	11%	$ 50,640	$ (46,334)
Receivables, net	118,990	5%	136,259	6%	128,607	6%	(17,269)	7,652
Other current assets	22,389	1%	22,953	1%	18,737	1%	(564)	4,216
Total current assets	373,033	15%	340,226	15%	374,692	18%	32,807	(34,466)
Noncurrent assets								
Endowment and other investments	502,426	20%	465,285	20%	379,767	18%	37,141	85,518
Capital assets, net	1,275,918	52%	1,188,635	52%	1,074,030	51%	87,283	114,605
Other noncurrent assets	330,613	13%	307,901	13%	278,345	13%	22,712	29,556
Total assets	2,481,990	100%	2,302,047	100%	2,106,834	100%	179,943	195,213
Current liabilities	222,129	9%	221,333	10%	197,949	9%	796	23,384
Noncurrent liabilities								
Long-term debt	351,600	14%	271,990	12%	276,865	13%	79,610	(4,875)
Other noncurrent liabilities	188,203	8%	119,481	5%	53,750	3%	68,722	65,731
Total liabilities	761,932	31%	612,804	27%	528,564	26%	149,128	84,240
Net assets								
Invested in capital assets, net of related debt	1,050,563	42%	967,717	43%	890,877	42%	82,846	76,840
Restricted								
Nonexpendable	162,483	6%	152,449	7%	133,507	6%	10,034	18,942
Expendable	417,636	17%	419,005	18%	399,626	19%	(1,369)	19,379
Unrestricted	89,376	4%	150,072	7%	154,260	7%	(60,696)	(4,188)
Total net assets	$ 1,720,058	69%	$ 1,689,243	73%	$ 1,578,270	74%	$ 30,815	$ 110,973

A review of the University’s Consolidated Statements of Net Assets at June 30, 2009, 2008 and 2007 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.

Current Assets and Liabilities

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

At June 30, 2009, 2008 and 2007, working capital amounted to $150.9 million, $118.9 million and $176.7 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 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 investment of $98.0 million excess cash in time certificates of deposits (“TCD”) 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. Other receivables, net of allowances, decreased by $2.8 million. Total current assets decreased by $34.5 million, or 9.2 percent, at June 30, 2008 compared to June 30, 2007, primarily due to decreases in operating investments and other receivables offset by increases in cash and cash equivalents, due from State of Hawai‘i and other current assets. Other receivables decreased due to the establishment of a $6.3 million allowance against a receivable from the University Clinical, Education & Research Associates (“UCERA”). Operating investments decreased by $116 million primarily due to the reclassification of $117 million in auction rate securities to noncurrent assets discussed below. Cash and cash equivalents increased by $70.1 million primarily due to expanded investment in certificates of deposit. Due from State of Hawai‘i, included in net receivables, increased by $14.7 million as a result of additional State support received for fiscal year 2008. Other receivables, net of allowances, decreased by $7.1 million while other current assets increased by $4.2 million.

- Current liabilities consist primarily of accounts payable, accrued compensation, advances from sponsors, and deferred revenue. Current liabilities also include amounts due to the State of Hawai‘i, the current portion of long-term liabilities and other current liabilities. 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 payroll and fringe benefits and current portion of long-term liabilities decreases in advances from sponsors, deferred revenue and due to State of Hawai‘i. Total current liabilities increased by $23.4 million, or 11.8 percent, at June 30, 2008 as compared to June 30, 2007, due primarily to increases in accounts payable, accrued compensation, advances from sponsors, deferred revenue and current portion of long-term liabilities offset by decreases in other current liabilities.

Endowment and Other Investments

The University’s endowment and other investments, including endowments held with the Foundation, increased by $37.1 million to $502.4 million at June 30, 2009. Endowments and other investments held with the Foundation amounted to $201.1 million at June 30, 2009. Increase was primarily due to unspent bond proceeds in 2009.

At June 30, 2009, endowments and other investments include $108.5 million in auction rate securities. In 2008, the University reclassified auction rate securities from operating investments as a result of uncertainties surrounding the timing of liquidation of the University’s auction rate securities portfolio. While the University’s ability to liquidate the carrying value of its auction rate securities in the near term may be limited, management believes it is appropriate to report the University's auction rate securities at par value since the University continues to receive its contractual interest payments in a timely manner, recent successful auctions have been executed at par value, and the University has no intention of settling its auction rate securities at less than par value. In 2009, the University's auction rate securities portfolio decreased $8.6 million due to maturities in accordance with contractual terms.

The University's endowment and other investments, including endowments held with the Foundation, increased by $85.5 million to $465.3 million at June 30, 2008. Endowments and other investments held with the Foundation amounted to $224 million at June 30, 2008. Endowments and other investments included $117.1 million in auction rate securities. The increase was primarily attributable to additional endowment gifts, an increase in market value and an investment for the construction of the New Frear Hall Student Housing Complex.

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

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

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 year 2009, the University instituted a four percent distribution rate on restricted and unrestricted endowments. The total restricted and unrestricted distribution available to the University for 2009 amounted to $1.1 million. The distribution rate for fiscal year 2008 was also four percent and amounted to $1.9 million.

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, 2009, 2008 and 2007, total capital assets, net of accumulated depreciation amounted to $1.3 billion, $1.2 billion and $1.1 billion, respectively, which represented 51 percent and 52 percent and 51 percent, respectively, of the University's total assets. Capital asset additions totaled $177.9 million, $195.2, and $138.8 million in fiscal years 2009, 2008 and 2007, respectively, while depreciable capital asset disposals, net of accumulated depreciation amounted to $11.4 million, $9.4 million and $14.8 million, respectively. Of the total capital asset additions, $17.7 million, $16.3 million and $7.3 million were related to building projects administered by the State of Hawai‘i Department of Accounting and General Services ("DAGS") – Public Works Division and transferred to the University in fiscal years 2009, 2008 and 2007, respectively. Purchases of equipment, including information technology, amounted to approximately $16.6 million,

$18.6 million and $22.3 million and purchases of library materials amounted to approximately $4.0 million, $6.9 million and $8.1 million during fiscal years 2009, 2008, and 2007, respectively.

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

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

- **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 (“Leadership in Energy and Environmental Design”) 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.

- **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 –** Ground blessing for the new campus in the City of Kapolei took place in January 2009. Electrical, water, and sewer infrastructure is currently in progress. When completed, University of Hawai‘i West O‘ahu’s new campus will accommodate an estimated 7,600 students and 1,000 faculty and staff.

The State of Hawai‘i, at times issues general obligation bonds on behalf of the University to finance certain capital projects. At June 30, 2009, 2008, and 2007, amounts due to the State of Hawai‘i for general obligation bonds payable amounted to $1.3 million, $2.9 million and $4.6 million, respectively. 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 and 2007, 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 on behalf of the University and are carried as a liability of the State of Hawai‘i. Debt service on these general obligation bonds amounted to $87.7 million, $83.9 million, and $80.3 million in fiscal years 2009, 2008, and 2007, respectively, and were paid for by the State of Hawai‘i on behalf of the University using state appropriations. These amounts are reflected in nonoperating revenues in the Consolidated Statements of Revenues, Expenses and Changes in Net Assets.

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, 2009, 2008 and 2007, revenue bonds payable amounted to $358.6 million, $263.0 million, and $264.1 million, respectively. 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. Debt service in fiscal year 2007 amounted to $11.1 million, consisting of $3.7 million of principal and $7.4 million of interest. Principal reductions during fiscal year 2009, 2008, and 2007 were in accordance with scheduled debt service payments.

In June 2002, the University issued $150 million in Series 2002A revenue bonds to finance the construction of the new John A. Burns School of Medicine campus. 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 $14.8 million and $21.3 million in 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, 2009, the University had no capital lease obligations. At June 30, 2008 and 2007, capital lease obligations amounted to $13.8 million and $14.3 million, respectively. Debt service in fiscal years 2008 and 2007 amounted to $1.2 million consisting of $0.4 million for principal and $0.8 million for interest.

Net Assets

Net assets represent the residual interest in the University’s assets after liabilities are deducted. At June 30, 2009, 2008 and 2007, total net assets amounted to $1.7 billion, $1.7 billion, and $1.6 billion, respectively. Net assets are reported in four major categories: invested in capital assets, net of related debt; restricted nonexpendable; restricted expendable; and unrestricted.

Net assets invested in capital assets, net of accumulated depreciation and the related outstanding debt used to finance the acquisition, construction or improvement of those assets, amounted to $1.1 billion, $967.7 million, and $890.9 million at June 30, 2009, 2008, and 2007, respectively, an increase of $82.8 million and $76.8 million in fiscal years 2009 and 2008, respectively. The fiscal year 2009 increase largely represents $177.9 million of capital asset additions and $79.2 million of depreciation expense. The fiscal year 2008 increase largely represents $195.2 million of capital asset additions and $71.2 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 $162.5 million, $152.4 million and $133.5 million at June 30, 2009, 2008 and 2007, respectively. The increases of $10.0 million and $18.9 million in fiscal years 2009 and 2008, 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, 2009, 2008 and 2007 (in thousands):

	2009	2008	2007
Plant facilities	$ 263,082	$ 241,019	$ 217,679
Donor-restricted activities	125,469	148,968	151,002
Loan activities	28,197	27,853	28,163
External sponsor activities	888	1,165	2,782
	$ 417,636	$ 419,005	$ 399,626

In 2009, the overall decrease of $1.4 million in restricted expendable net assets was mainly attributable to an increase of $22.1 million in plant facilities and a $23.5 million decrease in donor-restricted activities. In 2008, the overall increase of $19.4 million in restricted expendable net assets was attributable to $23.3 million increase in plant facilities offset by decreases in donor-restricted, loan and external sponsor activities of $2.0 million, $0.3 million, and $1.6 million, respectively.

