Accuity LLP
CERTIFIED PUBLIC ACCOUNTANTS

University of Hawai'i
State of Hawai'i

Consolidated Financial Statements and Supplementary Information

June 30, 2007 and 2006

University of Hawai‘i
State of Hawai‘i
Index
June 30, 2007 and 2006

UNIVERSITY
of HAWAI'I®
SYSTEM

David McClain
President

March 21, 2008

Chairperson Allan R. Landon
Members of the Board of Regents
2444 Dole Street
Honolulu, Hawai'i 96822

Dear Chairperson Landon:

I am pleased to submit the Financial Report of the University of Hawai'i for the year ended June 30, 2007.

This report has been prepared by the staff of the Vice President for Budget and Finance and Chief Financial Officer in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board Statement No. 35, *"Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities,"* and Statement No. 34, *"Basic Financial Statements and Management Discussion and Analysis for State and Local Governments."*

Our financial report as of June 30, 2007 includes a "Statement of Net Assets", "Statement of Revenues, Expenses, and Changes in Net Assets", "Statement of Cash Flows", "Notes to the Financial Statements", and "Management's Discussion and Analysis (MD&A)." The financial data of the University of Hawai'i System includes the University of Hawai'i, the Research Corporation of the University of Hawai'i and the University of Hawai'i Foundation.

The financial statements herein have been audited by Accuity LLP, Certified Public Accountants, whose Report of Independent Accountants is on page 2.

Respectfully submitted,

David McClain
President

Attachment

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Accuity LLP
CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditors

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

In our opinion, based on our audits and the reports of other auditors, the accompanying consolidated statements of net assets and the related consolidated statements of revenues, expenses and changes in net assets, and cash flows present fairly, in all material respects, the financial position of the University of Hawai'i and its blended component units (the "University") at June 30, 2007 and 2006, and the changes in their financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of the University of Hawai'i Foundation (the "Foundation") and the Research Corporation of the University of Hawai'i (the "Research Corporation"), whose statements collectively reflect total assets of 14.9 percent and 14.3 percent of the related consolidated total as of June 30, 2007 and 2006 and operating revenues of 1.9 percent and 2.5 percent of the related consolidated total for the years then ended, of the University's consolidated assets and operating revenues, respectively. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the Foundation and Research Corporation, are based solely on the reports of the other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America 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 consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

The Management's Discussion and Analysis ("MD&A") for the years ended June 30, 2007 and 2006 on pages 3 through 26 are not a required part of the consolidated financial statements but are supplementary information required by the Government Accounting Standards Board ("GASB"). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2008, 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, 2007. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accuity LLP

Honolulu, Hawai'i
March 26, 2008

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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, 2007 and 2006, with selected information for the year ended June 30, 2005. 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 composed of twelve members appointed by the Governor of the State of Hawai‘i . The University system is represented by ten campuses with approximately 50,400 students and 9,700 faculty and staff. The University provides a broad range of 281 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 156 certificate and 115 associate degree programs. In addition to organized research institutes and administrative service and distance learning centers, the University system also houses more than a hundred centers with a research, instruction, or public service purpose. The University is also engaged in instructional research and service activities at hundreds of Hawai‘i schools, hospitals and community sites, and carries out these activities across the Pacific Islands and in foreign countries.

Using the Financial Statements

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

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

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

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

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

Related Entities

The University maintains close relationships with two other entities, considered to be component units, and whose financial information is blended into the University’s accompanying consolidated financial statements. The University of Hawai‘i Foundation (the “Foundation”) is a not-for-profit organization established to solicit and manage funds for the benefit of the University. The Research Corporation of the University of Hawai‘i (the “Research Corporation”) provides administrative support services for research and training programs of the University. Both of the University’s component units prepare stand-alone financial statements with footnotes, which are audited by independent auditors. The following tables summarize the individual components of the University’s consolidated financial position and results of operations for the years ended June 30, 2007, 2006 and 2005 (in thousands):

	2007				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Current assets	$ 338,785	$ 35,362	$ 21,656	$ (25,564)	$ 370,239
Noncurrent assets	1,490,869	4,999	251,670	(10,943)	1,736,595
Total assets	1,829,654	40,361	273,326	(36,507)	2,106,834
Current liabilities	196,705	29,743	2,652	(31,151)	197,949
Noncurrent liabilities	323,195	958	6,462	-	330,615
Total liabilities	519,900	30,701	9,114	(31,151)	528,564
Net assets	$ 1,309,754	$ 9,660	$ 264,212	$ (5,356)	$ 1,578,270

