CERTIFIED PUBLIC ACCOUNTANTS

University of Hawai‘i
State of Hawai‘i

Consolidated Financial Statements,
Required Supplementary Information
and Other Supplementary Information
June 30, 2012

Quality Integrity Insight

University of Hawai‘i
State of Hawai‘i
Index
June 30, 2012 and 2011

Report of Independent Auditors

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

In our opinion, based on our audits and the reports of other auditors, the financial statements listed in the accompanying index, which collectively comprise the consolidated 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, 2012 and 2011, 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 10.0 percent of the total assets and 0.9 percent of the total operating revenues of the University as of and for the years ended June 30, 2012 and 2011. 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, 2012 and 2011, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules of funding progress be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2013, 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, 2012. 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
February 15, 2013

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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, 2012 and 2011, with selected information for the year ended June 30, 2010. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

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

The University is Hawai‘i’s sole public higher education system and is governed by a Board of Regents consisting of fifteen members appointed by the Governor of the State of Hawai‘i. The University system is comprised of ten campuses with approximately 60,000 students and 10,000 faculty and staff. The University provides a broad range of 377 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 257 certificate and associate degree programs and in certain areas, baccalaureate degrees. In addition to organized research institutes and administrative service and distance learning centers, the University system houses more than a hundred centers with a research, instruction, or public service purpose. The University is also engaged in instructional research and service activities at hundreds of Hawai‘i schools, hospitals and community sites, and carries out these activities across the Pacific Islands and in foreign countries.

Using the Financial Statements

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

- **Statements of Net Assets** – The Consolidated Statements of Net Assets present information on the University’s assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the University’s financial condition is improving or deteriorating. Net assets increase when revenues exceed expenses, or when assets increase without a corresponding increase in liabilities. This is an indication of improving financial condition. However, when expenses exceed revenues, or when liabilities increase without a corresponding increase in assets, there is an indication of deteriorating financial condition.

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

- **Statements of Cash Flows** – The Consolidated Statements of Cash Flows distinguishes between cash inflows and outflows from operating activities, non-capital financing activities, capital and related financing activities, and investing activities.

- **Notes to Consolidated Financial Statements** – The notes provide additional information that is essential to a full understanding of the information presented in the consolidated financial statements.

Related Entities

The University maintains close relationships with two other entities, considered to be component units, whose financial information is blended into the University’s accompanying consolidated financial statements. The University of Hawai‘i Foundation (the “Foundation”) is a not-for-profit organization established to solicit and manage funds for the benefit of the University. The Research Corporation of the University of Hawai‘i (the “Research Corporation”) provides administrative support services for research and training programs of the University. Both of the University’s component units prepare stand-alone financial statements with footnotes, which are audited by independent auditors. The following tables summarize the individual components of the University’s consolidated financial position and results of operations for the years ended June 30, 2012, 2011 and 2010 (in thousands of dollars):

Condensed Consolidated Statements of Net Assets

2012	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Current assets	$ 524,760	$ 83,614	$ 13,975	$ (54,525)	$ 567,824
Noncurrent assets	2,490,875	1,055	322,488	(17,559)	2,796,859
Total assets	3,015,635	84,669	336,463	(72,084)	3,364,683
Current liabilities	284,390	71,823	3,101	(67,845)	291,469
Noncurrent liabilities	1,088,629	3,791	8,671	-	1,101,091
Total liabilities	1,373,019	75,614	11,772	(67,845)	1,392,560
Net assets	$ 1,642,616	$ 9,055	$ 324,691	$ (4,239)	$ 1,972,123

2011	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Current assets	$ 513,342	$ 66,441	$ 9,577	$ (51,471)	$ 537,889
Noncurrent assets	2,408,945	748	317,052	(17,363)	2,709,382
Total assets	2,922,287	67,189	326,629	(68,834)	3,247,271
Current liabilities	254,242	55,157	2,367	(61,524)	250,242
Noncurrent liabilities	1,000,710	3,068	7,606	-	1,011,384
Total liabilities	1,254,952	58,225	9,973	(61,524)	1,261,626
Net assets	$ 1,667,335	$ 8,964	$ 316,656	$ (7,310)	$ 1,985,645

2010	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Current assets	$ 412,261	$ 46,044	$ 4,392	$ (26,291)	$ 436,406
Noncurrent assets	1,981,726	703	283,912	(15,528)	2,250,813
Total assets	2,393,987	46,747	288,304	(41,819)	2,687,219
Current liabilities	228,314	35,336	2,788	(35,535)	230,903
Noncurrent liabilities	601,394	2,471	6,504	-	610,369
Total liabilities	829,708	37,807	9,292	(35,535)	841,272
Net assets	$ 1,564,279	$ 8,940	$ 279,012	$ (6,284)	$ 1,845,947

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

2012	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Operating revenue	$ 854,125	$ 6,257	$ 7,948	$ (9,406)	$ 858,924
Operating expenses	1,578,319	5,963	45,233	(13,410)	1,616,105
Operating (loss) income	(724,194)	294	(37,285)	4,004	(757,181)
Nonoperating activity	699,475	(203)	45,320	(933)	743,659
Increase (decrease) in net assets	(24,719)	91	8,035	3,071	(13,522)
Net assets					
Beginning of year	1,667,335	8,964	316,656	(7,310)	1,985,645
End of year	$ 1,642,616	$ 9,055	$ 324,691	$ (4,239)	$ 1,972,123

2011	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Operating revenue	$ 866,988	$ 6,129	$ 7,521	$ (9,509)	$ 871,129
Operating expenses	1,485,016	6,207	40,428	(11,108)	1,520,543
Operating (loss) income	(618,028)	(78)	(32,907)	1,599	(649,414)
Nonoperating activity	721,084	102	70,551	(2,625)	789,112
Increase in net assets	103,056	24	37,644	(1,026)	139,698
Net assets					
Beginning of year	1,564,279	8,940	279,012	(6,284)	1,845,947
End of year	$ 1,667,335	$ 8,964	$ 316,656	$ (7,310)	$ 1,985,645

2010	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Operating revenue	$ 809,677	$ 5,402	$ 8,039	$ (8,931)	$ 814,187
Operating expenses	1,413,081	5,370	40,388	(14,945)	1,443,894
Operating (loss) income	(603,404)	32	(32,349)	6,014	(629,707)
Nonoperating activity	709,000	27	53,083	(6,514)	755,596
Increase in net assets	105,596	59	20,734	(500)	125,889
Net assets					
Beginning of year	1,458,683	8,881	258,278	(5,784)	1,720,058
End of year	$ 1,564,279	$ 8,940	$ 279,012	$ (6,284)	$ 1,845,947

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, 2012, 2011 and 2010 are summarized as follows (in thousands):

	2012	Percentage of Total Assets	2011	Percentage of Total Assets	2010	Percentage of Total Assets	FY 12 vs 11 Change	FY 11 vs 10 Change
Current assets								
Cash and operating investments	$ 448,346	13%	$ 402,645	12%	$ 308,374	11%	$ 45,701	$ 94,271
Receivables, net	96,371	3%	112,746	4%	107,528	4%	(16,375)	5,218
Other current assets	23,107	1%	22,498	1%	20,504	1%	609	1,994
Total current assets	567,824	17%	537,889	17%	436,406	16%	29,935	101,483
Noncurrent assets								
Endowment and other investments	526,663	16%	719,557	22%	499,332	19%	(192,894)	220,225
Capital assets, net	1,826,937	54%	1,517,637	46%	1,356,864	50%	309,300	160,773
Other noncurrent assets	443,259	13%	472,188	15%	394,617	15%	(28,929)	77,571
Total assets	3,364,683	100%	3,247,271	100%	2,687,219	100%	117,412	560,052
Current liabilities	291,469	9%	250,242	8%	230,903	9%	41,227	19,339
Noncurrent liabilities								
Long-term debt	608,670	18%	623,290	19%	344,315	13%	(14,620)	278,975
Other noncurrent liabilities	492,421	14%	388,094	12%	266,054	10%	104,327	122,040
Total liabilities	1,392,560	41%	1,261,626	39%	841,272	31%	130,934	420,354
Net assets								
Invested in capital assets, net of related debt	1,336,377	40%	1,182,287	36%	1,099,820	41%	154,090	82,467
Restricted								
Nonexpendable	191,532	6%	184,089	5%	170,706	6%	7,443	13,383
Expendable	574,344	17%	613,763	19%	509,592	19%	(39,419)	104,171
Unrestricted	(130,130)	-4%	5,506	1%	65,829	3%	(135,636)	(60,323)
Total net assets	$ 1,972,123	59%	$ 1,985,645	61%	$ 1,845,947	69%	$ (13,522)	$ 139,698

Current Assets and Liabilities

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

At June 30, 2012, 2011 and 2010, working capital amounted to $276.4 million, $287.6 million and $205.5 million, respectively. The University is working toward maintaining a prudent level of working capital to fund operations, including pre-funding its approximately $500 million in extramural grants which are on a cost reimbursement basis and dealing with increasing student enrollment, and to provide for uncertainties such as possible cuts to federal programs and the fiscal economic situation in the United States ("US") and Europe. Based on the $1,616 million of operating expenses for the fiscal year ended June 30, 2012, the working capital at year end represents approximately 62 days of operating funds.

The components of the University’s current assets and liabilities and their fluctuations during the three-year period are as follows:

- Current assets consist primarily of cash and cash equivalents, operating investments and net receivables. Total current assets were $567.8 million, $537.9 million and $436.4 million at June 30, 2012, 2011 and 2010, respectively. Total current assets increased by $29.9 million, or 5.6 percent, at June 30, 2012 compared to June 30, 2011, primarily due to increases in operating investments offset by decreases in cash and cash equivalents and net accounts receivable. Operating investments increased by $61.8 million primarily due to an increase of $34 million in cash invested in TCDs with maturities greater than 90 days and less than one year primarily due to liquidation of $22.9 million in auction rate securities throughout the year as well as an increase in tuition revenue. Additionally, increase as of June 30, 2012 attributable to a $25.5 million reclassification of remaining student loan auction rate securities liquidated, at par, in July 2013 as operating investments. Cash and cash equivalents decreased by $16.1 million and net accounts receivable decreased by $17.7 million. Total current assets increased by $101.5 million, or 23.3 percent, at June 30, 2011 compared to June 30, 2010, primarily due to increases in operating investments, cash and cash equivalents, and net accounts receivable. Operating investments increased by $69.6 million primarily due to an increase of $75 million in cash invested in TCDs with maturities greater than 90 days and less than one year. This increase was primarily attributable to liquidation of auction rate securities as well as an increase in tuition revenue. Cash and cash equivalents increased by $24.7 million and net accounts receivable increased by $7.3 million.

- Current liabilities consist primarily of accounts payable, accrued payroll and fringe benefits, advances from sponsors, and deferred revenue. Current liabilities also include amounts due to the State of Hawai‘i, the current portion of long-term liabilities and other current liabilities. Total current liabilities were $291.5 million, $250.2 million and $230.9 million at June 30, 2012, 2011 and 2010, respectively. Total current liabilities increased by $41.3 million, or 16.5 percent, at June 30, 2012 compared to June 30, 2011, primarily due to increases in accounts payable. Accounts payable increased by $41.6 million primarily due to large construction projects in-progress and corresponding retainage. Total current liabilities increased by $19.3 million, or 8.4 percent, at June 30, 2011 compared to June 30, 2010, primarily due to increases in the current portion of long-term liabilities, other current liabilities, and accounts payable. The current portion of long-term liabilities increased by $7.2 million in fiscal year 2011 compared to fiscal year 2010, primarily due to the issuance of the Series 2010A and Series 2010B revenue bonds. Accounts payable increased by $9.2 million and other current liabilities increased by $2.3 million.

Endowment and Other Investments

The University’s endowment and other investments, including endowments held with the Foundation, decreased by $192.9 million to $526.7 million at June 30, 2012 and increased by $220.2 million to $719.6 million at June 30, 2011. Endowments and other investments held with the Foundation amounted to $283.4 million at June 30, 2012 and $272.3 million at June 30, 2011. The fiscal year 2012 decrease was primarily due to increase in University revenue bond capital project expenditures.

At June 30 2011, endowments and other investments include $48.4 million in auction rate securities. The University classified its auction rate securities as noncurrent investments as a result of uncertainties surrounding the timing of liquidation of these investments. During fiscal year 2011, the University entered into an agreement with Citigroup Global Markets Inc. ("CGMI"), which provided the University the option during June 2015 to require CGMI to purchase all of the University's auction rate securities at the date the option is exercised. As a result of this agreement, in addition to the University continuing to receive its contractual interest payments in a timely manner, management believes it was appropriate to report the University's auction rate securities at par value. In fiscal year 2012, the University's auction rate securities portfolio decreased by $22.9 million due to redemptions at par value, in accordance and under the terms of the agreement with CGMI. In July 2012, the University fully liquidated the remaining $25.5 million auction rate securities portfolio, at par, as such, have classified its student loan auction rate securities as operating investments as of June 30, 2012.

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

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

The University's spending rate policy is to limit the immediate impact that significant changes in the fair value of the endowment portfolio have on annual distributions. The spending rate policy provides for an annual distribution, ranging between three percent and five percent of the five-year moving average of the endowment portfolio's fair value. In fiscal years 2012 and 2011, the University instituted a 4.25 percent distribution rate on restricted and unrestricted endowments. The total restricted and unrestricted distributions available to the University amounted to $2.6 million in fiscal year 2012 and $2.5 million in fiscal year 2011.