Net assets that are not subject to externally imposed restrictions governing their use are classified as unrestricted for financial reporting purposes. Although unrestricted net assets are not subject to externally imposed restrictions, all of the University’s unrestricted net assets have been internally designated for various academic and research programs and initiatives, contractual commitments, and capital projects. In addition, unrestricted net assets of $19.3 million, $42.2 million and $43.1 million were designated for endowment activities at June 30, 2009, 2008 and 2007, 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, 2009, 2008 and 2007 (in thousands of dollars):

	2009	2008	2007
Designated			
Research and training	$ 44,755	$ 55,428	$ 49,922
Contract commitments	49,010	43,007	24,189
Quasi-endowment	19,264	42,184	43,140
Capital projects	30,717	29,751	28,551
Bond System	17,833	14,346	20,175
Other designated net assets	8,403	8,413	8,059
	169,982	193,129	174,036
Undesignated (unfunded obligations for vacation, worker’s compensation liabilities, other postemployment benefits, payroll, etc).	(80,606)	(43,057)	(19,776)
	$ 89,376	$ 150,072	$ 154,260

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, 2009, 2008 and 2007, summarized to match revenues supporting core activities with expenses associated with core activities, are as follows (in thousands of dollars):

	2009		2008		2007		Change	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	FY 09-08 Inc (Dec)	FY 08-07 Inc (Dec)
Revenues								
Operating								
Tuition and fees, net	$ 181,078	12.7%	$ 150,969	10.9%	$ 136,950	10.3%	$ 30,109	$ 14,019
Grants and contracts	399,640	28.0%	379,364	27.3%	373,237	28.0%	20,276	6,127
Sales and services	120,899	8.5%	122,651	8.8%	110,094	8.3%	(1,752)	12,557
Other revenue	2,921	0.2%	3,266	0.2%	2,541	0.2%	(345)	725
Total operating revenues	704,538	49.4%	656,250	47.2%	622,822	46.7%	48,288	33,428
Non-operating								
State appropriations	731,394	51.2%	690,625	49.7%	623,984	46.8%	40,769	66,641
Net Investment income (expense)	(31,928)	-2.2%	10,662	0.8%	46,549	3.5%	(42,590)	(35,887)
Private gifts	23,285	1.6%	31,543	2.3%	40,057	3.0%	(8,258)	(8,514)
Total non-operating revenues	722,751	50.6%	732,830	52.8%	710,590	53.3%	(10,079)	22,240
Total revenues supporting core activities	1,427,289	100.0%	1,389,080	100.0%	1,333,412	100.0%	38,209	55,668
Expenses								
Operating								
Compensation and benefits	995,777	63.3%	901,678	62.5%	767,285	59.4%	94,099	134,393
Supplies and materials	201,618	12.8%	185,216	12.8%	185,582	14.4%	16,402	(366)
Telecom and utilities	57,959	3.7%	58,553	4.1%	46,681	3.6%	(594)	11,872
Scholarships and fellowships	36,297	2.4%	30,162	2.1%	31,593	2.4%	6,135	(1,431)
Other expense	93,440	5.9%	103,624	7.2%	87,566	6.8%	(10,184)	16,058
Total operating expenses	1,385,091	88.1%	1,279,233	88.6%	1,118,707	86.5%	105,858	160,526
Non-operating								
Transfers to State, net	97,038	6.2%	82,540	5.7%	104,584	8.1%	14,498	(22,044)
Interest expense	11,175	0.7%	10,629	0.7%	3,919	0.3%	546	6,710
Total non-operating expenses	108,213	6.9%	93,169	6.5%	108,503	8.4%	15,044	(15,334)
Expenses associated with core activities before depreciation	1,493,304	-	1,372,402	-	1,227,210	-	120,902	145,192
Income (loss) from core activities before depreciation	(66,015)	-	16,678	-	106,202	-	(82,693)	(89,524)
Depreciation	79,228	5.0%	71,226	4.9%	65,387	5.1%	8,002	5,839
Expenses associated with core activities including depreciation	1,572,532	100.0%	1,443,628	100.0%	1,292,597	100.0%	128,904	151,031
Income (loss) from core activities	(145,243)	-	(54,548)	-	40,815	-	(90,695)	(95,363)
Other nonoperating activity								
Capital gifts and grants	172,118		148,496		150,290			
Permanent endowment	13,479		19,284		21,548			
Other revenue/expense, net	(9,539)		(2,259)		243			
Other nonoperating income, net	176,058		165,521		172,081			
Increase in net assets	30,815		110,973		212,896			
Net assets								
Beginning of year	1,689,243		1,578,270		1,365,374			
End of year	$ 1,720,058		$ 1,689,243		$ 1,578,270			

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 2009 was the third year in the University's six-year plan to increase tuition and fee rates. Tuition and fees revenue, net of scholarship allowances, increased by $30.1 million or 19.9 percent to $181.1 million in fiscal year 2009, and increased by $14.0 million, or 10.2 percent, to $151.0 million in fiscal year 2008 when compared to $136.9 million in fiscal year 2007. Scholarship allowances amounted to $61.3 million, $52.3 million, and $36.2 million in fiscal year 2009, 2008 and 2007, respectively. 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. For fiscal year 2008, the increase is primarily attributable to an increase in enrollment in the UH Hilo, West O'ahu and community college campuses. and undergraduate tuition and fee rates for all campuses increased between 11.4 percent and 21.7 percent.

General state appropriations increased by $40.8 million or 5.9 percent to $731.4 million in fiscal year 2009 and increased by $66.6 million, or 10.7 percent, to $690.6 million in fiscal year 2008 when compared to $624.0 million in fiscal year 2007. A $57.3 million increase in general state appropriation support, 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. A $57.1 million increase in general state appropriation support, a $3.3 million decrease in collective bargaining appropriations and a $12.8 million increase in flood appropriation and appropriations that lapsed accounted for the net increase in fiscal year 2008.

Revenues from federal, state and local grants and contracts and nongovernmental sponsored programs increased by $20.3 million, or 5.3 percent, to $399.6 million in fiscal year 2009, and increased by $6.1 million, or 1.6 percent, to $379.4 million in fiscal year 2008 when compared to $373.2 million in fiscal year 2007. The fiscal year 2009 increase was attributable to a $15.9 million increase in federal grants and contracts and $4.4 million increases in state and local grants and contracts and nongovernmental sponsored programs. The fiscal year 2008 net increase was attributable to a $2.9 million decrease in federal grants and contracts offset by increases in state and local grants and contracts and nongovernmental sponsored programs of $5.8 million and $3.2 million, respectively.

Sales and services revenues, which are mainly comprised of bookstores, student and faculty housing, food services, parking and athletics, decreased by $1.8 million, or 1.4 percent, to $120.9 million in fiscal year 2009 when compared to $122.7 million in fiscal year 2008. The decrease was largely due to a $6.2 million decrease in Mānoa athletics and other auxiliary enterprise revenues offset by a $4.2 million increases in student housing revenue attributable to higher enrollment levels. In fiscal year 2008, sales and services increased by $12.2 million, or 11.1 percent, to $122.3 million when compared to $110.1 million in fiscal year 2007. In fiscal year 2008, the increase was largely due to increases in bookstore and Mānoa athletics revenues attributable to the successful football season and Allstate Sugar Bowl participation.

The University's net investment income for fiscal year 2009 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 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 over the prior year. Net investment income for fiscal year 2008 decreased by $35.9 million, or 77.1 percent, compared to $46.5 million in fiscal year 2007. The fiscal year 2008 decrease was mainly due to a $39.0 million decrease in net unrealized gain offset by a $4.2 million increase in net realized gain from the prior year.

The components of net investment income for the years ended June 30, 2009, 2008 and 2007 were as follows (in thousands):

				Increase (Decrease)	
	2009	2008	2007	FY 09-08	FY 08-07
Interest and dividend income	$ 16,521	$ 23,023	$ 22,689	$ (6,502)	$ 334
Net realized gains (losses)	(3,140)	13,499	9,303	(16,639)	4,196
Net unrealized gains (losses)	(40,582)	(23,001)	15,969	(17,581)	(38,970)
Other, net	(4,727)	(2,859)	(1,412)	(1,868)	(1,447)
	$ (31,928)	$ 10,662	$ 46,549	$ (42,590)	$ (35,887)

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 in fiscal year 2009 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. For fiscal year 2008, private gifts, most of which are restricted as to use, decreased by $8.5 million, or 21.2 percent, to $31.5 million in fiscal year 2008 when compared to $40.1 million in fiscal year 2007. The fiscal year 2008 decrease was primarily attributable to the successful Centennial Campaign in 2007 which brought the Foundation and the University closer to reaching its $250 million goal. For fiscal year 2007, private gifts, most of which were restricted as to use, increased by $20 million, or 100 percent, to $40.1 million when compared to $20.0 million in fiscal year 2006. The fiscal year 2007 increase was primarily attributable to the Foundation's dedication to raise private funds to support all ten campuses of the University. The University will continue to aggressively develop private revenue sources and cultivate the increasing trend in private gifts received.