	2006				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Current assets	$ 274,649	$ 38,500	$ 11,160	$ (21,427)	$ 302,882
Noncurrent assets	1,270,607	5,386	196,249	(13,990)	1,458,252
Total assets	1,545,256	43,886	207,409	(35,417)	1,761,134
Current liabilities	162,855	31,449	735	(25,217)	169,822
Noncurrent liabilities	219,037	1,012	5,979	(90)	225,938
Total liabilities	381,892	32,461	6,714	(25,307)	395,760
Net assets	$ 1,163,364	$ 11,425	$ 200,695	$ (10,110)	$ 1,365,374

	2005				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Current assets	$ 259,360	$ 29,240	$ 4,195	$ (17,518)	$ 275,277
Noncurrent assets	1,178,444	5,288	177,090	(6,366)	1,354,456
Total assets	1,437,804	34,528	181,285	(23,884)	1,629,733
Current liabilities	161,688	23,523	1,405	(18,170)	168,446
Noncurrent liabilities	225,373	1,120	5,981	(239)	232,235
Total liabilities	387,061	24,643	7,386	(18,409)	400,681
Net assets	$ 1,050,743	$ 9,885	$ 173,899	$ (5,475)	$ 1,229,052

	2007				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Operating revenue	$ 619,558	$ 5,363	$ 6,655	$ (8,754)	$ 622,822
Operating expense	1,159,069	5,107	31,232	(11,314)	1,184,094
Operating income (loss)	(539,511)	256	(24,577)	2,560	(561,272)
Nonoperating activity	691,126	(2,022)	88,095	(3,031)	774,168
Increase (decrease) in net assets	151,615	(1,766)	63,518	(471)	212,896
Net assets					
Beginning of year	1,163,364	11,425	200,695	(10,110)	1,365,374
End of year	$ 1,314,979	$ 9,659	$ 264,213	$ (10,581)	$ 1,578,270

	2006				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Operating revenue	$ 576,455	$ 5,548	$ 8,836	$ (8,725)	$ 582,114
Operating expense	1,079,466	4,816	26,179	(7,659)	1,102,802
Operating income (loss)	(503,011)	732	(17,343)	(1,066)	(520,688)
Nonoperating activity	615,632	808	44,139	(3,569)	657,010
Increase (decrease) in net assets	112,621	1,540	26,796	(4,635)	136,322
Net assets					
Beginning of year	1,050,743	9,885	173,899	(5,475)	1,229,052
End of year	$ 1,163,364	$ 11,425	$ 200,695	$ (10,110)	$ 1,365,374

	2005				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Operating revenue	$ 550,495	$ 5,833	$ 6,528	$ (11,207)	$ 551,649
Operating expense	1,012,363	4,651	25,112	(16,234)	1,025,892
Operating income (loss)	(461,868)	1,182	(18,584)	5,027	(474,243)
Nonoperating activity	564,934	353	39,514	(6,557)	598,244
Increase in net assets	103,066	1,535	20,930	(1,530)	124,001
Net assets					
Beginning of year	947,677	8,350	152,969	(3,945)	1,105,051
End of year	$ 1,050,743	$ 9,885	$ 173,899	$ (5,475)	$ 1,229,052

Financial Position

The consolidated statement of net assets presents the financial position of the University at the end of the fiscal year and displays all assets and liabilities of the University. Assets and liabilities are generally measured using current values. Two notable exceptions are receivables and capital assets, which are stated at historical cost less an allowance for doubtful accounts and accumulated depreciation, respectively. The difference between assets and liabilities is net assets, representing a measurement of the current financial condition of the University. The University’s assets, liabilities and net assets at June 30, 2007, 2006 and 2005 are summarized as follows (in thousands):