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, 2012, 2011 and 2010, total capital assets, net of accumulated depreciation amounted to $1.8 billion, $1.5 billion and $1.4 billion, respectively, which represented 54 percent, 46 percent and 50 percent, respectively, of the University's total assets. Capital asset additions totaled $416.8 million, $259.3 million and $181.5 million in fiscal years 2012, 2011 and 2010, respectively, while depreciable capital asset disposals, net of accumulated depreciation, amounted to $15.6 million, $13 million and $13.1 million, respectively. Of the total capital asset additions, $6.6 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 year 2010. No projects were transferred by DAGS to the University in fiscal years 2012 or 2011. Purchases of equipment, including information technology, amounted to approximately $27.4 million, $19.7 million and $23.7 million and purchases of library materials amounted to approximately $2.5 million, $3.1 million and $3.9 million during fiscal years 2012, 2011 and 2010, 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 2012, 2011 and 2010 or in progress as of June 30, 2011, 2010 and 2009 included:

- **Biomedical Science Building** – The expansion of the Biomedical Science Building on the University of Hawai‘i at Mānoa campus was celebrated on October 25, 2010 with the grand opening and dedication ceremony of C-MORE Hale. The new building houses the Center for Microbial Oceanography: Research and Education ("C-MORE"), providing 30,000 square feet of state-of-the-art research laboratory and support spaces. C-MORE is one of only 17 National Science Foundation sponsored Science and Technology Centers. The Center is designed to facilitate a more comprehensive understanding of the biological and ecological diversity of marine micro-organisms.

- **University of Hawai‘i Hilo Science and Technology Building –** On August 2, 2011, a blessing and dedication was held for the University of Hawai‘i at Hilo's new Sciences and Technology Building. The $25.0 million building spans more than 42,000 square feet and fulfills the need for additional classrooms, office space and new state-of-the-art laboratories for UH Hilo's expanding physics, astronomy and chemistry programs. Key features of the building are an auditorium that seats in excess of 140 along with smaller rooms that accommodate 24 to 60 seats. In addition to tenant programs, the building's facilities accommodates classes in biology, **math, geography, history and communications and serves more t**han 1,700 students daily in the various classroom venues.

- **Hale Aloha Complex** – The University of Hawai‘i at Mānoa's Hale Aloha Complex modernization project was completed in August 2010. The complex is comprised of four 13-story buildings that provide residences for 1,080 students. Each of the towers is named for the flower of the four largest islands in the state: Lehua (Hawai‘i), ‘Ilima (O‘ahu), Mokihana (Kaua‘i) and Lokelani (Maui). Renovations included the first floor, top floor community spaces and all bathrooms. The modernization included card access to student rooms and building entrances, new windows, and new fire alarm and suppression systems. The cost of the entire two-phase project including design and construction was just under $25 million.

- **University of Hawai‘i Cancer Center** – Construction of the 156,000 square foot building for the University of Hawai‘i Cancer Center was completed in September 2012. The $120 million center that is part of the University of Hawai‘i at Mānoa, is adjacent to the UH Mānoa's John A. Burns School of Medicine in Kaka‘ako. Under a partnership agreement with The Queen's Medical Center, Hawai‘i Pacific Health, and Kuakini Health Systems, the center will lead research efforts, including clinical trials while the hospitals continue to deliver care to patients, making use of the latest research. The Cancer Center is one of 65 National Cancer Institute centers across the United States, a designation that brings grant funding needed to further research in epidemiology, natural products and cancer biology, prevention and control and carcinogenesis.

- **University of Hawai‘i West O‘ahu** – The new UH West O‘ahu Kapolei campus opened to over 2,000 students on August 20, 2012. The current campus consists of approximately 220,000 square feet of building floor area, which includes a state-of-the-art, high-tech classroom building, laboratory building, campus center, library and resource center, and maintenance and mechanical plant building. The architectural design of the new campus incorporates the latest trends in environmental sustainability and strives to achieve LEED certification. The construction of the entire campus and adjacent business and retail community will span several decades. When completed, UH West O‘ahu will accommodate 7,600 students and 1,000 faculty and staff.

- **Community College Energy Conservation Project** – The $40 million project taking place on the University of Hawai`i Community College Campuses statewide is designed to reduce electricity, water and sewage. The Community Colleges will also incorporate photovoltaic energy to each campus through new projects, such as ‘Ike Le‘a (UHMC), Hale Aloha (Hawai‘i CC), and Hale La‘akea (WCC). Some of the components of the project include solar water heaters, energy efficient HVAC and lighting systems, and electric car charging stations.

- **Windward Community College Library Learning Commons** – The grand opening of the Library and Learning Commons on the Windward Community College campus took place on August 29, 2012. The $26 million project was completed on June 5, 2012 has been designed to incorporate the use of alternate energy sources. The three story 69,000 square foot building receives electricity through photovoltaic panels and the windows and skylights provide the Library and Learning Commons with the opportunity to take advantage of natural sunlight. The Library and Learning Commons, which is named Hale La‘akea (Hall of Enlightenment), houses the college’s library, a coffee shop, study centers, and classrooms.

- **University of Hawai‘i at Mānoa Campus Center Renovations and Expansion Project –** The $46 million project includes a two-story Recreation Center along with renovation to Campus Center and Hemenway Hall. The Recreation Center will include an indoor track, a fitness center, locker rooms, and a multi-purpose gymnasium. Renovations to Campus Center include the addition of Starbucks Coffee, an outdoor seating area, improvements to the central air conditioning system, and a new store-front for the University of Hawai‘i Bookstore.

- **University of Hawai‘i at Mānoa Information Technology Center Project** – The ground breaking for the Information Technology Center took place on February 3, 2012. The $37 million center will be six stories tall with approximately 74,000 square feet of floor space and is required to receive at least a silver LEED certification. Currently the main data center which provides Internet access for all UH Campuses and State of Hawai‘i offices (including Civil Defense) is housed by the University of Hawai‘i at Mānoa in separate buildings. The Information Technology Center will be equipped with an emergency situation room and will allow the entire system-wide Information Technology Department to come together in one main building.

- **Ka Haka ‘Ula O Ke‘elikolani College of Hawaiian Language** – A bilingual blessing and groundbreaking was held on February 11, 2011 for the $20 million permanent College of Hawaiian Language facilities at the University of Hawai‘i at Hilo campus. The project consists of construction of a two-story concrete and steel structure with an approximate building floor area of 36,800 square feet. The project will be required to achieve LEED silver certification or better. The featured space for this educational facility is a 200-seat performing arts room with enhanced acoustics and includes a custom retractable lighting system (Haka) and a 36-feet high ceiling. Other notable spaces include a Distance Learning Center designed to support remote classroom instruction and video conferences as well as a Library and Archives collection for extremely rare printed and audio records.

The State of Hawaiʻi at times issues general obligation bonds on behalf of the University to finance certain capital projects. At June 30, 2012, 2011 and 2010, amounts due to the State of Hawaiʻi for general obligation bonds payable amounted to $0.9 million, $1.0 million and $1.2 million, respectively. For fiscal year 2012, debt service paid by the University amounted to $0.157 million consisting of $0.151 million in principal and $0.006 million in interest. For fiscal year 2011, debt service paid by the University amounted to $0.2 million consisting of $0.1 million in principal and $0.1 million in interest. For fiscal year 2010, debt service paid by the University amounted to $0.2 million consisting of $0.1 million in principal and $0.1 million in interest.

General obligation bonds have also been issued by the State of Hawaiʻi that included financing for University projects. These bonds are carried as liabilities of the State. In fiscal year 2012, 2011 and 2010, the State appropriated funds directly to the Department of Budget and Finance to pay for debt service on general obligation bonds issued for the University. As a result, the University itself received no appropriations and made no transfers for debt service on general obligation bonds for these fiscal years. In fiscal year 2012, 2011 and 2010, $82.5 million, $72.1 million and $72.1 million was appropriated in each year, respectively.

The University also uses revenue bond financing for major capital projects. In February 2012, the University issued $8.6 million in Series 2012A(R) revenue bonds to constructively retire $9.0 million of the outstanding Series 2001B revenue bonds. The proceeds of the Series 2012A(R) revenue bonds were deposited into a trust account with an escrow agent to fully defease the outstanding principal of the Series 2001B bonds. The defeasance resulted in an accounting gain of $0.9 million and an immaterial economic loss (difference between the present values of the debt service payments on the old and new debt).

In October 2010, the University issued $292.7 million in Series 2010A-1 ($111.3 million), 2010A-2 ($27.4 million), 2010B-1 ($127.5 million), and 2010B-2 ($26.6 million) bonds (collectively, the "Series 2010 Bonds") for the purpose of financing the costs of certain University projects. The Series 2010A-1 and Series 2010B-1 bonds are designated as "Build America Bonds" under the provisions of the American Recovery and Reinvestment Act of 2009. These University projects include the construction and maintenance of the University's Cancer Center, renovations and additions to the Mānoa Campus Center, construction and equipment for an Information Technology Building, renovations to the Sinclair Library basement on the Mānoa campus, further development of the West Oʻahu campus, construction of a new Culinary Institute of the Pacific Facility at Diamond Head, and various energy conservations/ efficiency projects on the community college campuses on Oʻahu, Kauaʻi and Maui. The Series 2010 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 interest rates for the Series 2010 Bonds range from 2.50% – 6.03% (first interest payment due on April 1, 2011) and mature on October 1, 2030 and 2040.

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 Hawaiʻi West Oʻahu 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 Kauʻiokahaloa 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 2006A outstanding revenue bond was 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, 2012, 2011 and 2010, revenue bonds payable amounted to $622.9 million, $637.0 million, and $351.6 million, respectively. Debt service in fiscal year 2012 amounted to $45.1 million, consisting of $13.8 million of principal and $31.3 million of interest. Debt service in fiscal year 2011 amounted to $31.1 million, consisting of $7.3 million of principal and $23.8 million of interest. Debt service in fiscal year 2010 amounted to $23.3 million, consisting of $7.0 million of principal and $16.3 million of interest. Principal reductions during fiscal year 2012, 2011 and 2010 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 the University Bond System, are pledged as collateral, the University anticipates that State of Hawai‘i Tobacco Settlement funds will be the primary source of support for debt service payments on these revenue bonds. The University received State of Hawai‘i Tobacco Settlement funds in the amount of $12.7 million, $12.4 million, and $12.9 million in fiscal years 2012, 2011 and 2010, 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.

Net Assets

Net assets represent the residual interest in the University’s assets after liabilities are deducted. At June 30, 2012, 2011 and 2010, total net assets amounted to $2 billion, $2 billion and $1.8 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 $1.3 billion, $1.2 billion and $1.1 billion at June 30, 2012, 2011 and 2010, respectively. The $154.1 million increase in fiscal year 2012, as compared to fiscal year 2011, was primarily attributable to $416.8 million of capital asset additions, offset by $91.9 million of depreciation expense, $15.6 million in net disposals, and $160.4 million net increase in related debt. The $82.5 million increase in fiscal year 2011, as compared to fiscal year 2010, was primarily attributable to $254.8 million of capital asset additions, offset by $85.6 million of depreciation expense, $13.0 million in net disposals, and $70.1 million net increase in related debt.

Restricted nonexpendable net assets representing the University’s and Foundation’s permanent endowment funds, which are required to be maintained in perpetuity, amounted to $191.5 million, $184.1 million and $170.7 million at June 30, 2012, 2011 and 2010, respectively. The increases of $7.4 million and $13.4 million in fiscal years 2012 and 2011, 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, 2012, 2011 and 2010 (in thousands):

	2012	2011	2010
Plant facilities	$ 375,821	$ 422,226	$ 343,958
Donor-restricted activities	157,600	151,016	130,691
Loan activities	25,020	26,826	28,389
External sponsor activities	15,903	13,695	6,554
	$ 574,344	$ 613,763	$ 509,592

In fiscal year 2012, the overall decrease of $39.4 million in restricted expendable net assets was primarily attributable to a decrease of $46.5 million in plant facilities and offset by an increase in donor-restricted activities of $6.6 million and external sponsor activities of $2.2 million. In fiscal year 2011, the overall increase of $104.2 million in restricted expendable net assets was attributable to increases of $78.3 million in plant facilities and $20.3 million in donor-restricted activities, and an increase in external sponsor activities of $7.1 million.

Net assets that are not subject to externally imposed restrictions governing their use are classified as unrestricted for financial reporting purposes. At June 30, 2012, 2011, and 2010, unrestricted net assets amounted to a deficit $130.1 million, positive $5.5 million, and $65.8 million, respectively. 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 $31.1 million, $37.1 million and $25.0 million were designated for endowment activities at June 30, 2012, 2011 and 2010, respectively.

The reduction in unrestricted net assets for the fiscal years ended June 30, 2012, 2011, and 2010, is attributable to the University’s required accounting and recognition for the University’s allocated share of the State of Hawai‘i actuarial determined total other post-employment benefits (“OPEB”) liability. Similar to other state and local governments, the State of Hawai‘i (“State”) plan is paid on a “pay as you go” basis, which will result in the OPEB liability growing substantially each year. As a result, despite total assets of the University growing each year, unrestricted net assets will continue to decline due to recognition of the OPEB liability. The University’s share of the OPEB liability as of June 30, 2012, 2011 and 2010 was $413.5 million, $318.1 million and $206.3 million, respectively. Annual required OPEB contribution payments, on a “pay as you go” basis, towards this liability are paid directly by the State Department of Budget and Finance from its general fund appropriation and not out of the University’s operating budget appropriation. The University makes contributions 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 University employees’ actual salaries.