Expenses Associated with Core Activities

The University is committed to recruiting and retaining outstanding faculty and staff, and providing compensation equivalent to peer institutions and nonacademic employers. Approximately 63 percent of the University's expenses were related to compensation and benefits during fiscal year 2009 and 2008 and 59 percent in 2007. Compensation and benefits increased by $94.1 million, or 10.4 percent, to $995.8 million in fiscal year 2009, and increased by $134.4 million, or 17.5 percent, to $901.7 million in fiscal year 2008 when compared to $767.3 million in fiscal year 2007. The increases for fiscal years 2009, 2008, and 2007 were attributable to scheduled pay rate increases under collective bargaining agreements. Additionally, the increases in fiscal years 2009 and 2008 included the impact of GASB Statement No. 45 on fringe benefit expense. The adoption of GASB Statement No. 45 resulted in the University recognizing $94.8 million and $88.6 million in expense related to postretirement health and life insurance benefits in 2009 and 2008, respectively.

Supplies and materials expense includes service fees, printing and binding, advertising, dues and subscriptions, controlled property acquisitions and other miscellaneous operating costs. In fiscal year 2009, supplies and material expense increased by $16.4 million, or 8.9 percent, to $201.6 million when compared to $185.2 million in fiscal year 2008. The increase was primarily attributable to increases in supplies and material expense in fiscal year 2009. In fiscal year 2008, supplies and materials expense decreased by $0.4 million, or 0.2 percent, to $185.2 million when compared to $185.5 million in fiscal year 2007. The decrease was primarily attributable to the $10.5 million reclassification of library electronic database expense in 2007 from the capitalized expense category offset by increases in supplies and material expense in fiscal year 2008.

The University is committed to providing an affordable yet quality education to its students. Scholarships and fellowships, primarily comprised of academic and athletic scholarships and fellowships, are payments of financial aid made directly to students. Scholarships and fellowships increased by $6.1 million, or 20.3 percent, to $36.3 million in fiscal year 2009 and decreased by $1.4 million, or 4.5 percent, to $30.2 million in fiscal year 2008 when compared to $31.6 million in fiscal year 2007. The increase for fiscal year 2009 was primarily due to a change in the relative amounts of financial aid payments made to offset scheduled tuition increases. Additionally, increased scholarships totaling $1.5 million were awarded for the new Second Century Scholarship initiated in Fall 2008 and increased amounts awarded for Centennial Scholarships and B Plus Scholarships. The decrease in 2008 was primarily attributable to fewer awards from the U.S. Department of Education for the Gaining Early Awareness and Readiness for Undergraduate Programs ("GEAR-UP").

The University continues its commitment to improve and maintain its facilities that service the diverse social needs of students, faculty, families and persons with disabilities. For fiscal year 2009, repairs and maintenance increased by $5.0 million, or 23.8 percent, to $26.2 million compared to $21.1 million in fiscal year 2008. For fiscal year 2008, repairs and maintenance increased by $2.3 million, or 10.9 percent, compared to $20.6 million in fiscal year 2007. The majority of repair and maintenance increases was in buildings and structures such as facilities management projects, accessibility modifications, capital renewal and deferred maintenance on all of the University's campuses.

The University depreciates its capital assets over their estimated useful lives using the straight-line method. Depreciation expense, which represents the estimated utilization of the University's capital assets each year, increased by $8.0 million, or 11.2 percent, to $79.2 million during fiscal year 2009 when compared to $71.2 million in fiscal year 2008. In fiscal year 2008, depreciation expense increased by $5.8 million, or 8.9 percent, to $71.2 million when compared to fiscal year 2007. The increase in fiscal year 2009 and 2008 was primarily attributable to land improvements, building and equipment additions and reclassifications from construction in progress to building and infrastructure.

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

Transfers to state increased by $8.0 million, or 7.7 percent, to $111.8 million in fiscal year 2009 when compared to $103.8 million in fiscal year 2008. For fiscal year 2009, increases in transfers to the state in the amount of $12.6 million for debt service on general obligation bonds, fringe benefit expense, and executive restrictions, were offset with an increase in Hawai‘i Cancer Research cigarette stamp tax collections and decrease on interest paid on Tobacco settlement funds and for "Bridge to Hope". Transfers to state decreased by $22 million, or 21.1 percent, to $82.5 million in fiscal year 2008 when compared to $104.6 million in fiscal year 2007. For fiscal year 2008, increases in transfers to the state in the amount of $7.2 million for debt service on general obligation bonds, fringe benefit expense and interest paid on Tobacco settlement funds offset by increases in transfers from the state in the amount of $29.2 million for “Bridge to Hope”, Hawai‘i Cancer Research cigarette stamp tax and Tobacco settlement accounted for the overall change.

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:

Time Period	Cigarette Stamp Tax
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

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, state capital appropriations and transfers, may only be used for the purchase or construction of specified capital assets. Additions to permanent endowments must be retained in perpetuity; however investment earnings thereon may be available in future years to support specified programs.

Capital gifts and grants, state capital appropriations and transfers, 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 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 renovation and other capital improvement projects on all campuses throughout the University system. The remainder of capital gifts and grants during fiscal year 2009 were primarily attributable to federal capital grants of $10.9 million and private capital gifts and grants of $1.6 million.

In fiscal year 2008, capital gifts and grants, including state capital appropriations and transfers, decreased by $1.8 million, or 1.2 percent, to $148.5 million compared to $150.3 million in fiscal year 2007. During fiscal 2008, the State of Hawai‘i transferred $15.6 million in completed construction projects to the University. In addition to the completed projects, the State of Hawai‘i appropriated $116.9 million to the University for building renovation and other capital improvement projects on all campuses throughout the University system. The remainder of capital gifts and grants during fiscal year 2008 were primarily attributable to federal capital grants of $11.1 million and private capital gifts and grants of $4.9 million.

Cash Flows

The statement of cash flows presents the University's significant sources and uses of cash and cash equivalents, including restricted cash balances. The University's cash is comprised primarily of cash held with the state treasury, demand deposits, and time certificates of deposit with an original maturity of three months or less. A summary of the University's cash flows for the years ended June 30, 2009, 2008, and 2007 is as follows (in thousands):

	2009	2008	2007	FY 09 vs. 08 Change	FY 08 vs. 07 Change
Cash received from operations	$ 696,631	$ 726,537	$ 668,382	$ (29,906)	$ 58,155
Cash payments for operations	(1,310,933)	(1,259,097)	(1,156,276)	(51,836)	(102,821)
Net cash used in operating activities	(614,302)	(532,560)	(487,894)	(81,742)	(44,666)
Net cash provided by noncapital financing activities	765,192	704,867	627,457	60,325	77,410
Net cash provided by (used in) capital and related financing activities	(34,852)	(148,583)	(36,407)	113,731	(112,176)
Net cash provided by (used in) investing activities	(168,550)	44,006	(91,844)	(212,556)	135,850
Net increase (decrease) in cash	(52,512)	67,730	11,312	(120,242)	56,418
Cash					
Beginning of year	105,545	37,815	26,503	67,730	11,312
End of year	$ 53,033	$ 105,545	$ 37,815	$ (52,512)	$ 67,730

The University's cash and cash equivalents decreased by $52.5 million, or 49.8 percent, from $105.5 million at June 30, 2008 to $53.0 million at June 30, 2009. During fiscal year 2009, $614.3 million in cash was used for operating activities, offset by $765.2 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. The University's cash and cash equivalents increased by $67.7 million, or 179.1 percent, from $37.8 million at June 30, 2007 to $105.5 million at June 30, 2008. During fiscal year 2008, $532.6 million in cash was used for operating activities, offset by $704.9 million in cash provided by noncapital financing activities. Net cash used in capital and related financing activities amounted to $34.9 million in fiscal year 2009, $148.6 million in fiscal year 2008 and $36.4 million in fiscal year 2007. The significant decrease in net cash used in capital and related financing activities in fiscal years 2009 as compared to fiscal year 2008 was primarily attributable to a $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, $24.9 million increase 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. The significant increase in net cash used in capital and related financing activities in fiscal years 2008 as compared to fiscal year 2007 was primarily attributable to a $25.6 million increase cash provided by capital appropriations, gifts and grants and a $17.7 million net transfer from the State of Hawai‘i, and a decrease of $133.8 million in principal paid on capital debt and leases, offset by a $235.4 million decrease in proceeds from issuance of capital debt and a $53.9 million increase in purchases of capital assets.

Correspondingly, net cash used in investing activities amounted to $168.6 million in fiscal year 2009, while net cash provided by investing activities amounted to $44.0 million in fiscal year 2008. The decrease in net cash provided by investing activities of $212.6 million in fiscal year 2009 is attributable to an $8.5 million decrease in net income from interest and dividends on investments and a $114.0 million decrease from proceeds from the sales and maturities of investments and a $90.2 million increase in investment purchases. The increase in net cash provided by investing activities of $135.8 million in fiscal year 2008 is attributable to a $2 million increase in net income from interest and dividends on investments and a $26 million decrease from proceeds from the sales and maturities of investments offset by a $107.8 million decrease in investment purchases.

Net cash used in capital and related financing activities amount to $148.6 million in fiscal year 2008, $36.4 million in fiscal year 2007 and $125.9 million in fiscal year 2006. The significant increase in net cash used in capital and related financing activities in fiscal years 2008 as compared to fiscal year 2007 was primarily attributable to a $25.8 million increase cash provided by capital appropriations, gifts and grants and a $17.7 million net transfer from the State of Hawai‘i and a decrease of $128.8 million in principal paid on capital debt and leases, offset by a $235.4 million decrease in proceeds from issuance of capital debt and a $53.9 million increase in purchases of capital assets.

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

At June 30, 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 $336 million, far surpassing the initial goal of $250 million. The University of Hawai‘i Foundation is now planning for the next major fundraising effort. In the meantime, the level of fundraising has been maintained, even in these difficult economic times, with over $21 million having been raised in the first half of fiscal year 2010 toward a goal of $40 million.