	2007	Percentage of Total Assets	2006	Percentage of Total Assets	FY 07 vs 06 Change	2005	Percentage of Total Assets	FY 06 vs 05 Change
Current assets								
Cash and operating investments	$ 222,895	11%	$ 186,008	11%	$ 36,887	$ 151,024	9%	$ 34,984
Receivables, net	128,607	6%	99,806	6%	28,801	106,004	7%	(6,198)
Other current assets	18,737	1%	17,068	1%	1,669	18,249	1%	(1,181)
	370,239	18%	302,882	17%	67,357	275,277	17%	27,605
Noncurrent assets								
Endowment and other investments	379,767	18%	249,037	14%	130,730	244,063	15%	4,974
Capital assets, net	1,074,030	51%	1,015,426	58%	58,604	969,626	59%	45,800
Other noncurrent assets	282,798	13%	193,789	11%	89,009	140,767	9%	53,022
Total assets	2,106,834	100%	1,761,134	100%	345,700	1,629,733	100%	131,401
Current liabilities	197,949	9%	169,822	10%	28,127	168,446	10%	1,376
Noncurrent liabilities								
Long-term debt	276,865	13%	170,815	10%	106,050	174,950	11%	(4,135)
Other noncurrent liabilities	53,750	3%	55,123	3%	(1,373)	57,285	4%	(2,162)
Total liabilities	528,564	26%	395,760	23%	132,804	400,681	25%	(4,921)
Net assets								
Invested in capital assets, net of related debt	890,877	42%	843,406	48%	47,471	803,238	49%	40,168
Restricted								
Nonexpendable	133,507	6%	111,428	6%	22,079	104,948	6%	6,480
Expendable	399,626	19%	302,268	17%	97,358	224,230	14%	78,038
Unrestricted	154,260	7%	108,272	6%	45,988	96,636	6%	11,636
Total net assets	$ 1,578,270	74%	$ 1,365,374	77%	$ 212,896	$ 1,229,052	75%	$ 136,322

A review of the University’s consolidated statements of net assets at June 30, 2007, 2006 and 2005 shows that the University continues to build upon its strong financial foundation. Its financial health reflects the prudent utilization of its financial resources, including careful cost control, management of its endowment, conservative utilization of debt and adherence to its long-range capital plan for the replacement of physical plant.

Current Assets and Liabilities

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

At June 30, 2007, 2006 and 2005, working capital amounted to $172.3 million, $133.1 million and $106.8 million, respectively. The stability over the years has been attributable to the University increasing its current assets while maintaining limited fluctuations in its current liabilities. The components of the University's current assets and liabilities and their fluctuations during the three year period are as follows:

- Current assets consist primarily of cash and cash equivalents, operating investments and net receivables. Total current assets increased by $67.4 million or 22.2 percent at June 30, 2007, primarily due to an increase in cash and cash equivalents and operating investments and an increase of $28.8 million in net receivables. Receivables, net of allowances for doubtful accounts, increased by $28.8 million or 28.9 percent to $128.6 million at June 30, 2007, primarily due to several large Letters of Credit ("LOC"). Total current assets increased by $27.6 million or 10.0 percent at June 30, 2006 as compared to June 30, 2005, primarily due to an increase in cash and cash equivalents and operating investments offset by a decrease of $6.2 million in net receivables. Receivables, net of allowances for doubtful accounts, decreased by $6.0 million or 6.9 percent to $99.8 million at June 30, 2006, primarily due to several large Letters of Credit ("LOC") and advance account billings that occurred late in fiscal year 2005 but not in fiscal year 2006. The sponsors involved with some of these large accounts receivable billings are the National Science Foundation, U.S. Department of Agriculture, U.S. Department of Defense and the U.S. Department of Health.

- Current liabilities consist primarily of accounts payable, accrued compensation, advances from sponsors, and deferred revenue. Current liabilities also include amounts due to the State of Hawai‘i, the current portion of long-term debt, investment trade settlements payable and other current liabilities. Total current liabilities increased by $28.1 million or 16.5 percent at June 30, 2007 as compared to the prior year, due primarily to increases in accrued compensation and benefits, advances from sponsors and accounts payable. Total current liabilities increased by $1.4 million or 0.8 percent at June 30, 2006 as compared to the prior year, due primarily to increases in accrued compensation and benefits and advances from sponsors, offset by a decrease in accounts payable.

Endowment and Other Investments

The University's endowment and other investments, including endowments held with the Foundation, increased by $130.7 million to $379.8 million at June 30, 2007. Endowments and other investments held with the Foundation amounted to $208.3 million at June 30, 2007. The increase was primarily attributable to additional endowment gifts, an increase in market value and an investment for the construction of the New Frear Hall Student Housing Complex. As of June 30, 2006, the University's endowment and other investments, including endowments held with the Foundation, increased by $5.0 million to $249.0 million. Endowments and other investments held with the Foundation amounted to $169.8 million at June 30, 2006. The fiscal year 2006 increase was due to the excess of additional endowment gifts over the investment sales needed to fund construction expenditures for the John A. Burns School of Medicine building.