Results of Operations

The Consolidated Statements of Revenues, Expenses and Changes in Net Assets are 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, 2012, 2011 and 2010, summarized to match revenues supporting core activities with expenses associated with core activities, are as follows (in thousands of dollars):

	2012		2011		2010		Increase (Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	FY 12 vs 11	FY 11 vs 10
Revenues								
Operating								
Tuition and fees	$ 349,421	27.4%	$ 319,772	24.6%	$ 291,890	23.6%	$ 29,649	$ 27,882
Less: Scholarship allowances	(112,350)	-8.8%	(95,915)	-7.4%	(82,302)	-6.7%	(16,435)	(13,613)
Grants and contracts	481,847	37.8%	502,414	38.6%	474,347	38.4%	(20,567)	28,067
Sales and services	136,899	10.7%	141,795	10.9%	127,405	10.3%	(4,896)	14,390
Other revenue	3,107	0.3%	3,063	0.2%	2,847	0.2%	44	216
Total operating revenues	858,924	67.4%	871,129	66.9%	814,187	65.8%	(12,205)	56,942
Non-operating								
State appropriations	375,754	29.4%	359,077	27.6%	369,948	29.9%	16,677	(10,871)
Net investment income (expense)	1,272	0.1%	47,307	3.6%	28,146	2.3%	(46,035)	19,161
Private gifts	40,031	3.1%	24,703	1.9%	24,398	2.0%	15,328	305
Total non-operating revenues	417,057	32.6%	431,087	33.1%	422,492	34.2%	(14,030)	8,595
Total revenues supporting core activities	1,275,981	100.0%	1,302,216	100.0%	1,236,679	100.0%	(26,235)	65,537
Expenses								
Operating								
Compensation and benefits	1,032,859	70.8%	1,007,237	73.1%	964,094	74.3%	25,622	43,143
Supplies, services and cost of goods sold	233,439	16.0%	218,469	15.8%	202,521	15.6%	14,970	15,948
Telecom and utilities	80,852	5.5%	62,398	4.5%	54,541	4.2%	18,454	7,857
Scholarships and fellowships	51,760	3.6%	53,411	3.9%	46,314	3.6%	(1,651)	7,097
Other expense	125,262	8.6%	93,437	6.8%	89,023	6.0%	31,825	4,414
Total operating expenses	1,524,172	104.5%	1,434,952	104.1%	1,356,493	104.6%	89,220	78,459
Non-operating (revenues) expenses								
Transfers (from) to State, net	(179,495)	-12.3%	(163,992)	-11.9%	(160,971)	-12.4%	(15,503)	(3,021)
Interest expense	22,500	1.5%	22,244	1.6%	14,004	1.1%	256	8,240
Total non-operating (revenues) expenses	(156,995)	-10.8%	(141,748)	-10.3%	(146,967)	-11.3%	(15,247)	5,219
Expenses associated with core activities before depreciation	1,367,177	-	1,293,204	-	1,209,526	-	73,973	83,678
Income (loss) from core activities before depreciation	(91,196)	-	9,012	-	27,153	-	(100,208)	(18,141)
Depreciation	91,933	6.3%	85,591	6.2%	87,401	6.7%	6,342	(1,810)
Expenses associated with core activities including depreciation	1,459,110	100.0%	1,378,795	100.0%	1,296,927	100.0%	80,315	81,868
Loss from core activities	(183,129)		(76,579)		(60,248)		$ (106,550)	$ (16,331)
Other nonoperating activity								
Capital gifts and grants	169,291		217,673		191,025			
Permanent endowment	8,754		12,315		6,101			
Other revenue (expenses) net	(8,438)		(13,711)		(10,989)			
Other nonoperating income, net	169,607		216,277		186,137			
Increase (decrease) in net assets	(13,522)		139,698		125,889			
Net assets								
Beginning of year	1,985,645		1,845,947		1,720,058			
End of year	$ 1,972,123		$ 1,985,645		$ 1,845,947			

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 under-graduate 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 2012 was the last year in the University’s six-year plan to increase tuition and fee rates. Tuition and fees revenue, net of scholarship allowances, increased by $13.2 million, or 5.9 percent, to $237.1 million in fiscal year 2012, and increased by $14.3 million, or 6.8 percent, to $223.9 million in fiscal year 2011. Scholarship allowances amounted to $112.4 million, $95.9 million and $82.3 million in fiscal year 2012, 2011 and 2010, respectively. For fiscal year 2012, the increases in tuition and fees revenue and scholarship allowances are primarily attributable to increased enrollment at the UH Hilo and UH West O‘ahu and undergraduate resident tuition and fee rate increases for all campuses ranging from 9.6 percent to 12.4 percent. For fiscal year 2011, the increases in tuition and fees revenue and scholarship allowances are primarily attributable to increased enrollment at the UH West O‘ahu and community college campuses and undergraduate resident tuition and fee rate increases for all campuses ranging from 11.1 percent to 12.1 percent.

Revenues from federal, state and local grants and contracts and nongovernmental sponsored programs decreased by $20.6 million, or 4.1 percent to $481.8 in fiscal year 2012, and increased by $28.1 million, or 5.9 percent, to $502.4 million in fiscal year 2011. The fiscal year 2012 net decrease was attributable to a $19.0 million decrease in federal grants and contracts and a $4.6 million decrease in nongovernmental sponsored programs, offset by a $3.0 million increase in local grants and contracts. The fiscal year 2011 net increase was attributable to a $40.9 million increase in federal grants and contracts, offset by a $3.1 million decrease in nongovernmental sponsored programs and a decrease of $9.7 million in local grants and contracts.

Sales and services revenues, which are mainly comprised of bookstores, student and faculty housing, food services, parking and athletics, decreased by $4.9 million, or 3.5 percent, to $136.9 million in fiscal year 2012, and increased by $14.4 million, or 11.3 percent, to $141.8 million in fiscal year 2011. In fiscal year 2012, the decrease was largely due to decreases in bookstore and Sales and Services of Educational Departments. In fiscal year 2011, the increase was largely due to an increase in Sales and Services of Educational Departments, other auxiliary enterprises and student housing.

General state appropriations increased by $16.7 million, or 4.7 percent, to $375.8 million in fiscal year 2012, and decreased by $10.9 million, or 3 percent, to $359.1 million in fiscal year 2011. The increase in fiscal year 2012 was mainly attributable to an increase of $22 million to restore American Recovery and Reinvestment Act (“ARRA”) federal stabilization funds previously provided by the Legislature and the Governor which ended on September 30, 2011 offset by a $3 million reduction of University’s general funds from legislative appropriations and gubernatorial restrictions. The decrease in fiscal year 2011 was mainly attributable to legislative reductions and restrictions.

The University's net investment income for fiscal year 2012, as compared to fiscal year 2011, decreased by $46.0 million, resulting in net investment income of $1.3 million. The fiscal year 2012 decrease was mainly due to $47.4 million decrease in net unrealized gains and a $1.2 million decrease in interest and dividend income, offset by a $3.8 million increase in net realized gains. The University's net investment income for fiscal year 2011, as compared to fiscal year 2010, increased by $19.2 million, resulting in net investment income of $47.3 million. The fiscal year 2011 increase was mainly due to a $17.1 million increase in net unrealized gains and a $3.7 million increase in net realized gains, offset by a $1.2 million decrease in interest and dividend income.

The components of net investment income for the years ended June 30, 2012, 2011 and 2010 were as follows (in thousands):

				Increase (Decrease)	
	2012	**2011**	**2010**	**FY 12-11**	**FY 11-10**
Interest and dividend income	$ 9,408	$ 10,551	$ 11,778	$ (1,143)	$ (1,227)
Net realized gains (losses)	7,052	3,209	(539)	3,843	3,748
Net unrealized gains (losses)	(12,494)	34,931	17,803	(47,425)	17,128
Other, net	(2,694)	(1,384)	(896)	(1,310)	(488)
	$ 1,272	$ 47,307	$ 28,146	$ (46,035)	$ 19,161

Private gifts, most of which are restricted as to use, increased by $15.3 million, or 61.9 percent, to $40.0 million in fiscal year 2012 when compared to $24.7 million in fiscal year 2011. The fiscal year 2012 increase was primarily attributable to various private gifts given to the Foundation. Private gifts increased by $0.3 million, or 1.2 percent, to $24.7 million in fiscal year 2011 when compared to $24.4 million in fiscal year 2010. The fiscal year 2011 increase was primarily attributable to various private gifts given to the Foundation. The University will continue to aggressively develop private revenue sources and cultivate the increasing trend in private gifts received.

Expenses Associated with Core Activities

The University is committed to recruiting and retaining outstanding faculty and staff, and providing compensation equivalent to peer institutions and nonacademic employers. Of the University's operating expenses, approximately 67.7 percent during fiscal year 2012, 66.2 percent during fiscal year 2011 and approximately 66.8 percent during fiscal year 2010 were related to compensation and benefits. Compensation and benefits increased by $25.7 million, or 2.6 percent, to $1,032.9 million in fiscal year 2012 as compared to fiscal year 2011, and increased by $43.1 million, or 4.5 percent, to $1,007.2 million in fiscal year 2011 as compared to fiscal year 2010. The fiscal year 2012 increase was attributable to the recognition of additional postretirement health and life insurance benefits during the year. The University recognized $95.9 million, $150.6 million, and $101.5 million related to postretirement health and life insurance benefits in fiscal year 2012, 2011 and 2010, respectively. The fiscal year 2011 increase was attributable to the recognition of additional postretirement health and life insurance benefits during the year. The University recognized $150.6 million, $101.5 million and $94.8 million related to postretirement health and life insurance benefits in fiscal year 2011, 2010 and 2009, respectively.

Supplies, services and cost of goods sold expense includes service fees, printing and binding, advertising, dues and subscriptions, controlled property acquisitions, cost of goods sold for resale items and other miscellaneous operating costs. In fiscal year 2012, such expenses increased by $14.9 million, or 6.8 percent, to $233.4 million as compared to fiscal year 2011. In fiscal year 2011, such expenses increased by $15.9 million, or 7.9 percent, to $218.5 million as compared to fiscal year 2010. The increase was primarily attributable to increases in other services and supplies and materials, offset by decreases in cost of goods sold for resale items and non-capital asset acquisitions.

Telecom and utilities expenses increased by $18.5 million, or 29.6 percent, to $80.9 million in fiscal year 2012, and increased by $7.9 million, or 14.4 percent to $62.4 million in fiscal year 2011. The increase in fiscal year 2012 was principally due to increases in utility rates and consumption system-wide and expenditures to upgrade the telecom system on the Mānoa campus. The increase in 2011 was principally due to increase in utility rates.

The University is committed to providing affordable yet quality education to its students. To accomplish this goal, student aid is provided in the form of scholarships and fellowships, including tuition and fee waivers applied to student accounts and reflected as reductions and allowances to student tuition and student housing revenues, and scholarship and fellowship payments (mostly academic and athletic) made directly to students. Total aid to students increased by $14.8 million, or 9.9 percent, to $164.1 million in fiscal year 2012 as compared to the prior fiscal year 2011. Total student aid in fiscal year 2011 increased by $20.7 million, or 16.1 percent, to $149.3 million as compared to fiscal year 2010. Increases are consistent and in line with increased enrollment and with scheduled tuition increases.

The University depreciates its capital assets over their estimated useful lives using the straight-line method. Depreciation expense increased by $6.3 million, or 7.4 percent, to $91.9 million during fiscal year 2012 as compared to fiscal year 2011, and decreased by $1.8 million, or 2.1 percent, to $85.6 million during fiscal year 2011 as compared to fiscal year 2010. The increase in 2012 was primarily attributable to depreciation, building and equipment additions and reclassifications from construction in progress. The decrease in fiscal year 2011 was attributable to disposals during the year.

Transfers from State amounted to $179.5 million, $164 million and $161 million in fiscal year 2012, 2011 and 2010, respectively. Transfers from State were primarily for fringe benefit expenses and the University's Cancer Center cigarette stamp tax collections.

The Cigarette Tax and Tobacco Tax Law, HRS section 245-15, effective July 1, 2006, established the Hawaiʻi 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 and state capital appropriations and transfers may only be used for the purchase or construction of specified capital assets. While additions to permanent endowments must be retained in perpetuity, investment earnings thereon may be available in future years to support specified programs.

In fiscal year 2012, capital gifts and grants, including state capital appropriations and transfers, decreased by $48.4 million, or 22.2 percent, to $169.3 million compared to $217.7 million in fiscal year 2011. During fiscal year 2012, the University transferred $0.4 million to the Hawai‘i State Foundation on culture and the Arts. The State of Hawai‘i appropriated $137.4 million to the University for building renovations and other capital improvement projects on all campuses throughout the University system. Other capital gifts and grants during fiscal year 2012 included federal capital grants of $29.9 million and private capital gifts and grants of $2.1 million.

In fiscal year 2011, capital gifts and grants, including state capital appropriations and transfers, increased by $26.7 million, or 14.0 percent, to $217.7 million compared to $191.0 million in fiscal year 2010. During fiscal year 2011, the University transferred $2.3 million to the Hawai‘i State Foundation on culture and the Arts. The State of Hawai‘i appropriated $204.6 million to the University for building renovations and other capital improvement projects on all campuses throughout the University system. Other capital gifts and grants during fiscal year 2011 included federal capital grants of $14.2 million and private capital gifts and grants of $1.1 million.