In fiscal year 2009, extramural research and training awards totaled $414 million, more than twice as much as awards in fiscal year 2000. In fiscal year 2010, this pace has continued, with more than $270 million in contract and grant awards having been obtained through December 31, 2009.

At the same time, enrollment has been at record levels. Fall 2008 headcount was over 53,000 and Fall 2009 was almost 58,000 — both all-time records in the history of the University.

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 has further restricted the University’s general funds by $52 million for fiscal year 2010. While the Legislature is currently in session considering the budget for fiscal year 2011, funding reductions approximating these levels is likely to be maintained and further reductions are possible.

The University’s campuses have been planning for and implementing measures to deal with the above level of reductions in general funds, including salary reductions, hiring restrictions, operational consolidations and savings, and the use of federal stabilization and other non-general fund sources of revenue. The University remains committed to revenue diversification and cost containment, in order to provide the necessary resources to support and fuel its operations and enrollment growth.

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

University of Hawai'i
State of Hawai'i
Consolidated Statements of Net Assets
June 30, 2009 and 2008
(All dollars reported in thousands)

	2009	2008
Assets		
Current assets		
Cash and cash equivalents	$ 53,033	$ 105,545
Operating investments	178,621	75,469
Due From State of Hawai'i	15,899	28,277
Accounts receivable, net	88,580	91,390
Current portion of notes and contributions receivable, net	13,019	14,523
Accrued interest receivable	1,492	2,069
Inventories	14,271	13,416
Prepaid expenses, deferred charges and other current assets	8,118	9,537
Total current assets	373,033	340,226
Noncurrent assets		
Due from State of Hawai'i	272,907	246,663
Endowment and other investments	502,426	465,285
Notes and contributions receivable, net	31,979	32,831
Capital assets, net	1,275,918	1,188,635
Other noncurrent assets	25,727	28,407
Total noncurrent assets	2,108,957	1,961,821
Total assets	$ 2,481,990	$ 2,302,047
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$ 51,082	$ 52,786
Accrued payroll and fringe benefits	36,150	29,654
Advances from sponsors	55,053	59,840
Deferred revenue	30,094	32,560
Due to State of Hawai'i	6,438	8,292
Current portion of long-term liabilities	36,936	33,271
Other current liabilities	6,376	4,930
Total current liabilities	222,129	221,333
Noncurrent liabilities		
Accrued vacation	42,340	37,832
Accrued workers' compensation liability	8,257	8,265
Other postemployment benefits	127,911	62,851
Due to State of Hawai'i	1,176	1,313
Capital lease obligation	-	13,360
Bonds payable	351,600	258,630
Premium on bonds payable	1,729	1,864
Other noncurrent liabilities	6,790	7,356
Total noncurrent liabilities	539,803	391,471
Total liabilities	761,932	612,804
Commitments and contingencies		
Net assets		
Invested in capital assets, net of related debt	1,050,563	967,717
Restricted		
Nonexpendable	162,483	152,449
Expendable	417,636	419,005
Unrestricted	89,376	150,072
Total net assets	1,720,058	1,689,243
Total liabilities and net assets	$ 2,481,990	$ 2,302,047

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, 2009 and 2008
(All dollars reported in thousands)

	2009	2008
Operating revenues		
Student tuition and fees	$ 242,418	$ 203,243
Less: Scholarship allowances	61,340	52,274
Net student tuition and fees	181,078	150,969
Federal appropriations, grants and contracts	329,646	313,770
State and local grants and contracts	32,038	30,587
Nongovernmental sponsored programs	37,956	35,007
Sales and services of educational departments, other	36,699	36,018
Auxiliary enterprises		
Bookstores	31,090	31,521
Student housing (net of scholarship allowances of $1,005 and $856)	21,181	16,994
Other auxiliary enterprises revenues	31,929	38,118
Other operating revenues	2,921	3,266
Total operating revenues	704,538	656,250
Operating expenses		
Compensation and benefits	995,777	901,678
Supplies, services and cost of goods sold	201,618	185,216
Depreciation	79,228	71,226
Telephone and utilities	57,959	58,553
Scholarships and fellowships	36,297	30,162
Travel expenses	29,493	31,543
Repairs and maintenance	26,156	21,125
Other operating expenses	37,791	50,956
Total operating expenses	1,464,319	1,350,459
Operating loss	(759,781)	(694,209)
Nonoperating revenues (expenses)		
State appropriations	731,394	690,625
Private gifts	23,285	31,543
Net investment income (loss)	(31,928)	10,662
Interest expense	(11,175)	(10,629)
Transfers (to) from State of Hawai‘i for		
Debt service	(87,675)	(83,869)
Fringe benefits	(38,208)	(34,491)
Interest on Tobacco settlement	(75)	(1,190)
Restrictions	(5,100)	-
Bridge to Hope	116	781
Hawaii Cancer Research	19,117	14,957
Loss on disposal of capital assets	(5,975)	(1,973)
Other, net	(3,564)	(286)
Net nonoperating revenues before capital and endowment additions	590,212	616,130
Capital - state appropriations	142,716	116,910
Capital - federal grants/subsidies	10,887	11,059
Capital - gifts and grants	1,628	4,884
Net transfers from State of Hawai‘i for capital assets	16,887	15,643
Transfers from State of Hawai‘i, Tobacco settlement	14,787	21,272
Additions to permanent endowments	13,479	19,284
Total other revenues	200,384	189,052
Net nonoperating revenues	790,596	805,182
Change in net assets	30,815	110,973
Net assets		
Beginning of year	1,689,243	1,578,270
End of year	$ 1,720,058	$ 1,689,243

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, 2009 and 2008
(All dollars reported in thousands)

	2009	2008
Cash flows from operating activities		
Student tuition and fees	$ 184,909	$ 164,921
Grants and contracts	396,150	442,800
Other revenues	115,572	118,816
Payments to employees	(917,752)	(845,961)
Payments to suppliers and other	(356,068)	(373,410)
Payments for scholarships and fellowships	(37,113)	(39,726)
Net cash used in operating activities	(614,302)	(532,560)
Cash flows from noncapital financing activities		
State appropriations	743,686	661,474
Recoveries received from State for Mānoa flood	-	21,679
Gifts and grants for other than capital purposes	43,862	41,117
Transfer from State of Hawai‘I for		
Bridge for Hope	116	782
Hawaii Cancer Center	19,117	14,957
Transfers to State of Hawai‘I for		
Fringe benefits	(38,207)	(34,491)
Restrictions	(5,100)	-
Interest on Tobacco Settlement	(75)	(1,190)
Other receipts	1,793	539
Net cash provided by noncapital financing activities	765,192	704,867
Cash flows from capital and related financing activities		
Capital appropriations	116,473	91,580
Capital gifts and grants	11,024	12,378
Proceeds from issuance of capital debt	100,000	-
Purchases of capital assets	(158,869)	(175,830)
Principal paid on capital debt and leases	(20,155)	(3,498)
Interest paid on capital debt and leases (net of amounts capitalized)	(10,437)	(10,616)
Transfers to State of Hawai‘i for debt service	(87,675)	(83,869)
Transfer from State of Hawai‘i, Tobacco settlement	14,787	21,272
Net cash used in capital and related financing activities	(34,852)	(148,583)
Cash flows from investing activities		
Interest and dividends on investments, net	14,176	22,703
Proceeds from sales and maturities of investments	505,122	618,985
Purchase of investments	(687,848)	(597,682)
Net cash provided by (used in) investing activities	(168,550)	44,006
Net increase (decrease) in cash and cash equivalents	(52,512)	67,730
Cash and cash equivalents		
Beginning of year	105,545	37,815
End of year	$ 53,033	$ 105,545

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

University of Hawaiʻi
State of Hawaiʻi
Consolidated Statements of Cash Flows
Years Ended June 30, 2009 and 2008
(All dollars reported in thousands)

	2009	2008
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	$ (759,781)	$ (694,209)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation expense	79,228	71,226
Bad debt (recoveries) expense	(3,110)	8,056
Payments included in other nonoperating expenses for		
Clean-up efforts from Mānoa flood	(617)	(976)
Clean-up efforts form UH Lab school fire	(14)	(89)
Changes in operating assets and liabilities		
Accounts receivable	6,300	1,761
Notes and contributions receivable	(2,372)	(1,534)
Inventories	(856)	(3,678)
Prepaid expenses and other assets	(603)	656
Accounts payable	(1,321)	2,933
Accrued payroll and benefits	12,576	6,649
Accrued workers' compensation liability	199	1,442
Advances from sponsors	(4,787)	8,398
Other postemployment benefits	65,060	62,851
Other, net	(4,204)	3,954
Net cash used in operating activities	$ (614,302)	$ (532,560)
Supplemental information of noncash transactions		
Noncash contributions	$ 2,101	$ 8,769
Net transfers from State of Hawaiʻi for capital assets	17,696	16,256
Accounts payable for capital assets	13,171	13,377

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

1. Organization and Summary of Significant Accounting Policies

Financial Reporting Entity

The accompanying consolidated financial statements of the University of Hawaiʻi (the "University"), include the activities of the University of Hawaiʻi at Mānoa, University of Hawaiʻi at Hilo, University of Hawaiʻi at West Oʻahu, University of Hawaiʻi 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 Hawaiʻi (the "Research Corporation") and the University of Hawaiʻi 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 Hawaiʻi, 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 Hawaiʻi Foundation, 2444 Dole Street, Bachman Hall, Room 101, Honolulu, HI 96822.

Similarly, the University is fiscally dependent upon the State of Hawaiʻi (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.

Cash and Cash Equivalents
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.

Restricted Cash, Cash Equivalents and Investments
The University considers 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 to be restricted.

Investments
Investments in money market funds, fixed income securities, equity securities, and mutual funds with readily determinable fair values are reported at fair value based on quoted market prices. Investments in auction rate securities are reported at par value, which approximates fair value based on successful auctions at or near fiscal year-end. Investments in investment agreements, absolute return funds 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 State
The State Director of Finance is responsible for the safekeeping of all cash in the State Treasury in accordance with State laws. Currently, separate accounts are not maintained in the State Treasury for the University’s general operating and capital appropriations. Although these appropriations are available to the University to expend, custody and ownership of the funds remains with the State. Unspent general and capital appropriations that continue to be available to the University for expenditure at the end of the fiscal year are reported as Due from State of Hawai‘i in the accompanying consolidated Statements of Net Assets.

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.

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 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 non-expendable 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 charged to 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.

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 future years.

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, 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. The University’s OPEB expense for the years ended June 30, 2009 and 2008 was $94,396 and $88,560, respectively. The University’s OPEB obligation liability at June 30, 2009 and 2008 was $127,991 and $62,851, respectively. The University remitted $47,372 and $41,217 in State assessed OPEB contributions for the years ended June 30, 2009 and 2008, which exceeded the University’s actuarially determined minimum OPEB contribution of $29,710, and $25,709, respectively. The $17,662 and $15,508 excess remittance was reported with Transfers to State for Fringe Benefits in the accompanying consolidated Statements of Changes in Net Assets.

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 are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Regents (“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.

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, 2009 and 2008 amounted to $580,119 and $571,454, respectively, of which $395,771 and $237,263 was 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.

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 uncollectible receivables, the useful lives of capital assets, the valuation of investments and the current versus noncurrent classification of assets and liabilities.

The University uses a third party actuary to estimate its workers' compensation liability. Changes in the liability are the result of claims payments made during the fiscal year, new claims filed and changes in the estimates of existing claims. Anticipated payments by the third party for the next fiscal year are considered current and payments thereafter are considered noncurrent. The liability at June 30, 2009 and 2008 represents the University's best estimate of workers' compensation liabilities based on available information.

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

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

The University depreciates 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 2008 consolidated financial statements have been reclassified to conform to the 2009 presentation. Such reclassifications have no impact on the 2008 change in net assets as previously reported.

2. Cash and Investments

The carrying amounts of cash and cash equivalents and time certificates of deposit held outside of the State Treasury as of June 30, 2009 and 2008, classified as cash and cash equivalents and operating investments, were $133,526 and $90,219, with corresponding bank balances of $153,766 and $115,401, respectively. The portion of such bank balances covered by federal deposit insurance or by collateral held by the State Director of Finance in the name of the University totaled $153,602 as of June 30, 2009 and $113,983 as of June 30, 2008. Additional cash equivalent balances of $16,568 as of June 30, 2009 and $11,270 as of June 30, 2008 represent deposits with investment brokers covered by the Securities Investor Protection Corporation and additional insurance provided by the investment brokers.

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

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

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 $988 and $500 at June 30, 2009 and 2008, respectively. These unrealized losses have been recorded as reductions in unrestricted net assets. Future market gains will be used to restore this deficiency in unrestricted net assets before any net appreciation above the historical cost value of such funds increases restricted expendable net assets.

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

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

State law allows spending of net appreciation, realized and unrealized in the fair value of the assets, of an endowment fund over the historic dollar value of the fund as is prudent under the standard established by Hawai‘i Revised Statute §517D-4. The University distributes its endowment fund income in accordance with its Board approved spending rate policy, which is consistent with state law. In fiscal years 2009 and 2008, 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.

(All dollars reported in thousands)

Investment management fees paid by the University during fiscal years 2009 and 2008 approximated $1,354 and $1,640, respectively.

At June 30, 2009 and 2008, the University’s investments were comprised of the following:

	2009		2008	
	Fair Value	Cost	Fair Value	Cost
Money market funds	$ 26,283	$ 26,283	$ 19,418	$ 19,418
Fixed income securities	285,046	281,168	147,297	145,093
Equity securities	24,143	26,687	30,660	29,690
Mutual funds	39,398	43,449	57,903	55,430
Time certificates of deposit	104,979	104,979	3,968	3,968
Student loan auction rate securities	108,500	108,500	117,050	117,050
Investment agreements	-	-	48,273	48,273
Limited partnerships	37,874	51,471	33,840	37,299
Absolute return	17,436	18,494	24,869	23,140
Real assets	9,182	10,241	28,637	16,357
Other investments	28,206	34,462	28,839	29,141
Total investments	681,047	705,734	540,754	524,859
Less: Current portion	178,621	177,855	75,469	75,047
Total noncurrent investments	$ 502,426	$ 527,879	$ 465,285	$ 449,812

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, recent successful auctions have been executed at par value, and the University has no intention of settling its auction rate securities at less than par value. Management also believes that the current lack of liquidity of auction rate securities will not have a material adverse effect upon the University’s operational capabilities.

Subsequent to June 30, 2009, the University has redeemed $15,000 of its holdings in auction rate securities.

(All dollars reported in thousands)

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	(6,796)	(2,673)	(4,123)	$ (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	(36,124)	(447)	(35,677)	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	(1,135)	(1,040)	(95)	(1,073)
School of Medicine				
End of year	11,936	11,920	16	
Beginning of year	11,788	11,769	19	
Net change	148	151	(3)	-
University Bond System				
End of year	124,619	124,489	130	
Beginning of year	48,273	48,273	-	
Net change	76,346	76,216	130	-
Operating investments				
End of year	178,621	177,855	766	
Beginning of year	75,469	75,047	422	
Net change	103,152	102,808	344	269
Auction rate securities				
End of year	108,500	108,500	-	
Beginning of year	117,050	117,050	-	
Net change	(8,550)	(8,550)	-	-
Other				
End of year	55,638	56,436	(798)	
Beginning of year	42,386	42,026	360	
Net change	13,252	14,410	(1,158)	414
Total investments				
End of year	681,047	705,734	(24,687)	
Beginning of year	540,754	524,859	15,895	
Net change	$ 140,293	$ 180,875	$ (40,582)	$ (3,140)

(All dollars reported in thousands)

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

	Fair Value	Cost Basis	Net Unrealized Gain (Loss)	Net Realized Gain (Loss)
University Endowment Pool				
End of year	$ 56,732	$ 56,530	$ 202	
Beginning of year	60,882	55,251	5,631	
Net change	(4,150)	1,279	(5,429)	$ 1,050
Foundation Endowment Pool				
End of year	182,338	167,308	15,030	
Beginning of year	176,388	144,123	32,265	
Net change	5,950	23,185	(17,235)	11,733
Associated Students of the University of Hawai'i				
End of year	6,718	6,856	(138)	
Beginning of year	7,284	6,475	809	
Net change	(566)	381	(947)	325
School of Medicine				
End of year	11,788	11,769	19	
Beginning of year	14,548	14,532	16	
Net change	(2,760)	(2,763)	3	-
University Bond System				
End of year	48,273	48,273	-	
Beginning of year	89,871	89,871	-	
Net change	(41,598)	(41,598)	-	-
Operating investments				
End of year	75,469	75,047	422	
Beginning of year	127,931	128,063	(132)	
Net change	(52,462)	(53,016)	554	257
Auction rate securities				
End of year	117,050	117,050	-	
Beginning of year	64,000	64,000	-	
Net change	53,050	53,050	-	-
Other				
End of year	42,386	42,026	360	
Beginning of year	33,192	32,885	307	
Net change	9,194	9,141	53	134
Total investments				
End of year	540,754	524,859	15,895	
Beginning of year	574,096	535,200	38,896	
Net change	$ (33,342)	$ (10,341)	$ (23,001)	$ 13,499

(All dollars reported in thousands)

	2009	2008
Summary of net investment income		
Change in unrealized net loss	$ (40,582)	$ (23,001)
Net realized gain (loss)	(3,140)	13,499
	(43,722)	(9,502)
Interest in perpetual trusts	(1,916)	(1,003)
Split interest agreements	(1,736)	262
Amounts held for others	419	40
Investment income used to finance construction costs	(140)	(518)
Interest and dividend income	16,521	23,023
Investment income (loss) before management fees	(30,574)	12,302
Less: Management fees	(1,354)	(1,640)
Net investment income (loss)	$ (31,928)	$ 10,662

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

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

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

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

(All dollars reported in thousands)

The composition of fixed income securities at June 30, 2009 and 2008, along with credit quality ratings is summarized below:

		Credit Quality Rating				
2009	**Fair Value**	**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	$ 285,046	$ 7,107	$ 257,505	$ 11,581	$ 6,099	$ 2,754

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

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

At June 30, 2009, the composition of the University's fixed income investments and maturities are summarized below:

		Investment Maturities (in Years)			
2009	**Fair Value**	**Less than 1**	**1 to 5**	**6 to 10**	**More than 10**
U.S. Treasury	$ 6,492	$ 790	$ 4,714	$ 944	$ 44
U.S. government agencies	254,495	107,226	143,217	2,032	2,020
Corporate bonds	24,059	523	11,268	12,163	105
Total fixed income securities	$ 285,046	$ 108,539	$ 159,199	$ 15,139	$ 2,169

Concentration of Credit Risk
Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the organization to greater risks resulting from adverse economic, political, regulatory, geographic or credit development. The University limits its risk of concentration of assets by limiting individual bond positions other than obligations of the U.S. government to not more than 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.