Cash Flows

The Consolidated Statements of Cash Flows presents the University’s significant sources and uses of cash and cash equivalents, including restricted cash balances. The University’s cash is comprised primarily of cash held with the state treasury, demand deposits, and time certificates of deposit with an original maturity of three months or less. A summary of the University’s cash flows for the years ended June 30, 2012, 2011 and 2010 is as follows (in thousands):

	2012	2011	2010	FY 12 vs. 11 Change	FY 11 vs. 10 Change
Cash received from operations	$ 857,845	$ 864,124	$ 804,407	$ (6,279)	$ 59,717
Cash payments for operations	(1,228,218)	(1,171,869)	(1,125,901)	(56,349)	(45,968)
Net cash used in operating activities	(370,373)	(307,745)	(321,494)	(62,628)	13,749
Net cash provided by noncapital financing activities	440,980	413,828	420,267	27,152	(6,439)
Net cash provided by (used in) capital and related financing activities	(218,428)	161,848	(58,302)	(380,276)	220,150
Net cash provided by (used in) investing activities	131,679	(243,253)	(46,473)	374,932	(196,780)
Net (decrease) increase in cash	(16,142)	24,678	(6,002)	(40,820)	30,680
Cash					
Beginning of year	71,709	47,031	53,033	24,678	(6,002)
End of year	$ 55,567	$ 71,709	$ 47,031	$ (16,142)	$ 24,678

The University’s cash and cash equivalents decreased by $16.1 million, or 22.5 percent, to $55.6 million at June 30, 2012 from $71.7 million at June 30, 2011. During fiscal year 2012, $370.4 million in cash was used for operating activities, offset by $441.0 million in cash provided by noncapital financing activities. The University’s cash and cash equivalents increased by $24.7 million, or 52.5 percent, to $71.7 million at June 30, 2011 from $47 million at June 30, 2010. During fiscal year 2011, $307.7 million in cash was used for operating activities, offset by $413.8 million in cash provided by noncapital financing activities.

Net cash used in capital and related financing activities amounted to $218.4 million and $58.3 million in fiscal year 2012 and 2010, respectively, net cash provided by capital and related financing activities amounted to $161.8 million in fiscal year 2011. The $380.3 million decrease in cash provided by capital and related financing activities in fiscal year 2012 as compared to fiscal year 2011 was primarily attributable to $298.5 million in proceeds from capital debt issuance in fiscal year 2011 and an increase of $136.4 million in capital assets purchases in fiscal year 2012. The $224.7 million increase in net cash provided by capital and related financing activities in fiscal year 2011 as compared to fiscal year 2010 was primarily attributable to an increase of $298.5 million in proceeds from capital debt issuance.

Net cash provided by investing activities amounted to $131.7 million in fiscal year 2012, net cash used in investing activities amounted to $243.3 million, and $46.5 million in fiscal years 2011 and 2010, respectively. The increase in net cash provided by investing activities of $374.9 million in fiscal year 2012 as compared to fiscal year 2011 is primarily attributable to a $1,019.0 million decrease in the purchase of investments offset by a $641.9 decrease in proceeds from sales and maturities of investments. The increase in net cash used in investing activities of $196.8 million in fiscal year 2011 as compared to fiscal year 2010 is primarily attributable to a $1,381.2 million increase in the purchase of investments offset by a $1,184.6 increase in proceeds from sales and maturities of investments.

Looking Forward

Looking toward the future, the state and national economies continue to recover, albeit slowly, from the recession. While caution is being exercised in light of possible cuts to federal programs and European economic uncertainties, management believes that the University is well-positioned to maintain its strong financial condition and level of excellence in service to students, the research community, and the State of Hawai‘i.

System-wide enrollment has remained near its all-time high with more than 60,000 students in fall 2012 as the sluggish economy in the State of Hawai‘i and the country continues to encourage individuals to seek retraining and higher education to improve employment opportunities. Fiscal year 2012 was the last year of the University's six-year tuition increase plan which was approved by the Board of Regents in 2005. On October 26, 2011, the University's Board of Regents approved a new tuition increase schedule for fall 2012 through spring 2017. This new schedule provides stability and predictability for the University and its students while preserving affordability and access as the sole provider of public higher education in the State of Hawai‘i.

In fiscal year 2012, the University secured extramural research and training awards totaling approximately $435 million. This represents the fourth consecutive year the University exceeded $400 million awards secured as the University's research programs continue to develop and faculty continue to compete successfully for contracts and grants despite decreases in federal funding at the national level.

The University has a strong commitment to its core facilities and infrastructure. General obligation bond funded capital improvement program appropriations for the 2011–2013 and 2009–2011 fiscal biennia were approximately $276 million and $382 million, respectively. In addition, in October 2010, the University issued over $292 million in revenue bonds for the purpose of funding the costs of certain University projects, including the University's new Cancer Center. In fiscal year 2012, the University had over $500 million in capital improvement projects under construction or to begin in the following fiscal year.

In 2009, the University concluded its Centennial Campaign, which was the most ambitious fundraising campaign in the University’s history. The campaign attracted 90,000 donors, 50,000 of whom were new contributors, and raised $282 million, far surpassing the initial goal of $250 million. The next major fundraising effort; a seven year campaign, began its “quiet phase” on July 1, 2011. In fiscal year 2012, the University raised $66.9 million as compared to $41.2 million and $46.7 million in fiscal years 2010 and 2011, respectively.

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, general fund appropriations for fiscal year 2011 were reduced by $108 million from fiscal year 2009 levels and in addition the Governor restricted approximately $1.5 million of those general funds for fiscal year 2011. For fiscal year 2012 legislative appropriations and gubernatorial actions further reduced the University’s general funds by approximately $3 million, offset by an increase in general funds of $22 million to restore American Recovery and Reinvestment Act (“ARRA”) federal stabilization funds previously provided by the Legislature and the Governor which ended on September 30, 2011. Future general fund appropriations are dependent upon the Legislature and Counsel of Revenues projections. In addition, in fiscal year 2013, as a cautionary measure, the Governor has imposed a restriction on the University’s general fund spending of approximately $3.3 million The University’s campuses continue to plan for and implement measures to deal with the above level of reductions in general funds. The University remains committed to revenue generation and cost containment in order to provide the necessary resources to support and fund its operations and enrollment.

University of Hawai‘i
State of Hawai‘i
Consolidated Statements of Net Assets
June 30, 2012 and 2011
(All dollars reported in thousands)

	2012	2011
Assets		
Current assets		
Cash and cash equivalents	$ 55,567	$ 71,709
Operating investments	392,779	330,936
Due from State of Hawai‘i	439	1,936
Accounts receivable, net	78,862	96,589
Current portion of notes and contributions receivable, net	16,275	13,090
Accrued interest receivable	795	1,131
Inventories	12,716	12,954
Prepaid expenses, deferred charges and other current assets	10,391	9,544
Total current assets	567,824	537,889
Noncurrent assets		
Due from State of Hawai‘i	395,841	418,309
Endowment and other investments	526,663	719,557
Notes and contributions receivable, net	23,544	29,020
Capital assets, net	1,826,937	1,517,637
Other noncurrent assets	23,874	24,859
Total noncurrent assets	2,796,859	2,709,382
Total assets	$ 3,364,683	$ 3,247,271
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$ 106,068	$ 64,430
Accrued payroll and fringe benefits	53,670	50,832
Advances from sponsors	32,424	37,499
Deferred revenue	36,816	35,905
Due to State of Hawai‘i	6,261	6,257
Current portion of long-term liabilities	46,959	42,654
Other current liabilities	9,271	12,665
Total current liabilities	291,469	250,242
Noncurrent liabilities		
Accrued vacation	47,162	44,301
Accrued workers’ compensation	9,606	8,963
Other postemployment benefits	413,462	318,143
Due to State of Hawai‘i	722	881
Revenue bonds payable	608,670	623,290
Premium on bonds payable	5,625	6,621
Other noncurrent liabilities	15,844	9,185
Total noncurrent liabilities	1,101,091	1,011,384
Total liabilities	1,392,560	1,261,626
Commitments and contingencies		
Net assets		
Invested in capital assets, net of related debt	1,336,377	1,182,287
Restricted		
Nonexpendable	191,532	184,089
Expendable	574,344	613,763
Unrestricted	(130,130)	5,506
Total net assets	1,972,123	1,985,645
Total liabilities and net assets	$ 3,364,683	$ 3,247,271

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, 2012 and 2011
(All dollars reported in thousands)

	2012	2011
Operating revenues		
Student tuition and fees	$ 349,421	$ 319,772
Less: Scholarship allowances	112,350	95,915
Net student tuition and fees	237,071	223,857
Federal appropriations, grants and contracts	419,847	438,854
State and local grants and contracts	21,353	18,358
Nongovernmental sponsored programs	40,647	45,202
Sales and services of educational departments, other	49,426	50,856
Auxiliary enterprises		
Bookstores	28,564	31,074
Student housing (net of scholarship allowances of $1,996 and $1,603)	25,072	24,107
Other auxiliary enterprises revenues	33,837	35,758
Other operating revenues	3,107	3,063
Total operating revenues	858,924	871,129
Operating expenses		
Compensation and benefits	1,032,859	1,007,237
Supplies, services and cost of goods sold	233,439	218,469
Depreciation	91,933	85,591
Telephone and utilities	80,852	62,398
Scholarships and fellowships	51,760	53,411
Travel expenses	33,210	31,349
Repairs and maintenance	23,845	22,343
Rental expenses	13,653	13,126
Other operating expenses	54,554	26,619
Total operating expenses	1,616,105	1,520,543
Operating loss	(757,181)	(649,414)
Nonoperating revenues (expenses)		
State appropriations	375,754	359,077
Private gifts	40,031	24,703
Net investment income	1,272	47,307
Interest expense	(22,500)	(22,244)
Net transfers from (to) State of Hawai‘i for		
Fringe benefits	142,783	140,144
Tobacco settlement	2,742	2,497
Interest on Tobacco settlement	(12)	(19)
Restrictions	(67)	(4,972)
Hawaii Barrel Tax	4,574	-
Bridge to Hope	878	134
University of Hawai‘i Cancer Center	10,950	13,810
Loss on disposal of capital assets	(15,610)	(12,970)
Other, net	7,172	(741)
Net nonoperating revenues before capital and endowment additions (deductions)	547,967	546,726
Capital – state appropriations	137,388	204,614
Capital – federal grants/subsidies	29,887	14,207
Capital – gifts and grants	2,081	1,119
Net transfers from (to) State of Hawai‘i for capital assets	(65)	(2,267)
Transfers from State of Hawai‘i, Tobacco settlement	9,923	9,925
Transfers from State of Hawai‘i, University of Hawai‘i Cancer Center	7,724	2,473
Additions to permanent endowments	8,754	12,315
Total other revenues	195,692	242,386
Net nonoperating revenues	743,659	789,112
Change in net assets	(13,522)	139,698
Net assets		
Beginning of year	1,985,645	1,845,947
End of year	$ 1,972,123	$ 1,985,645

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, 2012 and 2011
(All dollars reported in thousands)

	2012	2011
Cash flows from operating activities		
Student tuition and fees	$ 232,728	$ 221,141
Grants and contracts	478,770	499,379
Other revenues	146,347	143,604
Payments to employees	(784,190)	(749,629)
Payments to suppliers and other	(392,268)	(368,829)
Payments for scholarships and fellowships	(51,760)	(53,411)
Net cash used in operating activities	(370,373)	(307,745)
Cash flows from noncapital financing activities		
State appropriations	377,251	362,270
Gifts and grants for other than capital purposes	49,242	40,111
Transfer from State of Hawai‘i for		
Bridge to Hope	878	134
Tobacco Settlement	2,742	2,497
University of Hawai‘i Cancer Center	10,950	13,810
Transfers to State of Hawai‘i for		
Restrictions	(67)	(4,972)
Interest on Tobacco Settlement	(12)	(19)
Other receipts (disbursements)	(4)	(3)
Net cash provided by noncapital financing activities	440,980	413,828
Cash flows from capital and related financing activities		
Capital appropriations	159,856	121,785
Capital gifts and grants	30,525	13,052
Proceeds from issuance of capital debt	9,492	298,450
Purchases of capital assets	(386,611)	(250,241)
Proceeds from sale of capital assets	5,150	-
Principal paid on capital debt	(22,861)	(7,429)
Interest paid on capital debt	(31,626)	(26,167)
Transfer from State of Hawai‘i, Tobacco settlement	9,923	9,925
Transfer from State of Hawai‘i, University of Hawai‘i Cancer Center	7,724	2,473
Net cash provided by (used in) capital and related financing activities	(218,428)	161,848
Cash flows from investing activities		
Interest and dividends on investments, net	8,105	10,303
Proceeds from sales and maturities of investments	1,526,053	2,167,917
Purchase of investments	(1,402,479)	(2,421,473)
Net cash provided by (used in) investing activities	131,679	(243,253)
Net increase (decrease) in cash and cash equivalents	(16,142)	24,678
Cash and cash equivalents		
Beginning of year	71,709	47,031
End of year	$ 55,567	$ 71,709

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, 2012 and 2011
(All dollars reported in thousands)

	2012	2011
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	$ (757,181)	$ (649,414)
Adjustments to reconcile operating loss to net cash used in operating activities		
On behalf payments by State for fringe benefits	142,783	140,144
Depreciation expense	91,933	85,591
Bad debt expense, net	16,932	222
Changes in operating assets and liabilities		
Accounts receivable	969	(6,104)
Notes and contributions receivable	168	(105)
Inventories	238	516
Prepaid expenses and other assets	(984)	(2,439)
Accounts payable	31,937	5,326
Accrued payroll and benefits	8,471	3,715
Accrued workers' compensation liability	1,697	1,443
Advances from sponsors	(5,075)	(791)
Other postemployment benefits	95,319	111,872
Other, net	2,420	2,279
Net cash used in operating activities	$ (370,373)	$ (307,745)
Supplemental information of noncash transactions		
Noncash contributions	$ 5,335	$ 1,330
Net transfers from (to) State of Hawai‘i for capital assets	(65)	(2,267)
Accounts payable for capital assets	25,943	16,242

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

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

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

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

Basis of Presentation

The University follows the reporting model prescribed for special-purpose governments engaged only in business-type activities, as defined in GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, as amended. The consolidated financial statements of the University are presented using the economic resources measurement focus and the accrual basis of accounting.