(All dollars reported in thousands)

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

At June 30, 2009 and 2008, the University's exposure to foreign currency risk expressed in U.S. dollars was as follows:

	2009	2008
Equity securities		
Australian dollar	$ 867	$ 265
Bermudian dollar	424	571
Brazilian real	1,231	1,357
British pound	6,631	9,398
Euro	13,846	16,503
Hong Kong dollar	1,237	1,373
Japanese yen	12,189	16,382
Korean won	1,405	1,614
Mexican peso	969	1,133
Polish zloty	567	-
Singapore dollar	1,247	1,405
Swedish krona	715	839
Swiss franc	1,493	1,731
Taiwanese dollar	512	880
Other (20 countries)	1,791	2,073
Total exposure to foreign currency risk	$ 45,124	$ 55,524

3. Accounts Receivable

The composition of accounts receivable at June 30, 2009 and 2008 is summarized as follows:

	2009	2008
U.S. government	$ 55,878	$ 51,273
State and local government	7,869	12,211
Private agencies	10,310	17,532
Other	28,496	28,041
	102,553	109,057
Less: Allowance for doubtful accounts	13,973	17,667
	$ 88,580	$ 91,390

(All dollars reported in thousands)

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 $39,589 in 2009 and $38,369 in fiscal year 2008. 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. During fiscal year 2008, the University expended 98.92 percent and 1.08 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.

5. Notes and Contributions Receivable

The composition of notes and contributions receivable at June 30, 2009 and 2008 is summarized as follows:

	2009	2008
Student notes		
Federal loan programs	$ 20,614	$ 19,658
State loan programs	7,536	6,098
University loan funds	61	58
Other notes receivable	125	149
Total student and other notes outstanding	28,336	25,963
Less: Allowance for doubtful accounts	5,912	5,955
Total student and other notes receivable, net	22,424	20,008
Contributions receivable	23,983	28,698
Less: Allowance for uncollectible pledges	1,062	1,001
Less: Discount to present value	347	351
Total contributions receivable, net	22,574	27,346
Total student notes and contributions receivable, net	44,998	47,354
Less: Current portion, net	13,019	14,523
	$ 31,979	$ 32,831

(All dollars reported in thousands)

The allowance for doubtful accounts at June 30, 2009 and 2008 is comprised of:

	2009	2008
Federal Perkins loan program	$ 3,352	$ 3,564
State of Hawai‘i Higher Education loans	2,471	2,268
Nursing/Health Profession loans	30	66
Short-term loans	59	57
	$ 5,912	$ 5,955

Payments on contributions receivable at June 30, 2009 are expected to be collected in:

Less than one year	$ 9,782
One year to five years	14,201
	$ 23,983

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 professions loan programs.

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

As discussed in Note 1 to the consolidated financial statements, pledges for permanent endowments do not meet eligibility requirements, as defined by GASB Statement No. 33, until the related gift is received. Accordingly, permanent endowment pledges totaling approximately $5,337 and $5,072 at June 30, 2009 and 2008, 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.

(All dollars reported in thousands)

6. Inventories

The inventories and the methods of valuation at June 30, 2009 and 2008 are comprised of:

		2009	2008
University of Hawai‘i Bookstore merchandise inventory	Lower of cost or market using the first-in, first-out retail inventory method	$ 11,700	$ 10,722
University of Hawai‘i Chemistry Stockroom	Cost applied on the first-in, first-out basis.	1,202	1,222
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.	905	922
University of Hawai‘i other cost of goods sold	Cost applied on the first-in, first-out basis.	464	550
		$ 14,271	$ 13,416

(All dollars reported in thousands)

7. Capital Assets

A summary of capital assets at June 30, 2009 and 2008 is as follows:

	Beginning Balance	Additions	Deductions	Transfers	Ending Balance
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

	Beginning Balance	Additions	Deductions	Transfers	Ending Balance
2008					
Nondepreciable capital assets					
Land	$ 11,827	$ 659	$ -	$ -	$ 12,486
Construction in progress	146,623	151,988	1,490	(85,255)	211,866
Total capital assets not being depreciated	158,450	152,647	1,490	(85,255)	224,352
Depreciable capital assets					
Land improvements	75,816	49	676	4,514	79,703
Infrastructure	55,327	139	-	19,422	74,888
Buildings	1,130,857	16,889	16,186	57,339	1,188,899
Equipment	255,785	18,573	8,560	3,980	269,778
Library materials	153,664	6,942	269	-	160,337
Total capital assets being depreciated	1,671,449	42,592	25,691	85,255	1,773,605
Less: Accumulated depreciation	755,869	71,226	17,773	-	809,322
Capital assets, net	$ 1,074,030	$ 124,013	$ 9,408	$ -	$ 1,188,635

(All dollars reported in thousands)

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

The State Department of Accounting and General Services ("DAGS") administer a few of the University's construction projects. Upon completion, the University records the total project cost, including amounts funded from state and federal sources. Capital assets transferred to the University from DAGS amounted to $17,696 and $16,256 in 2009 and 2008, respectively.

8. Other Noncurrent Assets

Other noncurrent assets at June 30, 2009 and 2008 were comprised of:

	2009	2008
Interest in beneficial trusts held by others	$ 17,108	$ 19,201
Deferred bond refunding and issuance costs (Note 11)	8,619	9,206
	$ 25,727	$ 28,407

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, 2009 and 2008 were as follows:

	2009		2008	
	Due from	Due to	Due from	Due to
State appropriations for current operations	$ 15,899		$ 28,192	
Employer fringe adjustments	-		85	
Due from State of Hawai'i – current	15,899		28,277	
State capital appropriations-noncurrent	272,907		246,663	
Total due from State of Hawai'i	$ 288,806		$ 274,940	
Imprest/petty cash advances		$ 264		$ 278
Advance		6,000		6,000
General obligation bonds – current		137		1,603
Employee fringe adjustments		37		-
Other		-		411
Due to State of Hawai'i – current		6,438		8,292
General obligation bonds – noncurrent		1,176		1,313
Total due to State of Hawai'i		$ 7,614		$ 9,605

(All dollars reported in thousands)

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, 2009 was 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	-
	8,913	1,472	1,472	-
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
	1,299	1,299	119	1,180
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
	145	145	12	133
	$ 10,357	$ 2,916	$ 1,603	$ 1,313

(All dollars reported in thousands)

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

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

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 first principal payment on Series DB and DG were due on September 1, 2008 and July 1, 2009, respectively. The interest and principal payments are due as follows:

	Principal	Interest
Series CS	April 1	April 1 and October 1
Series DB	Sept 1	March 1 and September 1
Series DG	July 1	January 1 and July 1

(All dollars reported in thousands)

At June 30, 2009, 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:

	Principal	Interest
Year ending June 30,		
2010	$ 137	$ 7
2011	144	6
2012	151	6
2013	159	5
2014	167	4
2015–2018	555	5
	$ 1,313	$ 33

The general obligation bonds have provisions for early redemption. The premiums on bond redemption, as a percentage of bond principal redeemed, range from 0.5 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 158-SLH 2008, Section 4, provided general fund appropriation to pay for debt service on general obligation bonds issued for the University and transferred to the financial administration program of the Department of Budget and Finance. Appropriation for debt service amounted to $87,675 and $83,869 for the years ended June 30, 2009 and 2008, respectively.

(All dollars reported in thousands)

11. Long-Term Liabilities

Long-term liability activity for the years ended June 30, 2009 and 2008 are summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
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 healthcare / life insurance benefits (Note 15)	62,851	94,770	29,710	127,911	-
Installment contract payable (Note 16)	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
2008					
Leases and bonds payable					
Revenue bonds payable	$ 264,065	$ -	$ 1,020	$ 263,045	$ 4,415
Capital lease payable	14,255	-	435	13,820	460
Total leases and bonds payable	278,320	-	1,455	276,865	4,875
Other liabilities					
Workers' compensation	11,137	3,567	2,125	12,579	4,314
Accrued vacation	56,030	23,699	18,131	61,598	23,766
Notes payable – RCUH	89	-	89	-	-
Postretirement healthcare / life insurance benefits (Note 15)	-	88,560	25,709	62,851	-
Installment contract payable (Note 16)	249	352	237	364	316
Total other liabilities	67,505	116,178	46,291	137,392	28,396
Total long-term liabilities	$ 345,825	$ 116,178	$ 47,746	$ 414,257	$ 33,271

(All dollars reported in thousands)

Revenue Bonds Payable

The University's revenue bonds payable at June 30, 2009 and 2008 are as follows:

	Series	Date Issued	Authorized	2009	2008
Student Housing System at Mānoa and Telecommunications System (interest rate, 3.0% to 5.25%)	2001B	December 19, 2001	$ 18,665	$ 12,425	$ 13,500
University Health & Wellness Center (interest rate 2.70% to 5.59%)	2002A	June 27, 2002	150,000	12,820	15,735
Frear Hall Construction, Student Housing System at Mānoa, Food Service System and Student Housing System at Hilo (interest rate, 3.25% to 5.0%)	2006A	December 13, 2006	100,000	100,000	100,000
University Health & Wellness Center (interest rate. 3.5% to 5.0%)	Ref 2006A	October 25, 2006	133,810	133,385	133,810
Various acquisition and construction projects (interest rate. 2.5% to 6.0%)	2009A	April 15, 2009	100,000	100,000	-
			$ 502,475	$ 358,630	$ 263,045

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 Oahu for conversion to faculty housing, the development of new faculty housing units on Oahu, 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 Oahu 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'iokahaloa 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 $14,787 in 2009 and $21,272 in 2008.

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 moneys on deposit in any special fund or revolving fund of the University, excluding moneys on deposit in the University Revenue – Undertakings Fund ("University Bond System") are pledged to the payment of the Series 2002A bonds, interest and premiums (if any). All available moneys on deposit in any special fund or revolving fund of the University, including moneys on deposit in the University Bond System are pledged to the payment of the Series 2001B, 2006A and 2009A bonds, interest and premiums, if any.

(All dollars reported in thousands)

At June 30, 2009, future maturities of revenue bonds are as follows:

	Principal	Interest
Year ending June 30,		
2010	$ 7,030	$ 16,336
2011	7,285	16,257
2012	9,140	15,930
2013	9,485	15,568
2014	9,880	15,180
2015–2019	55,035	68,713
2020–2024	61,715	55,055
2025–2029	75,155	38,389
2030–2034	80,280	21,027
2035–2039	43,625	5,401
	$ 358,630	$ 267,856

Bond Premiums
Activity related to the premiums on general obligation and revenue bonds for the years ended June 30, 2009 and 2008 are as follows:

	Series	Beginning Balance	Additions	Reductions	Ending Balance
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
Total bond premiums		$ 1,864	$ -	$ 135	$ 1,729
2008					
Student Housing System at Mānoa and Telecommunications System	2001B	$ 122	$ 19	$ -	$ 141
John A. Burns School of Medicine	Ref 2006A	1,724	-	57	1,667
General obligation	DB	57	-	10	47
General obligation	DG	10	-	1	9
Total bond premiums		$ 1,913	$ 19	$ 68	$ 1,864

(All dollars reported in thousands)

Deferred Bond Refunding and Issuance Costs

Activity related to issuance costs for general obligation and revenue bonds for the years ended June 30, 2009 and 2008 are as follows:

	Series	Beginning Balance	Additions	Reductions	Ending Balance
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
Total bond issuance costs		$ 9,206	$ -	$ 587	$ 8,619
2008					
Student Housing System at Mānoa and Telecommunications System	2001B	$ 395	$ 62	$ -	$ 457
John A. Burns School of Medicine	Ref 2006A	9,004	-	298	8,706
General obligation	DB	44	-	8	36
General obligation	DG	8	-	1	7
Total bond issuance costs		$ 9,451	$ 62	$ 307	$ 9,206

Capital Lease Obligation

On November 1, 1995, the Housing Finance and Development Corporation (“HFDC”) issued $17,680 in revenue bonds to provide permanent financing for the University of Hawai‘i Kau‘iokahaloa Nui Faculty Housing Project. At the time of issuance, HFDC entered into a Lease and Sublease Agreement (“Agreement) with the University.

Pursuant to the Agreement, the University Bond System operates the Kau‘iokahaloa Nui Faculty Housing Project and made lease rental payments to HFDC sufficient to pay the HFDC debt service. Upon retirement of the HFDC revenue bonds, HFDC’s rights, title and interest in the Kau‘iokahaloa Nui Faculty Housing Project would transfer to the University Bond System. The lease agreement was accounted for as a capital lease by the University Bond System. The amount capitalized was $20,130. The net book value of the capital assets included in capital assets as of June 30, 2008 approximated $13,549.

In connection with the issuance of the Series 2009A revenue bonds, approximately $13,360 of the bond proceeds was used to repay the 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 $13,033 and $13,549 at transfer date and June 30, 2008, respectively. At transfer date, the original basis of the capital lease asset of $20,130 and accumulated amortization of $7,097 was reversed and a new cost basis of $13,032 was established for the Kau‘iokahaloa Nui Faculty Project.

(All dollars reported in thousands)

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 and 3.75 percent at June 30, 2009 and 2008, respectively. At June 30, 2009 and 2008, there were no borrowings under this line.

13. Property Leases

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

	Lease Amount
Year ending June 30,	
2010	$ 1,577
2011	1,346
2012	386
2013	108
2014	106
2015–2019	334
2020–2024	334
Thereafter	2,123
	$ 6,314

Rent expense for outside space for the years ended June 30, 2009 and 2008 approximated $5,296 and $4,598, 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 of only a contributory option. In 1984, legislation was enacted to add a new noncontributory option for members of the ERS who are also covered under Social Security. Persons employed in positions not covered by Social Security are precluded from the noncontributory option. The noncontributory option provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory option or to elect the new noncontributory option and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and noncontributory options, respectively. Both options provide a monthly retirement allowance based on the employee’s age, years of credited service and average final compensation (“AFC”). If the employee became a member prior to January 1, 1971, the AFC is the average salary earned during the five highest paid years of service, including the vacation payment, or three highest paid years of service, excluding the vacation payment. The AFC for members hired on or after that date is based on the three highest paid years of service, excluding the vacation payment. Contributions are based upon negotiated collective bargaining agreements, and the majority is funded by the State general fund as accrued. Subsequently, if an employee is paid from another funding source, contributions will be made from that same source. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liability.

(All dollars reported in thousands)

On July 1, 2006, a new hybrid contributory plan became effective pursuant to Act 179, SLH of 2004. Members in the hybrid plan will be eligible for retirement at age 62 with 5 years of credited service or age 55 with 30 years of credited service. Members will receive a benefit multiplier of 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 Hawaii Revised Statues (“HRS”) Chapter 88 and amended by the Hawaii state legislature. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. The employee contribution rate is 7.8 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, 2009, 2008, and 2007 were $79,724, $65,570 and $58,141, respectively, which represented 13.75 percent of payroll for each year. Effective July 1, 2008, the employer contribution rate increased 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

The following data was obtained from the disclosures contained in the CAFR for the year ended June 30, 2008 is as follows:

Number of employers as of March 31, 2008 was:

State	1
Counties	4
Total employers	5

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

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

Other Benefits
The State absorbs the fringe benefit cost for employees paid from State and Federal appropriations. The University receives a State appropriation for these fringe benefit costs. Fringe benefit costs included in total revenue and total expenditures amounted to $156,203 and $135,059 for fiscal years 2009 and 2008, 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, 2009 and 2008, accumulated sick leave approximated $421,568 and $ 378,309, 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 2009 and 2008 were $1,949 and $1,627, respectively. Temporary wage loss payments for fiscal years 2009 and 2008 amounted to $452 and $278, respectively.

15. Postemployment Benefits Other than Pensions

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

Plan Description

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

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

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

For employees hired after June 30, 1996, but before July 1, 2001, and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years, but fewer than 15 years of service, the State pays 50 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 can elect 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 can elect family coverage, but must pay the difference.

Funding Policy and Annual OPEB Cost

Employer contributions are financed on a pay-as-you-go basis. The University’s contributions are calculated as part of the State’s total contribution requirements and are reimbursed to the State’s General Fund as part of the fringe benefit rate on the University employees’ actual salaries. The University’s annual OPEB cost is calculated based on the annual required contribution of the employer (“ARC”), an amount actuarially determined in accordance with the 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 table presents the annual OPEB cost and the percentage of annual OPEB cost contributed to the plan for the fiscal year ended June 30, 2009 (amounts in thousands):

Projected June 30, 2009 Net OPEB Obligation (“NOO”)

July 1, 2008 net OPEB obligation	$ 62,851
Plus: Annual OPEB cost	94,770
Less: Employer contributions (estimated “pay as you go” method)	29,710
Equals: Expected June 30, 2009 net OPEB obligation	$ 127,911

OPEB Summary

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
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, 2008

Actuarial value of assets	$ -
Actuarial accrued liability	1,206,264
Unfunded actuarial accrued liability (“UAAL”)	$ 1,206,264
Funded ratio	0%
Covered payroll (active plan members)	534,667
UAAL as a percentage of covered payroll	225.6%

(All dollars reported in thousands)

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

Actuarial Methods and Assumptions

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

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

16. Other Noncurrent Liabilities

Other noncurrent liabilities at June 30, 2009 and 2008 are comprised of:

	2009	2008
Liabilities under split interest agreements	$ 4,204	$ 4,599
Amounts held for others	1,838	2,359
Other	748	398
	$ 6,790	$ 7,356

(All dollars reported in thousands)

17. State Appropriations

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

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

The net amount of the University’s State general and capital appropriations for the years ended June 30, 2009 and 2008 were $731,394 and $142,716, and $690,625 and $116,910, respectively.

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
	730,027
Others	
Allotments for salary increases and other adjustment	
Act 136, 137, & 138, SLH 2007	9,909
	739,936
Total funds lapsed	(258)
G 09 302 Lapse adjustment	(376)
Executive restrictions	(7,908)
Total general appropriations	$ 731,394
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, SLH2008	(682)
Total funds lapsed	(98)
Total capital appropriations	$ 142,716

(All dollars reported in thousands)

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

General appropriations	
Act 213, SLH 2007, Appropriation Warrant No. 18	$ 670,485
Act 111, SLH 2007, Appropriation Warrant No. 59 (G 301)	261
Act 111, SLH 2007, Appropriation Warrant No. 59 (G 302)	1,402
Act 111, SLH 2007, Appropriation Warrant No. 59 (G 303)	175
Act 111, SLH 2007, Appropriation Warrant No. 59 (G 304)	175
Act 254, SLH 2007, Appropriation Warrant No. 94 (G 308)	50
Act 11, SLH2007, Appropriation Warrant No. 127 (G 322)	150
	672,698
Others	
Allotments for salary increases and other adjustment	
Act 94, 97, & 98, SLH 2005	4,496
	677,194
Total funds lapsed	(916)
G-08-020	(160)
G 319 (Flood) net encumbrance remaining	14,507
Total general appropriations	$ 690,625
Capital appropriations	
Section 125, Act 213, SLH 2007	$ 106,910
Section 85 & 114, Act 178, SLH 2005	250
Section 85 & 114, Act 178, SLH 2005 as amended by Act 160, SLH 2006	11,296
Section 85 & 122, Act 178 SLH 2005 as amended by Act 160, SLH 2006	(1,033)
Total funds lapsed	(513)
Total capital appropriations	$ 116,910

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.