The 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.

Cash, Cash Equivalents and Investments

The University considers all cash and investments with original maturities of three months or less to be cash equivalents. The carrying amounts reported in the Consolidated Statements of Net Assets for cash equivalents approximate fair value due to the short maturity of these investments.

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

Investments

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

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

Due from and Due to State

The State Director of Finance is responsible for the safekeeping of all cash in the State Treasury in accordance with State laws. Currently, separate accounts are not maintained in the State Treasury for the University’s general operating and capital appropriations. Although these appropriations are available to the University to expend, custody and ownership of the funds remain with the State. Unspent general and capital appropriations that continue to be available to the University for expenditure at the end of the fiscal year are reported as Due from State of Hawai‘i in the accompanying Consolidated Statements of Net Assets.

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

Perpetual Trusts

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

Split Interest Agreements

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

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

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

Capital Assets
Capital assets are recorded at cost, or if donated, at an appraised value at the date of the gift. Depreciation of capital assets is provided for on a straight-line basis over the estimated useful lives (3 to 100 years) of the respective assets. The University's policy is to capitalize tangible, nonexpendable personal property having an estimated useful life of more than one year. Interest incurred on tax-exempt construction financing, net of investment income on any unspent financing proceeds, is capitalized as a cost of construction. When taxable debt is incurred specifically for a project, interest is capitalized on amounts expended on the project using the weighted-average cost of outstanding borrowings. The capitalization of interest ceases when the project is substantially complete or construction activity is suspended for more than a brief period. The University incurred interest cost of $29,907 and $27,298 for the years ended June 30, 2012 and 2011, respectively, of which capitalized interest as a cost of construction amounted to $7,407 and $5,045 respectively. The University does not capitalize works of art or historical treasures that are held for exhibition, education, research and public service. These collections are neither disposed of for financial gain nor encumbered. Accordingly, such collections are not recognized or capitalized for financial statement purposes. Maintenance and repairs, as well as minor replacements, renewals and betterments, are charged to operations. Major renewals, replacements and betterments are capitalized in the year incurred. Capital assets retired or otherwise disposed of are removed from the appropriate asset and related accumulated depreciation accounts. Gains and losses on disposals and the net book value of transfers of capital assets are reflected in operations.

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

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

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

Other Postemployment Benefits
The University applies the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which requires accrual-based measurement and recognition and disclosure of other postemployment benefits (“OPEB”) expense, such as retiree medical and dental costs, over the employees’ years of service, along with the related liability.

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

Net Assets
The University’s net assets are classified into the following four net asset categories:

- **Invested in capital assets, net of related debt**: This component of net assets represents the University’s total investment in capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those capital assets.

- **Restricted**:

  - Nonexpendable – Net assets subject to externally imposed stipulations that they be maintained permanently by the University. Such assets include the University’s permanent endowment funds.

  - Expendable – Net assets that are restricted for specific purposes by sponsors, donors or law. Restrictions in these assets are released when the University complies with the stipulations required by the sponsor, donor or legislative act.

- **Unrestricted**: Net assets not classified as restricted or invested in capital assets and not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Regents (“Board”) or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted assets are designated for academic and research programs and initiatives, and capital asset programs.

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, 2012 and 2011 amounted to $773,948 and $797,852, respectively, of which $678,658 and $734,076 were restricted by enabling legislation.

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

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

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

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

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

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

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

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

With respect to workers' compensation insurance, the University is self-insured for the first $500 per occurrence and annual aggregate and obtains excess insurance of $50,000 from a commercial insurance company. The University records a liability for risk financing and insurance related losses if it is determined that a loss has been incurred and the amount can be reasonably estimated. The University uses a third party actuary to estimate its workers' compensation liability. Changes in the liability are the result of claims payments made during the fiscal year, new claims filed and changes in the estimates of existing claims. Anticipated payments by the third party for the next fiscal year are considered current and payments thereafter are considered noncurrent. The liability represents the University's best estimate of workers' compensation liabilities based on available information.

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

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

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

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

Reclassifications
Certain amounts in the 2011 consolidated financial statements have been reclassified to conform to the 2012 presentation. Such reclassifications have no impact on the 2011 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, 2012 and 2011, classified as cash and cash equivalents and operating investments, were $347,481 and $329,614, with corresponding bank balances of $365,929 and $332,837, respectively. The portion of such bank balances covered by the Federal Deposit Insurance Corporation or by collateral held by the State Director of Finance in the name of the University totaled $361,173 at June 30, 2012 and $326,615 as of June 30, 2011. Additional cash equivalent balances of $7,305 at June 30, 2012 and $5,290 as of June 30, 2011 represent deposits with investment brokers covered by the Securities Investor Protection Corporation and additional insurance provided by the investment brokers.

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

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

As a result of market declines, the fair market value of certain donor-restricted endowments was less than the historical cost value of such funds by $8,445 and $4,054 at June 30, 2012 and 2011, respectively. These unrealized losses have been recorded as reductions in unrestricted net assets. Future market gains will be used to restore this deficiency in unrestricted net assets before any net appreciation above the historical cost value of such funds increases restricted expendable net assets.

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

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

The Uniform Prudent Management of Institutional Funds Act (“HUPMIFA”), established under Hawai‘i Revised Statute §517E, was enacted by the State of Hawai‘i on July 1, 2009. HUPMIFA requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result, the University classifies as restricted nonexpendable net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in restricted nonexpendable net assets is classified as restricted expendable net assets until those amounts are expended and distributed by the University in accordance with its Board approved spending rate policy and in a manner consistent with the standard of prudence prescribed by HUPMIFA. In fiscal years 2012 and 2011, the University’s spending rate policy provided for annual distributions ranging from four percent to five percent of the trailing five-year moving average of the endowment fair value.

Investment management fees incurred by the University during fiscal years 2012 and 2011 approximated $1,606 and $1,745, respectively.

(All dollars reported in thousands)

At June 30, 2012 and 2011, the University's investments were comprised of the following:

	2012		2011	
	Fair Value	**Cost**	**Fair Value**	**Cost**
Money market funds	$ 47,849	$ 47,849	$ 25,267	$ 25,267
Fixed income securities	306,213	304,254	473,697	469,220
Equity securities	18,805	17,571	15,034	20,253
Mutual funds	79,143	76,990	80,561	64,224
Time certificates of deposit	292,008	292,008	258,000	258,000
Student loan auction rate securities	25,500	25,500	48,350	48,350
Limited partnerships	53,127	47,070	55,810	50,139
Absolute return	21,459	19,736	20,476	18,339
Real estate	24,346	25,268	21,377	22,144
Other investments	50,992	47,350	51,921	46,510
Total investments	919,442	903,596	1,050,493	1,022,446
Less: Current portion	392,779	392,404	330,936	330,314
Total noncurrent investments	$ 526,663	$ 511,192	$ 719,557	$ 692,132

Due to uncertainties surrounding the timing of liquidation of 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. 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.

In March 2011, the University and Citigroup Global Markets Inc. ("CGMI") signed an agreement providing the University with an option during June 2015 to require CGMI to purchase for par value (plus accrued interest) all of the University's auction rate securities held by CGMI at the date the option is exercised. In addition, CGMI is obligated to pay the University the difference between the sale price and par value on any auction rate security sold below par value between March 2011 and June 2015. Citigroup, Inc. is guaranteeing the full payment and performance of CGMI. As a result of this agreement, in addition to the University continuing to receive its contractual interest payments in a timely manner, University management believes it is appropriate to report the University's auction rate securities at par value.

In July 2012, the University liquidated the entire student-loan auction rate security portfolio with a carrying value of $25,500, at par value, in accordance and under the terms of the agreement with CGMI. Student loan auction rate securities are classified as operating investments as of June 30, 2012.

(All dollars reported in thousands)

Changes in the University's investments for the year ended June 30, 2012 were as follows:

	Fair Value	Cost Basis	Net Unrealized Gain (Loss)	Net Realized Gain (Loss)
University Endowment Pool				
End of year	$ 56,282	$ 53,993	$ 2,289	
Beginning of year	57,536	53,809	3,727	
Net change	(1,254)	184	(1,438)	$ 894
Foundation Endowment Pool				
End of year	201,316	189,275	12,041	
Beginning of year	208,010	186,199	21,811	
Net change	(6,694)	3,076	(9,770)	4,798
Associated Students of the University of Hawai‘i				
End of year	6,607	6,273	334	
Beginning of year	6,982	6,107	875	
Net change	(375)	166	(541)	198
School of Medicine				
End of year	9,087	9,084	3	
Beginning of year	11,661	11,638	23	
Net change	(2,574)	(2,554)	(20)	4
University Bond System				
End of year	171,290	171,405	(115)	
Beginning of year	322,431	322,335	96	
Net change	(151,141)	(150,930)	(211)	(130)
Operating investments				
End of year	367,279	366,904	375	
Beginning of year	330,936	330,315	621	
Net change	36,343	36,589	(246)	75
Auction rate securities				
End of year	25,500	25,500	-	
Beginning of year	48,350	48,350	-	
Net change	(22,850)	(22,850)	-	-
Other				
End of year	82,081	81,455	626	
Beginning of year	64,587	63,693	894	
Net change	17,494	17,762	(268)	1,213
Total investments				
End of year	919,442	903,889	15,553	
Beginning of year	1,050,493	1,022,446	28,047	
Net change	$ (131,051)	$ (118,557)	$ (12,494)	$ 7,052

(All dollars reported in thousands)

Changes in the University’s investments for the year ended June 30, 2011 were as follows:

	Fair Value	Cost Basis	Net Unrealized Gain (Loss)	Net Realized Gain (Loss)
University Endowment Pool				
End of year	$ 57,536	$ 53,809	$ 3,727	
Beginning of year	51,162	52,387	(1,225)	
Net change	6,374	1,422	4,952	$ 2,517
Foundation Endowment Pool				
End of year	208,010	186,199	21,811	
Beginning of year	168,980	175,890	(6,910)	
Net change	39,030	10,309	28,721	884
Associated Students of the University of Hawai‘i				
End of year	6,982	6,107	875	
Beginning of year	6,021	5,975	46	
Net change	961	132	829	256
School of Medicine				
End of year	11,661	11,638	23	
Beginning of year	11,990	11,961	29	
Net change	(329)	(323)	(6)	-
University Bond System				
End of year	322,431	322,335	96	
Beginning of year	105,676	106,347	(671)	
Net change	216,755	215,988	767	(867)
Operating investments				
End of year	330,936	330,315	621	
Beginning of year	261,343	260,522	821	
Net change	69,593	69,793	(200)	61
Auction rate securities				
End of year	48,350	48,350	-	
Beginning of year	89,750	89,750	-	
Net change	(41,400)	(41,400)	-	-
Other				
End of year	64,587	63,693	894	
Beginning of year	65,753	64,727	1,026	
Net change	(1,166)	(1,034)	(132)	358
Total investments				
End of year	1,050,493	1,022,446	28,047	
Beginning of year	760,675	767,559	(6,884)	
Net change	$ 289,818	$ 254,887	$ 34,931	$ 3,209

(All dollars reported in thousands)

	2012	2011
Summary of net investment income		
Change in unrealized net gain (loss)	$ (12,494)	$ 34,931
Net realized gain	7,052	3,209
	(5,442)	38,140
Interest and dividend income	9,230	10,453
Other	(910)	459
Investment income before management fees	2,878	49,052
Less: Management fees	1,606	1,745
Net investment income	$ 1,272	$ 47,307

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

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

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

Investment Risk Factors

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

Concentration Risk

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

(All dollars reported in thousands)

Credit Risk

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

The composition of fixed income securities at June 30, 2012 and 2011, along with credit quality ratings, is summarized below:

		Credit Quality Rating				
	Fair Value	U.S. Govt-Exempt	AAA	AA	A	BBB
2012						
U.S. Treasury	$ 195,166	$ 195,166	$ -	$ -	$ -	$ -
U.S. government agencies	98,617	-	98,026	302	289	-
Corporate bonds	12,430	-	279	1,827	6,782	3,542
Total fixed income securities	$ 306,213	$ 195,166	$ 98,305	$ 2,129	$ 7,071	$ 3,542

		Credit Quality Rating				
	Fair Value	U.S. Govt-Exempt	AAA	AA	A	BBB
2011						
U.S. Treasury	$ 244,358	$ 244,358	$ -	$ -	$ -	$ -
U.S. government agencies	207,263	-	207,038	225	-	-
Corporate bonds	22,076	120	4,977	6,268	7,403	3,308
Total fixed income securities	$ 473,697	$ 244,478	$ 212,015	$ 6,493	$ 7,403	$ 3,308

Interest Rate Risk

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

At June 30, 2012, the composition of the University’s fixed income investments and maturities are summarized below:

		Investment Maturities (in Years)			
	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
2012					
U.S. Treasury	$ 195,166	$ 143,351	$ 49,581	$ 2,172	$ 62
U.S. government agencies	98,617	15,155	40,407	28,829	14,226
Corporate bonds	12,430	975	5,383	5,908	164
Total fixed income securities	$ 306,213	$ 159,481	$ 95,371	$ 36,909	$ 14,452

(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 investments in publicly-traded foreign securities.