(All dollars reported in thousands)

The unrestricted net assets at June 30, 2009 and 2008 were as follows:

	2009	2008
Unrestricted net assets		
Designated		
Research and training	$ 44,755	$ 55,428
Contract commitments	49,010	43,007
Quasi-endowment	19,264	42,184
Capital projects	30,717	29,751
Bond System	17,833	14,346
Other designated net assets	8,403	8,413
Total designated	169,982	193,129
Undesignated (unfunded obligations for vacation, worker's compensation liabilities, payroll, etc.)	(80,606)	(43,057)
Total unrestricted net assets	$ 89,376	$ 150,072

19. Segment Information

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

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

The University Bond System's outstanding debt was issued pursuant to 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 resolutions provide that all revenues collected or received from the Network should be used to support the Network (which includes the University projects of the University Bond System) and bond related expenses.

(All dollars reported in thousands)

The following summary financial information as of June 30, 2009 and 2008 is presented before elimination of certain intra-University transactions.

	2009	2008
Condensed statements of net assets		
Assets		
Current assets	$ 57,537	$ 58,206
Capital assets, net	165,717	135,004
Other assets	125,003	48,773
Total assets	$ 348,257	$ 241,983
Liabilities		
Current liabilities	$ 19,229	$ 21,054
Noncurrent liabilities	211,308	128,327
Total liabilities	230,537	149,381
Net assets		
Invested in capital assets, net of related debt	74,678	52,206
Restricted expendable	1,037	4,081
Unrestricted	42,005	36,315
Total net assets	117,720	92,602
Total liabilities and net assets	$ 348,257	$ 241,983

	2009	2008
Condensed statements of revenues, expenses and changes in net assets		
Operating revenues		
Bookstores	$ 31,105	$ 31,510
Room and other rentals	21,111	18,385
Parking	5,188	4,785
Telecommunications	3,783	3,433
Other operating revenues	6,094	4,785
Total operating revenues	67,281	62,898
Operating expenses (including $7,724 and $5,479 in depreciation expense in 2009 and 2008, respectively)	(68,193)	(69,008)
Operating loss	(912)	(6,110)
Nonoperating revenues	31,182	6,680
Nonoperating expenses	(5,152)	(3,782)
Change in net assets	25,118	(3,212)
Net assets		
Beginning of year	92,602	95,814
End of year	$ 117,720	$ 92,602

(All dollars reported in thousands)

	2009	2008
Condensed statements of cash flows		
Net cash flows provided by (used in) operating activities	$ 2,403	$ (3,104)
Net cash flows provided by non-capital financing activities	1,322	2,411
Net cash flows provided by (used in) capital and related financing activities	68,207	(48,038)
Net cash flows provided by investing activities	5,873	7,741
Net increase (decrease) in cash and cash equivalents	77,805	(40,990)
Cash and cash equivalents		
Beginning of year	89,347	130,337
End of year	$ 167,152	$ 89,347

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 Hawaii to the United States which were reconveyed to the State upon Hawaii'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 Hawaii Department of Accounting and General Services
1151 Punchbowl Street
Honolulu, Hawai‘i 96813

Although the ultimate outcome and financial impact to the University of the 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. The University assumes the risk of loss and administers unpaid claims on behalf of the entire University.

With respect to workers’ compensation insurance, the University is self-insured for the first $500,000 per occurrence and annual aggregate and obtains excess insurance of $50,000,000 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).

Construction and Other Contracts

The University is committed under contracts awarded for construction and other services. These commitments amounted to approximately $114,955 and $181,873 as of June 30, 2009 and 2008.

Collective Bargaining Agreements

Personnel costs are a significant component of the University’s expenses. 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. The University's collective bargaining agreements with the unions expired at June 30, 2009 and negotiations were ongoing at year end regarding new agreements.

In October 2009, the University's employees represented by the Hawaii Government Employees Association (“HGEA”) entered into an agreement for temporary salary reductions of five percent per year for the fiscal years ending June 30, 2010 and 2011.

In January 2010, faculty members ratified a new six-year collective bargaining agreement between the University of Hawaii Professional Assembly (“UHPA”) which represents the faculty, and the University, 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 those 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.

In March 2010 the United Public Workers Union (“UPW”), which represents the University's blue-collar workers, reached a settlement with the State of Hawaii and its counties. The agreement, certain aspects of which have not yet been resolved, calls for furloughs for fiscal years ending June 30, 2010 and 2011. The University plans to implement the settlement in such manner as to obtain a five percent annualized reduction in salary cost for those fiscal years.

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.

21. New Accounting Pronouncements

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

In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for the University’s fiscal year beginning July 1, 2009. Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The University believes that Statement No. 53 will not have a material effect on its 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, 2008
(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, 2008	$0	$1,206,264	$1,206,264	0%	$534,667	225.6%
July 1, 2007	$0	$1,135,855	$1,135,855	0%	$478,812	237.2%

Other Supplementary Information

CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditors on Supplemental Information

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

The report on our audits of the consolidated financial statements of the University of Hawai‘i as of June 30, 2009 and 2008, 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 through V) included hereinafter is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects in relation to the consolidated financial statements taken as a whole.

Accuity LLP

Honolulu, Hawai‘i
March 26, 2010

999 Bishop Street, Suite 1900
Honolulu, Hawaii 96813
Telephone: 808 531 3400 Facsimile: 808 531 3433

University of Hawai‘i
State of Hawai‘i
Condensed Statements of Net Assets
Condensed Statements of Revenue, Expenses and Changes in Net Assets
Current Unrestricted Funds Excluding General Fund and
University Bond System
As of and for the Years Ended June 30, 2009 and 2008
(All dollars reported in thousands) Schedule I

	2009	2008
Condensed statements of net assets		
Assets		
Current assets	$ 282,028	$ 247,706
Total assets	$ 282,028	$ 247,706
Liabilities		
Current liabilities	$ 79,957	$ 76,600
Noncurrent liabilities	3,654	2,776
Total liabilities	83,611	79,376
Net assets		
Unrestricted	198,417	168,330
Total net assets	198,417	168,330
Total liabilities and net assets	$ 282,028	$ 247,706
Condensed statements of revenues, expenses and changes in net assets		
Operating revenues	$ 276,801	$ 252,687
Operating expenses	278,771	229,111
Operating income	(1,970)	23,576
Nonoperating revenues	39,325	46,636
Nonoperating expenses and transfers	7,268	2,044
Change in net assets	30,087	68,168
Net assets		
Beginning of year	168,330	100,162
End of year	$ 198,417	$ 168,330

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.

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
Schedules of Series 2002A Revenue Bond Proceeds Activity
Years Ended June 30, 2009 and 2008
(All dollars reported in thousands) Schedule II

	2009	2008
Beginning balance	$ 11,788	$ 13,277
Additions		
Interest and investment income	157	549
Total additions	157	549
Deductions		
Payments – building, construction in progress, other	-	2,027
Management fees	9	11
Total deductions	9	2,038
Ending balance	$ 11,936	$ 11,788

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.

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.

University of Hawai‘i
State of Hawai‘i
Condensed Statements of Net Assets
Condensed Statements of Revenue, Expenses and Changes in Net Assets
Current Unrestricted Funds Excluding General Fund
As of and for the Year Ended June 30, 2009 and 2008
(All dollars reported in thousands) Schedule III

	2009	2008
Condensed statements of net assets		
Assets		
Current assets	$ 313,330	$ 278,365
Total assets	$ 313,330	$ 278,365
Liabilities		
Current liabilities	$ 93,190	$ 92,036
Noncurrent liabilities	4,605	3,610
Total liabilities	97,795	95,646
Net assets		
Unrestricted	215,535	182,719
Total net assets	215,535	182,719
Total liabilities and net assets	$ 313,330	$ 278,365
Condensed statements of revenues, expenses and changes in net assets		
Operating revenues	$ 344,082	$ 315,025
Operating expenses	335,153	287,163
Operating income	8,929	27,862
Nonoperating revenues	40,378	48,440
Nonoperating expenses and transfers	16,491	14,323
Change in net assets	32,816	61,979
Net assets		
Beginning of year	182,719	120,740
End of year	$ 215,535	$ 182,719

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.

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
Schedules of Series 2006A Revenue Bond Proceeds Activity
Year Ended June 30, 2009 and 2008
(All dollars reported in thousands) **Schedule IV**

	2009	2008
Beginning balance	$ 48,273	$ 89,871
Additions		
Investment income	1,721	3,511
Total additions	1,721	3,511
Deductions		
Payments – building, construction in progress, other	12,091	42,509
Transfers – retire indebtedness	1,300	2,600
Management fees	2	-
Total deductions	13,393	45,109
Ending balance	$ 36,601	$ 48,273

1. Basis of Presentation

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

University of Hawai‘i
State of Hawai‘i
Schedules of Series 2009A Revenue Bond Proceeds Activity
Year Ended June 30, 2009
(All dollars reported in thousands) Schedule V

	2009
Beginning balance	$ -
Additions	
Bond proceeds	101,556
Investment income	13
Total additions	101,569
Deductions	
Repayment of capital lease	13,392
Payments – building, construction in progress, other	150
Management fees	9
Total deductions	13,551
Ending balance	$ 88,018

1. Basis of Presentation

The accompanying schedule of Series 2009A revenue bond proceeds activity presents the sources and uses of Series 2009A revenue bond proceeds associated with the financing of costs of certain University projects.