At June 30, 2012 and 2011, the University's exposure to foreign currency risk expressed in U.S. dollars was as follows:

	2012	2011
Equity securities		
British pound	$ 6,587	$ 6,718
Euro	10,612	12,008
Hong Kong dollar	1,691	1,760
Japanese yen	8,189	9,876
Korean won	1,148	1,248
Singapore dollar	1,381	1,437
Swiss franc	3,289	3,532
Other (25 countries)	9,206	10,321
	42,103	46,900
Fixed income securities		
British pound	500	520
Euro	223	4,478
Japanese yen	121	1,970
Other (5 countries)	1,590	1,570
	2,434	8,538
Total exposure to foreign currency risk	$ 44,537	$ 55,438

3. Accounts Receivable

The composition of accounts receivable at June 30, 2012 and 2011 is summarized as follows:

	2012	2011
U.S. government	$ 43,046	$ 51,963
State and local government	6,329	4,324
Private agencies	5,850	8,912
Other	44,631	43,596
	99,856	108,795
Less: Allowance for doubtful accounts	20,994	12,206
	$ 78,862	$ 96,589

(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 $47,337 in 2012 and $46,128 in 2011. During fiscal year 2012, the University expended 100.00 percent of this cost recovery on research and training programs. During fiscal year 2011, the University expended 98.28 percent and 1.72 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, 2012 and 2011 is summarized as follows:

	2012	2011
Student notes		
Federal loan programs	$ 19,271	$ 19,291
State loan programs	8,540	8,672
University loan funds	70	67
Other notes receivable	104	73
Total student and other notes outstanding	27,985	28,103
Less: Allowance for doubtful accounts	6,944	6,719
Total student and other notes receivable, net	21,041	21,384
Contributions receivable	19,896	21,827
Less: Allowance for uncollectible pledges	1,089	1,024
Less: Discount to present value	29	77
Total contributions receivable, net	18,778	20,726
Total student notes and contributions receivable, net	39,819	42,110
Less: Current portion, net	16,275	13,090
	$ 23,544	$ 29,020

(All dollars reported in thousands)

The allowance for doubtful accounts at June 30, 2012 and 2011 is comprised of:

	2012	**2011**
Federal Perkins loan program	$ 3,941	$ 3,524
State of Hawai‘i Higher Education loans	2,904	3,122
Nursing/Health Profession loans	33	32
Hawai'i Educator loans	10	4
Short-term loans	56	37
	$ 6,944	$ 6,719

Payments on contributions receivable at June 30, 2012 are expected to be collected in:

Less than one year	$ 14,335
One year to five years	5,561
	$ 19,896

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

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

During the years ended June 30, 2012 and 2011, the University distributed $2,509 and $2,618 in student loans through the U.S. Department of Education Federal Perkins Loan, respectively, and $149,925 and $139,251 in Direct Loan programs, respectively. These distributions and related funding sources are not included as expenses and revenues in the accompanying financial statements.

As discussed in Note 1 to the consolidated financial statements, pledges for permanent endowments that do not meet eligibility requirements, as defined by GASB Statement No. 33, are not recorded as assets until the related gift is received. Accordingly, permanent endowment pledges totaling approximately $4,029 and $7,301 at June 30, 2012 and 2011, 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.

(All dollars reported in thousands)

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

6. Inventories

The inventories and the methods of valuation at June 30, 2012 and 2011 are summarized below:

		2012	2011
University of Hawai‘i Bookstore merchandise inventory	Lower of cost or market using the first-in, first-out retail inventory method.	$ 10,434	$ 10,620
University of Hawai‘i Chemistry Stockroom	Cost applied on the first-in, first-out basis.	1,138	1,148
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.	675	692
University of Hawai‘i other inventory	Cost applied on the first-in, first-out basis.	469	494
		$ 12,716	$ 12,954

(All dollars reported in thousands)

7. Capital Assets

A summary of capital assets at June 30, 2012 and 2011 is as follows:

	Beginning Balance	Additions	Deductions	Transfers	Ending Balance
2012					
Nondepreciable capital assets					
Land	$ 12,486	$ -	$ -	$ -	$ 12,486
Construction in progress	268,915	376,603	1,460	(98,231)	545,827
Total capital assets not being depreciated	281,401	376,603	1,460	(98,231)	558,313
Depreciable capital assets					
Land improvements	89,668	500	-	11,846	102,014
Infrastructure	101,502	905	-	5,119	107,526
Buildings	1,553,107	8,899	9,333	63,976	1,616,649
Equipment	324,776	27,410	17,205	17,290	352,271
Library materials	162,971	2,526	8,307	-	157,190
Total capital assets being depreciated	2,232,024	40,240	34,845	98,231	2,335,650
Less: Accumulated depreciation	995,788	91,933	20,695	-	1,067,026
Capital assets, net	$ 1,517,637	$ 324,910	$ 15,610	$ -	$ 1,826,937

	Beginning Balance	Additions	Deductions	Transfers	Ending Balance
2011					
Nondepreciable capital assets					
Land	$ 12,486	$ -	$ -	$ -	$ 12,486
Construction in progress	170,744	227,224	696	(128,357)	268,915
Total capital assets not being depreciated	183,230	227,224	696	(128,357)	281,401
Depreciable capital assets					
Land improvements	88,521	233	192	1,106	89,668
Infrastructure	95,249	568	-	5,685	101,502
Buildings	1,446,951	8,498	22,180	119,838	1,553,107
Equipment	313,383	19,703	10,038	1,728	324,776
Library materials	164,637	3,108	4,774	-	162,971
Total capital assets being depreciated	2,108,741	32,110	37,184	128,357	2,232,024
Less: Accumulated depreciation	935,107	85,591	24,910	-	995,788
Capital assets, net	$ 1,356,864	$ 173,743	$ 12,970	$ -	$ 1,517,637

(All dollars reported in thousands)

Capital assets consist of land, land improvements, infrastructure, buildings, equipment, library materials, and construction in progress. Construction in progress (“CIP”) additions represent costs for new projects, net of the amount of capital assets placed in service. CIP is not depreciated until the asset is placed in service. Assets acquired are recorded at cost, or if donated, at appraised value at the date of the gift. Land parcels comprising 1,581 acres, or 93 percent of the University’s property, are recorded at the State’s value of $1 per parcel. Assets owned by the federal government, although in the custody of the University, are not included in the capital asset total.

The State Department of Accounting and General Services (“DAGS”) administers certain of the University’s construction projects. Upon completion, the University records the total project cost, including amounts funded from state and federal sources. No capital assets were transferred to the University from DAGS in 2012 or 2011.

8. Other Noncurrent Assets

Other noncurrent assets at June 30, 2012 and 2011 were comprised of:

	2012	2011
Interest in beneficial trusts held by others	$ 14,031	$ 14,657
Deferred bond refunding and issuance costs (Note 11)	7,489	8,090
Other	2,354	2,112
	$ 23,874	$ 24,859

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, 2012 and 2011 were as follows:

	2012		2011	
	Due from	Due to	Due from	Due to
State appropriations for current operations	$ 439		$ 1,936	
State capital appropriations-noncurrent	395,841		418,309	
Total due from State of Hawai‘i	$ 396,280		$ 420,245	
Imprest/petty cash advances		$ 94		$ 94
Advance		6,000		6,000
General obligation bonds – current		159		151
Employee fringe adjustments		8		12
Due to State of Hawai‘i – current		6,261		6,257
General obligation bonds – noncurrent		722		881
Total due to State of Hawai‘i		$ 6,983		$ 7,138

(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, 2012 is as follows:

	Original Amount	Beginning Balance	Principal Repayment	Ending Balance
Series DB (interest rate, 2.80% to 5.25%)				
Student Housing				
Mānoa	$ 731	$ 522	$ 76	$ 446
Hilo	143	102	15	87
Parking Structure Phase I	425	304	44	260
	1,299	928	135	793
Series DG (interest rate, 5.00%)				
Student Housing				
Mānoa	82	59	9	50
Hilo	16	11	2	9
Parking Structure Phase I	47	34	5	29
	145	104	16	88
	$ 1,444	$ 1,032	$ 151	$ 881

Activity related to amounts due to the State of Hawai‘i for general obligation bonds for the year ended June 30, 2011 is as follows:

	Original Amount	Beginning Balance	Principal Repayment	Ending Balance
Series DB (interest rate, 2.80% to 5.25%)				
Student Housing				
Mānoa	$ 731	$ 595	$ 73	$ 522
Hilo	143	116	14	102
Parking Structure Phase I	425	346	42	304
	1,299	1,057	129	928
Series DG (interest rate, 5.00%)				
Student Housing				
Mānoa	82	67	8	59
Hilo	16	13	2	11
Parking Structure Phase I	47	39	5	34
	145	119	15	104
	$ 1,444	$ 1,176	$ 144	$ 1,032

(All dollars reported in thousands)

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

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

At June 30, 2012, 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,		
2013	$ 159	$ 5
2014	167	4
2015	175	3
2016	185	1
2017	195	-
	$ 881	$ 13

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

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

In September 2003, the State issued $188,700 in general obligation Series DB bonds (refunding bonds) of which the University’s portion was approximately $1,299, with interest rates ranging from 2.80 percent to 5.25 percent to advance refund approximately $1,299 (University’s portion) of outstanding general obligation Series CG bonds (refunded bonds) which have been partially defeased. The net proceeds from the issuance of the refunding bonds were placed in an irrevocable trust and were used to purchase securities of the United States government at various interest rates and maturities sufficient to meet the debt service requirements of the refunding bonds.

(All dollars reported in thousands)

11. Long-Term Liabilities

Long-term liability activity for the years ended June 30, 2012 and 2011 is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
2012					
Bonds payable					
Revenue bonds payable	$ 637,045	$ 8,575	$ 22,710	$ 622,910	$ 14,240
Other liabilities					
Workers' compensation	13,188	5,165	3,468	14,885	5,279
Accrued vacation	68,975	25,361	19,734	74,602	27,440
Postretirement health care/life insurance benefits (Note 15)	318,143	136,078	40,759	413,462	-
Total other liabilities	400,306	166,604	63,961	502,949	32,719
Total long-term liabilities	$ 1,037,351	$ 175,179	$ 86,671	$ 1,125,859	$ 46,959
2011					
Leases and bonds payable					
Revenue bonds payable	$ 351,600	$ 292,730	$ 7,285	$ 637,045	$ 13,755
Other liabilities					
Workers' compensation	11,745	5,239	3,796	13,188	4,225
Accrued vacation	65,893	23,678	20,596	68,975	24,674
Postretirement health care/life insurance benefits (Note 15)	206,271	150,637	38,765	318,143	-
Total other liabilities	283,909	179,554	63,157	400,306	28,899
Total long-term liabilities	$ 635,509	$ 472,284	$ 70,442	$ 1,037,351	$ 42,654

(All dollars reported in thousands)

Revenue Bonds Payable

The University’s revenue bonds payable at June 30, 2012 and 2011 is as follows:

	Series	Date Issued	Authorized	2012	2011
Student Housing System at Mānoa and Telecommunications System (interest rate, 3.0% to 5.25%)	2001B	December 19, 2001	$ 18,665	$ -	$ 10,160
University Health & Wellness Center (interest rate, 2.70% to 5.59%)	2002A	June 27, 2002	150,000	3,395	6,660
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	94,130	96,165
University Health & Wellness Center (interest rate, 3.5% to 5.0%)	Ref 2006A	October 25, 2006	133,810	131,995	132,475
Various acquisition and construction projects (interest rate, 2.5% to 6.0%)	2009A	April 15, 2009	100,000	96,700	98,855
University’s Cancer Center (interest rate, 2.5% to 6.0%)	2010A-1, 2010A-2	October 7, 2010	138,640	136,000	138,640
Various construction projects (interest rate, 2.5% to 6.0%)	2010B-1, 2010B-2	October 7, 2010	154,090	152,115	154,090
Student Housing System at Mānoa and Telecommunications System (interest rate, 2.0% to 5.0%)	2012A(R)	February 22, 2012	8,575	8,575	-
			$ 803,780	$ 622,910	$ 637,045

In February 2012, the University issued $8,575 in Series 2012A(R) revenue bonds to retire (current refund) $8,955 of the outstanding Series 2001B revenue bonds. The proceeds of the Series 2012A(R) bonds were deposited into a trust account with an escrow agent to fully defease the outstanding principal of the Series 2001B bonds. The defeasance resulted in an accounting gain of $943 and an economic loss (difference between the present values of the debt service payments on the old and new debt) of $27. The coupon interest rates for the Series 2012A(R) bonds range from 2.0 percent – 5.0 percent (first interest payment due on April 1, 2012) and mature on October 1, 2018.

In October 2010, the University issued $292,730 in Series 2010A-1 ($111,265), 2010A-2 ($27,375), 2010B-1 ($127,535), and 2010B-2 ($26,555) bonds (collectively, the “Series 2010 Bonds”) for the purpose of financing the costs of certain University projects. The Series 2010A-1 and Series 2010B-1 bonds are designated as “Build America Bonds” under the provisions of the American Recovery and Reinvestment Act of 2009. These University projects may include the construction and maintenance of the University’s Cancer Center, renovations and additions to the Mānoa Campus Center, construction and equipment for an Information Technology Building, renovations to the Sinclair Library basement on the Mānoa campus, further development of the West O‘ahu campus, construction of a new Regional Biocontainment Laboratory, and various energy conservation/efficiency projects on the community college campuses on O‘ahu, Kaua‘i and Maui. The coupon interest rates for the Series 2010 Bonds range from 2.50 percent – 6.03 percent (first interest payment due on April 1, 2011) and mature on October 1, 2030 and 2040.

(All dollars reported in thousands)

In April 2009, the University issued $100,000 Series 2009A Bonds for the purpose of financing the costs of certain University projects. These University projects include the identification and acquisition of an existing apartment complex on O‘ahu for conversion to faculty housing, the development of new faculty housing units on O‘ahu, the acquisition and conversion of apartments on the Hilo campus for student housing, renovations to student housing at Hale Aloha, the development of the University of Hawai‘i West O‘ahu Kapolei campus, the acquisition of Waianae Education Center, the repayment of indebtedness issued on behalf of the University by the Housing Finance and Development Corporation in November 1995 to finance the Kau‘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 $12,665 in 2012 and $12,422 in 2011.

The revenue bonds are paid from certain unrestricted revenues in annual installments, including semi-annual interest payments ranging from $490 to $15,906 with the final payment due in October 2040. Series 2001B, 2006A, 2009A, 2010, and 2012A(R) bonds 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 and supplemented stipulates that all available monies on deposit in any special fund or revolving fund of the University, excluding monies on deposit in the University Revenue – Undertakings Fund (“University Bond System”), are pledged to the payment of the Series 2002A and Refunding Series 2006A 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, 2009A, 2010, and 2012A(R) bonds, interest and premiums (if any).

At June 30, 2012, future maturities of revenue bonds are as follows:

	Principal	Interest
Year ending June 30,		
2013	$ 14,240	$ 30,958
2014	14,740	30,461
2015	15,345	29,852
2016	17,115	29,126
2017	17,700	28,393
2018–2022	95,260	129,679
2023–2027	114,845	104,566
2028–2032	135,780	74,415
2033–2037	125,160	39,231
2038–2041	72,725	8,275
	$ 622,910	$ 504,956

(All dollars reported in thousands)

Bond Premiums
Activity related to the premiums on general obligation and revenue bonds for the years ended June 30, 2012 and 2011 is as follows:

	Series	Beginning Balance	Additions	Reductions	Ending Balance
2012					
Student Housing System at Mānoa and Telecommunications System	2001B	$ 60	$ -	$ 60	$ -
John A. Burns School of Medicine	Ref 2006A	1,450	-	67	1,383
University's Cancer Center	2010A	2,165	-	388	1,777
Various construction projects	2010B	2,920	-	473	2,447
General obligation	DB	22	-	7	15
General obligation	DG	4	-	1	3
Total bond premiums		$ 6,621	$ -	$ 996	$ 5,625
2011					
Student Housing System at Mānoa and Telecommunications System	2001B	$ 81	$ -	$ 21	$ 60
John A. Burns School of Medicine	Ref 2006A	1,515	-	65	1,450
University's Cancer Center	2010A	-	2,453	288	2,165
Various construction projects	2010B	-	3,267	347	2,920
General obligation	DB	29	-	7	22
General obligation	DG	5	-	1	4
Total bond premiums		$ 1,630	$ 5,720	$ 729	$ 6,621

Deferred Bond Refunding and Issuance Costs
Activity related to issuance costs for general obligation and revenue bonds for the years ended June 30, 2012 and 2011 is as follows:

	Series	Beginning Balance	Additions	Reductions	Ending Balance
2012					
Student Housing System at Mānoa and Telecommunications System	2001B	$ 194	$ -	$ 194	$ -
John A. Burns School of Medicine	Ref 2006A	7,571	-	349	7,222
University's Cancer Center	2010A	152	-	27	125
Various construction projects	2010B	153	-	25	128
General obligation	DB	16	-	5	11
General obligation	DG	4	-	1	3
Total bond issuance costs		$ 8,090	$ -	$ 601	$ 7,489
2011					
Student Housing System at Mānoa and Telecommunications System	2001B	$ 262	$ -	$ 68	$ 194
John A. Burns School of Medicine	Ref 2006A	7,908	-	337	7,571
University's Cancer Center	2010A	-	1,091	939	152
Various construction projects	2010B	-	1,225	1,072	153
General obligation	DB	22	-	6	16
General obligation	DG	5	-	1	4
Total bond issuance costs		$ 8,197	$ 2,316	$ 2,423	$ 8,090

(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, 2013. 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 the Research Corporation's accounts receivable. The rate of interest on borrowings was 3.28 percent at June 30, 2012 and 2011. At June 30, 2012 and 2011, there were no borrowings under this line.

13. Property Leases

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

Year ending June 30,	Lease Amount
2013	$ 2,389
2014	1,154
2015	825
2016	255
2017	81
2018–2022	400
2023–2027	333
Thereafter	1,990
	$ 7,427

Rent expense for outside space for the years ended June 30, 2012 and 2011 approximated $7,863 and $6,502, respectively.

14. Employee Benefits

Employees' Retirement System

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

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

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

Contribution requirements are not actuarially determined, but are established by the Hawai‘i Revised Statues (“HRS”) Chapter 88 and amended by the Hawai‘i state legislature. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. The employee contribution rate is 7.8 percent of salary for the Contributory Plan and 6.0 percent of salary for the Hybrid Plan. There is no employee contribution for the Noncontributory Plan. Employer contributions are calculated as part of the State’s total contribution requirements and are reimbursed to the State’s General Fund as part of the fringe benefit rate on the University employees’ actual salaries. The required employer contributions for the years ended June 30, 2012, 2011 and 2010 were $75,497, $72,199 and $75,609, respectively. Effective July 1, 2008, the employer contribution rate increased from 13.75 percent to 15.00 percent of salary.

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

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

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

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

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

Other Benefits

The State absorbs the fringe benefit cost for employees paid from State and federal appropriations. In fiscal years 2012 and 2011, the State appropriated funds to the Department of Budget and Finance to pay for these fringe benefit costs on behalf of the University. Fringe benefit costs included in total revenue and total expenditures amounted to $142,224 and $136,154 for fiscal years 2012 and 2011, 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, 2012 and 2011, accumulated sick leave approximated $414,970 and $387,311, 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 2012 and 2011 were $2,031 and $1,544, respectively. Temporary wage loss payments for fiscal years 2012 and 2011 amounted to $558 and $496, 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 Hawai‘i Employer-Union Health Benefits Trust Fund (“EUTF”), an agent, multiple-employer defined benefit plan that replaced the Hawai‘i Public Employees Health Fund effective July 1, 2003, pursuant to Act 88, SLH of 2001. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees and their dependents. The EUTF issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to:

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

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

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

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

(All dollars reported in thousands)

Funding Policy and Annual OPEB Cost

Employer contributions are financed on a pay-as-you-go basis. The University's contributions are calculated as part of the State's total contribution requirements and are reimbursed to the State's General Fund as part of the fringe benefit rate on the University employees' actual salaries. The University's annual OPEB cost is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following tables present the annual OPEB cost and the percentage of annual OPEB cost contributed to the plan for the fiscal year ended June 30, 2012:

Projected June 30, 2012 Net OPEB Obligation ("NOO")

July 1, 2011 net OPEB obligation	$ 318,143
Plus: Annual OPEB cost	136,078
Less: Employer contributions (estimated "pay as you go" method)	40,759
Equals: Expected June 30, 2012 net OPEB obligation	$ 413,462

The University remitted $40,200 and $34,775 in State assessed OPEB contributions for the years ended June 30, 2012 and 2011, respectively. The University's actuarially determined minimum OPEB contribution was $40,759 and $38,765, for the years ended June 30, 2012 and 2011, respectively. The difference between the State assessed and University actuarially determined OPEB contribution is reported net with Transfers from (to) State for Fringe Benefits in the accompanying Consolidated Statements of Revenues, Expenses and Changes in Net Assets.

OPEB Summary

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2012	$136,078	30.0%	$413,462
June 30, 2011	$150,637	25.7%	$318,143
June 30, 2010	$101,521	22.8%	$206,271

(All dollars reported in thousands)

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.

Actuarial value of assets	$ -
Actuarial accrued liability	1,860,680
Unfunded actuarial accrued liability (“UAAL”)	$ 1,860,680
Funded ratio	0%
Covered payroll (active plan members)	$ 503,900
UAAL as a percentage of covered payroll	369.3%

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:

State of Hawai‘i actuarial valuation date	July 1, 2011
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll
Amortization period	30 years
Asset valuation method	Fair value of assets, plus accrued contributions
Actuarial assumptions	
Investment rate of return	4%
Projected salary increases	3.5%
Health care inflation rate	
HMSA Medical and Rx Pre-65	8.0% initial, 5% ultimate
HMSA Medical and Rx Post-65	8.5% initial, 5% ultimate
HMSAKaiser	8.5% initial, 5% ultimate
Kaiser and Rx Post-65	15.0% initial, 5% ultimate

(All dollars reported in thousands)

16. Other Noncurrent Liabilities

Other noncurrent liabilities at June 30, 2012 and 2011 are comprised of:

	2012	2011
Liabilities under split interest agreements	$ 6,209	$ 5,400
Amounts held for others	2,462	2,206
Deferred revenue on sale of real estate	5,150	-
Other	2,023	1,579
	$ 15,844	$ 9,185

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 and from other specific appropriations acts in various Session Laws of Hawai‘i (“SLH”).

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

Act 164, SLH 2011 Section 32, provided $82,528 in general fund appropriations directly to the Department of Budget and Finance to pay for debt service on general obligation bonds issued for the University. As a result, the University itself received no appropriations and made no transfers for debt service on general obligation bonds for the year ended June 30, 2012.

Act 180, SLH 2010 Section 57, provided $72,116 in general fund appropriations directly to the Department of Budget and Finance to pay for debt service on general obligation bonds issued for the University. As a result, the University itself received no appropriations and made no transfers for debt service on general obligation bonds for the year ended June 30, 2011.

Act 192, SLH 2010 Section 21 through 23, authorized $0 and $4,900 in University non-general funds to be transferred into the State general fund in fiscal years 2012 and 2011, respectively. The net amount of the University’s State general and capital appropriations for the years ended June 30, 2012 and 2011 were $375,754 and $137,388 and $359,077 and $204,614, respectively.

(All dollars reported in thousands)

Net general and capital appropriations for the year ended June 30, 2012 were as follows:

General appropriations		
Act 164, SLH 2011, Appropriation Warrant No. 17	$	386,307
Total funds lapsed		(353)
Collective bargaining adjustment		37
Executive restrictions		(10,237)
Total general appropriations	$	375,754
Capital appropriations		
Act 162, SLH2009 as amended and renumbered by Act 180, SLH2010	$	1,578
Act 162, SLH2009 as amended by Act 180, SLH2010 as amended by Act 164, SLH2011		1,225
Section 36 and 73 of Act 164, SLH 2011		20,000
Act 164, SLH2011		115,213
Total funds lapsed		(628)
Total capital appropriations	$	137,388

Net general and capital appropriations for the year ended June 30, 2011 were as follows:

General appropriations		
Act 180 SLH 2010, Appropriation Warrant No. 28	$	360,687
Act 3, SP SLH 2009, Appropriation Warrant No. 12 (G 301)		70
		360,757
Total funds lapsed		(286)
G 10 301 Lapse adjustment		70
Executive restrictions		(1,464)
Total general appropriations	$	359,077
Capital appropriations		
Act 162, SLH 2009 as amended by Act 180, SLH 2010	$	181,485
Act 162, SLH 2009 Sections 62 & 90 as amended by Act 180, SLH 2010		7,000
Act 162, SLH 2009 as amended and renumbered by Act 180, SLH 2010		16,317
Total funds lapsed		(188)
Total capital appropriations	$	204,614

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, 2012 and 2011 were as follows:

	2012	2011
Unrestricted net assets		
Designated		
Research and training	$ 49,765	$ 49,161
Contract commitments	51,029	31,542
Quasi-endowment	31,063	37,148
Capital projects	40,519	37,126
Bond System	12,840	12,103
Other designated net assets	8,017	8,531
Total designated	193,233	175,611
Undesignated (unfunded obligations for vacation, worker's compensation liabilities, payroll, etc.)	(323,363)	(170,105)
Total unrestricted net assets (deficit)	$ (130,130)	$ 5,506

19. Segment Information

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

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

The University Bond System's outstanding debt was issued pursuant to the bond resolution adopted in November 2001 and as amended and supplemented by supplemental resolutions adopted in November 2006, February 2009, August 2010 and January 2012. 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 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 of the Bond System as of June 30, 2012 and 2011 is presented before elimination of certain intra-University transactions.

	2012	2011
Condensed statements of net assets		
Assets		
Current assets	$ 79,656	$ 69,522
Capital assets, net	423,702	266,464
Other assets	171,557	322,951
Total assets	$ 674,915	$ 658,937
Liabilities		
Current liabilities	$ 54,672	$ 43,935
Noncurrent liabilities	483,505	495,281
Total liabilities	538,177	539,216
Net assets		
Invested in capital assets, net of related debt	83,231	75,613
Restricted expendable	1,065	1,037
Unrestricted	52,442	43,071
Total net assets	136,738	119,721
Total liabilities and net assets	$ 674,915	$ 658,937

	2012	2011
Condensed statements of revenues, expenses and changes in net assets		
Operating revenues		
Bookstores	$ 29,008	$ 31,452
Room and other rentals	26,902	25,492
Parking	6,668	6,549
Telecommunications	3,887	3,883
Other operating revenues	8,729	7,804
Total operating revenues	75,194	75,180
Operating expenses (including $11,284 and $10,079 in depreciation expense in 2012 and 2011, respectively)	(83,222)	(70,929)
Operating income (loss)	(8,028)	4,251
Nonoperating revenues	41,655	18,939
Nonoperating expenses	(16,610)	(21,396)
Change in net assets	17,017	1,794
Net assets		
Beginning of year	119,721	117,927
End of year	$ 136,738	$ 119,721

(All dollars reported in thousands)

	2012	2011
Condensed statements of cash flows		
Net cash flows provided by operating activities	$ 765	$ 444
Net cash flows provided by non-capital financing activities	23,109	1,638
Net cash flows provided by (used in) capital and related financing activities	(166,107)	216,231
Net cash flows provided by investing activities	591	1,217
Net increase (decrease) in cash and cash equivalents	(141,642)	219,530
Cash and cash equivalents		
Beginning of year	374,112	154,582
End of year	$ 232,470	$ 374,112

20. Litigation, Other Contingent Liabilities and Commitments

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

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

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

The State and the Office of Hawaiian Affairs (“OHA”) are involved in an ongoing dispute relating to certain lands transferred by the former Republic of Hawai‘i to the United States which were reconveyed to the State upon Hawai‘i’s admission to the Union in 1959. These lands (collectively, the “ceded lands”) are the subject of a number of claims, litigation and legislation, which are being addressed by the State on behalf of all State agencies, including the University. These matters are more fully described in the State’s Comprehensive Annual Financial Report (“CAFR”) that includes financial statements and required supplementary information which may be obtained from the following address:

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

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

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

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

Construction and Other Contracts
The University is committed under contracts awarded for construction and other services. These commitments amounted to approximately $401,286 and $434,026 as of June 30, 2012 and 2011.

On May 4, 2012, the University entered into a five-year, unsecured loan agreement for an amount not to exceed $18,000, subject to certain limitations. The proceeds will be used to facilitate and fund construction of the UH West Oahu campus located in Kapolei, Hawai‘i. As of June 30, 2012, the loan proceeds have not funded pending government approval.

On October 2011, the University entered into an agreement for the sale of approximately six acres of land adjacent to the University of Hawai‘i at West O‘ahu ("UHWO") campus located in Kapolei, Hawaii for $6,000. Buyer has made an initial deposit and payment totaling $5,200 as of June 30, 2012. Completion of the sale is subject to final conveyance and completion of closing documentation.

Collective Bargaining Agreements
Personnel costs are a significant component of the University's expenses. With the exception of executive/managerial personnel, employees of the University belong to one of eight bargaining units and are represented by the Hawai‘i Government Employees Association ("HGEA"), the United Public Workers ("UPW"), or the University of Hawai‘i Professional Assembly ("UHPA"). The University (in some cases, via the State of Hawai‘i) enters into collective bargaining agreements with unions representing its employees which commit to wages and benefits for its employees in the future. The University may make strategic and operational decisions that require the consent of one or more of its labor unions and cannot assure that the labor unions will not require additional wages, benefits or other consideration in return for their consent.

All of the collective bargaining agreements, except for the agreement with UHPA, which represents faculty members, are for a two-year period beginning July 1, 2009 and ending June 30, 2011. These bargaining units agreed to temporary salary reductions in the form of furloughs or across-the-board pay reductions and comparable leave with pay, equivalent to five percent per year over the contract period. Subsequent to June 30, 2011, most of the bargaining units agreed to the same terms for July 1, 2011 through June 30, 2013. However, the state and other employer jurisdictions have yet to reach agreement with the respective unions on successor agreements for two bargaining units − 9 and 10. These agreements for these two bargaining units, which represent approximately 15 employees at the University, will be resolved through interest arbitration.

In January 2010, faculty members ratified a new six-year collective bargaining agreement which included a provision to temporarily reduce faculty salaries by 6.67 percent for 18 months beginning January 1, 2010. After June 30, 2011, faculty salaries revert back to original salaries at December 31, 2009. One-time stipends, equivalent to the amount of the temporary reduction, will be paid in fiscal years 2013, 2014 and 2015 to faculty who were subject to the reduction and are still employed at the University. The faculty agreement also provides for three percent salary increases on July 1, 2013 and July 1, 2014.

The University cannot assure that future agreements with its employees' unions will be on terms in line with expectations or comparable to agreements entered into by others, and any future agreements may increase labor costs or otherwise adversely affect the University. If the University is unable to reach an agreement with the bargaining units representing blue collar workers (BU1) and/or faculty (BU7), it may be subject to future work interruptions and/or stoppages, which may hamper or halt operations. The remaining six bargaining units are subject to interest arbitration and, therefore, member of those units may not participate in a strike or work stoppage.

21. New Accounting Pronouncements

The GASB has recently issued the following accounting pronouncements:

- Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, issued in November 2010. This Statement addresses financial reporting issues related to arrangements between a transferor and an operator (Service Concession Arrangements) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011.

- Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, issued in November 2010. This Statement modifies certain requirements for inclusion and reporting of component units in the financial reporting entity. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2012.

- Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, issued in June 2011. This Statement provides financial reporting guidance related to the consumption or acquisition of net assets related to a future period by standardizing the presentation of deferred outflows and inflows of resources and their effects on the government's net position. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011.

- Statement No. 66, *Technical Corrections – 2012 – An Amendment of GASB Statements No. 10 and No. 62,* issued in March 2012. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012.

- Statement No. 68, *Accounting and Financial Reporting for Pensions*, issued in June 2012. This Statement revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2014.

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

Required Supplementary Information Other Than Management's Discussion and Analysis

(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, 2011	$0	$1,860,680	$1,860,680	0%	$503,900	369.3%
July 1, 2009	$0	$1,849,949	$1,849,949	0%	$495,498	373.4%
July 1, 2007	$0	$1,135,855	$1,135,855	0%	$477,152	238.0%

Other Supplementary Information

Accuity LLP
CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditors on Supplemental Information

To the Board of Regents
University of Hawaiʻi

The report on our audits of the consolidated financial statements of the University of Hawaiʻi as of June 30, 2012 and 2011, and for the years then ended, appears on page 1. Those audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplemental information (Schedules I, II, III, IV, V, VI and VII) included hereinafter is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Accuity LLP

Honolulu, Hawaiʻi
February 15, 2013

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Honolulu, Hawaii 96813
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University of Hawai‘i
State of Hawai‘i
Condensed Statements of Net Assets
Condensed Statements of Revenues, Expenses and Changes in Net Assets
Current Unrestricted Funds Excluding General Fund and University Bond System
As of and for the Years Ended June 30, 2012 and 2011
(All dollars reported in thousands) Schedule I

	2012	2011
Condensed statements of net assets		
Assets		
Current assets	$ 343,318	$ 353,828
Noncurrent assets	42,554	54,551
Total assets	$ 385,872	$ 408,379
Liabilities		
Current liabilities	$ 106,274	$ 95,873
Noncurrent liabilities	17,597	10,283
Total liabilities	123,871	106,156
Net assets		
Unrestricted	262,001	302,223
Total net assets	262,001	302,223
Total liabilities and net assets	$ 385,872	$ 408,379
Condensed statements of revenues, expenses and changes in net assets		
Operating revenues	$ 347,111	$ 339,327
Operating expenses	379,267	288,195
Operating income (loss)	(32,156)	51,132
Nonoperating revenues and transfers	54,358	43,173
Nonoperating expenses and transfers	62,424	42,176
Change in net assets	(40,222)	52,129
Net assets		
Beginning of year	302,223	250,094
End of year	$ 262,001	$ 302,223

1. Basis of Presentation

The accompanying condensed statements of net assets and related condensed statements of revenues, expenses and changes in net assets present the financial position and results of operations of certain of the University’s Special and Revolving Funds, which are pledged as collateral on the University’s Series 2002A revenue bonds and Refunding Series 2006A bonds, and are presented on the accrual basis of accounting. The financial information of the Research Corporation of the University of Hawai‘i and the University of Hawai‘i Foundation is not reflected in this schedule.

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

University of Hawai‘i
State of Hawai‘i
Schedules of Series 2002A Revenue Bond Proceeds Activity
Years Ended June 30, 2012 and 2011
(All dollars reported in thousands) Schedule II

	2012	2011
Beginning balance	$ 11,661	$ 11,990
Additions		
Interest and investment income	10	36
Other	-	-
Total additions	10	36
Deductions		
Payments – building, construction in progress, other	2,575	300
Transfers to State of Hawai‘i	-	55
Management fees	9	10
Total deductions	2,584	365
Ending balance	$ 9,087	$ 11,661

1. Basis of Presentation

The accompanying schedules of Series 2002A revenue bond proceeds activity present the sources and uses of Series 2002A revenue bond proceeds associated with the construction of the John A. Burns School of Medicine facility at Kaka‘ako. The financial information of the Research Corporation of the University of Hawai‘i and the University of Hawai‘i Foundation is not reflected in this schedule.

2. Refinancing

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

University of Hawai‘i
State of Hawai‘i
Condensed Statements of Net Assets
Condensed Statements of Revenues, Expenses and Changes in Net Assets
Current Unrestricted Funds Excluding General Fund
As of and for the Years Ended June 30, 2012 and 2011
(All dollars reported in thousands) Schedule III

	2012	2011
Condensed statements of net assets		
Assets		
Current assets	$ 374,358	$ 384,795
Noncurrent assets	42,582	54,551
Total assets	$ 416,940	$ 439,346
Liabilities		
Current liabilities	$ 122,955	$ 113,248
Noncurrent liabilities	18,735	11,414
Total liabilities	141,690	124,662
Net assets		
Unrestricted	275,250	314,684
Total net assets	275,250	314,684
Total liabilities and net assets	$ 416,940	$ 439,346
Condensed statements of revenues, expenses and changes in net assets		
Operating revenues	$ 422,306	$ 414,507
Operating expenses	435,396	344,351
Operating income (loss)	(13,090)	70,156
Nonoperating revenues and transfers	55,031	43,781
Nonoperating expenses and transfers	81,375	64,122
Change in net assets	(39,434)	49,815
Net assets		
Beginning of year	314,684	264,869
End of year	$ 275,250	$ 314,684

1. Basis of Presentation

The accompanying condensed statements of net assets and related condensed statements of revenues, expenses and changes in net assets present the financial position and results of operations of certain of the University's Special and Revolving Funds, which are pledged as collateral on the University's Series 2006A revenue bonds, and are presented on the accrual basis of accounting. The financial information of the Research Corporation of the University of Hawai‘i and the University of Hawai‘i Foundation is not reflected in this schedule.

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

University of Hawai‘i
State of Hawai‘i
Schedules of Series 2006A Revenue Bond Proceeds Activity
Years Ended June 30, 2012 and 2011
(All dollars reported in thousands) Schedule IV

	2012	2011
Beginning balance	$ 18,009	$ 26,272
Additions		
Interest and investment income	49	82
Total additions	49	82
Deductions		
Payments – building, construction in progress, other	11,212	7,767
Transfers to State of Hawai‘i	-	559
Management fees	11	19
Total deductions	11,223	8,345
Ending balance	$ 6,835	$ 18,009

1. Basis of Presentation

The accompanying schedules of Series 2006A revenue bond proceeds activity present the sources and uses of Series 2006A revenue bond proceeds associated with the construction of the Frear Hall dormitory at the Mānoa campus and repair and maintenance of various housing projects. The financial information of the Research Corporation of the University of Hawai‘i and the University of Hawai‘i Foundation is not reflected in this schedule.

University of Hawai‘i
State of Hawai‘i
Schedules of Series 2009A Revenue Bond Proceeds Activity
Years Ended June 30, 2012 and 2011
(All dollars reported in thousands) Schedule V

	2012	2011
Beginning balance	$ 42,379	$ 79,404
Additions		
Interest and investment income	80	426
Total additions	80	426
Deductions		
Payments – building, construction in progress, other	11,299	37,138
Transfers to State of Hawai‘i	-	264
Management fees	29	49
Total deductions	11,328	37,451
Ending balance	$ 31,131	$ 42,379

1. Basis of Presentation

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

University of Hawai'i
State of Hawai'i
Schedules of Series 2010A Revenue Bond Proceeds Activity
Years Ended June 30, 2012 and 2011
(All dollars reported in thousands) Schedule VI

	2010A-1	2010A-2
Balance at July 1, 2010	$ -	$ -
Additions		
Bond proceeds	111,265	29,828
Interest and investment income	163	20
Total additions	111,428	29,848
Deductions		
Payments − building, construction in progress, other	22,859	173
Management fees	53	15
Total deductions	22,912	188
Balance at June 30, 2011	88,516	29,660
Additions		
Interest and investment income	40	108
Total additions	40	108
Deductions		
Payments − building, construction in progress, other	56,308	-
Management fees	49	23
Total deductions	56,357	23
Balance at June 30, 2012	$ 32,199	$ 29,745

1. Basis of Presentation

The accompanying schedules of Series 2010A-1 and Series 2010A-2 revenue bond proceeds activity present the sources and uses of the bond proceeds associated with construction and maintenance of the University's Cancer Center. The financial information of the Research Corporation of the University of Hawai'i and the University of Hawai'i Foundation is not reflected in these schedules.

University of Hawai‘i
State of Hawai‘i
Schedules of Series 2010B Revenue Bond Proceeds Activity
Years Ended June 30, 2012 and 2011
(All dollars reported in thousands) Schedule VII

	2010B-1	2010B-2
Balance at July 1, 2010	$ -	$ -
Additions		
Bond proceeds	127,535	29,822
Interest and investment income	126	38
Total additions	127,661	29,860
Deductions		
Payments – building, construction in progress, other	13,122	173
Transfers to State of Hawai‘i	-	280
Management fees	64	15
Total deductions	13,186	468
Balance at June 30, 2011	114,475	29,392
Additions		
Interest and investment income	112	65
Total additions	112	65
Deductions		
Payments – building, construction in progress, other	62,573	10,024
Management fees	73	22
Total deductions	62,646	10,046
Balance at June 30, 2012	$ 51,941	$ 19,411

1. Basis of Presentation

The accompanying schedules of Series 2010B-1 and Series 2010B-2 revenue bond proceeds activity present the sources and uses of the bond proceeds associated with renovations and additions to the Mānoa Campus Center, construction and equipment for an Information Technology Building, renovations to the Sinclair Library basement on the Mānoa campus, further development of the West O‘ahu campus, construction of a new Regional Biocontainment Laboratory, and various energy conservation/efficiency projects on the community college campuses on O‘ahu, Kaua‘i and Maui. The financial information of the Research Corporation of the University of Hawai‘i and the University of Hawai‘i Foundation is not reflected in these schedules.