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

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

Effective for fiscal year 2004, the University adopted a spending rate policy with the intent of limiting the immediate impact that significant changes in the fair value of the endowment portfolio have on annual distributions. The spending rate policy provides for an annual distribution, ranging between 3 and 5 percent of the five-year moving average of the endowment portfolio’s fair value. In fiscal year 2007, the University instituted a 4 percent distribution rate on restricted and unrestricted endowments. The total restricted and unrestricted distribution for the University in 2007 totaled $2.0 million. The distribution rate for fiscal year 2006 was also 4 percent and amounted to $1.7 million.

Capital and Debt Activities

The University’s capital assets are separated into seven categories: land, buildings, infrastructure, land improvements, equipment, library books, and construction in progress. At June 30, 2007 and 2006, total capital assets, net of accumulated depreciation amounted to $1.1 billion and $1.0 billion, respectively, which represented 51.0 percent and 57.7 percent, respectively, of the University’s total assets. Capital asset additions totaled $138.8 million and $110.7 million in fiscal years 2007 and 2006, respectively, while depreciable capital asset disposals, net of accumulated depreciation amounted to $14.8 million and $5.0 million, respectively. Of the total capital asset additions, $7.3 million and $10.7 million were related to building projects administered by the State of Hawai‘i Department of Accounting and General Services (“DAGS”) – Public Works Division and transferred to the University in fiscal years 2007 and 2006, respectively. In contrast, there were no transfers of infrastructure projects from DAGS in fiscal year 2007, while in fiscal year 2006 a total of $56.2 million was transferred. Purchases of equipment, including information technology, amounted to approximately $22.2 million and $16.0 million and purchases of library books amounted to approximately $8.1 million and $10.0 million during fiscal years 2007 and 2006, 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 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 2007 and 2006 or in progress as of June 30, 2007 and 2006 included:

- **New Frear Hall Student Housing Complex** – Groundbreaking for the construction of the University’s newest residence hall on the Mānoa campus was held on November 21, 2006, and since then construction has been on a fast track for the scheduled completion and initial occupancy prior to the start of the 2008 Fall semester. The project will culminate in the first new addition to student housing facilities at Mānoa since 1978 and will help to ease critical dormitory room shortages. The completed complex will consist of a central lobby structure and two interconnected 12-story towers that will house approximately 800 residents in various suite arrangements. In addition to offering residents multiple choices in room layout, the facility is planned to include a study area, lounge and a fitness room on each floor. As of June 30, 2007, the complex was estimated to be 25 percent completed with total construction in progress recorded at $17.8 million. The final cost of the project is not to exceed $71 million.

- **Maikalani Advanced Technology Research Center** − The construction and furnishing of the 15,000 square foot Maikalani Advanced Technology Research Center was nearing completion as of June 30, 2007. Located in the Kulamanu Town Center, Pukalani, Maui, the facility will provide laboratory, research, and office space to support current and future astronomy projects on Haleakala. The new center replaces an 80-year old farmhouse that UH astronomers, technicians, and administrative staff have been using as their Maui headquarters for the past 40 years. The two acre site is ideally situated with available infrastructure and is within reasonable driving distance to the summit observatories yet close enough to the Maui High Performance Computing Center in Kihei to allow high speed data connectivity for project computing support. With the primary function of providing a modern, efficient environment for the development of new technologies, the facility is expected to pay big dividends in attracting future advanced astronomical projects to Maui and the University’s Institute for Astronomy. As of June 30, 2007, design and construction costs of the Maikalani Advanced Technology Research Center totaled $6.1 million.

- **University of Hawai‘i at Hilo Improvements** – The University of Hawai‘i at Hilo (“UHH”) has continued to modernize its campus with the construction of new buildings and improvements while prioritizing available funds for the repair and renewal of existing facilities. Significant construction in progress at the end of fiscal year 2007 included $8.4 million of a projected $16.5 million total cost for Phase IA of the Student Life Center that will provide the UHH community with a new recreation facility, swimming pool, and fitness center. In addition, $1.6 million was recorded for the progress made in the construction of covered walkways that connect key buildings on the often rainy Hilo campus. UHH projects completed and capitalized in fiscal year 2007 included air conditioning replacement at the College Hall A & B building complex at $1.5 million and roadway improvements for the University Tech Park at $2.5 million.

- **Extramural Funding of Capital Projects for Research and Training –** In an effort to further expand high speed computing capacity at the Maui Research and Technology Park location in Kihei, Maui, the Department of Defense/Air Force Research Laboratory through its current contract with the University funded a $6.2 million renovation of the data center within the Maui Research and Technology Building located next to the Maui High Performance Computing Center. Another smaller but important project capitalized in fiscal year 2007 was the Molokai Vocational & Agricultural Training Classroom located in Hoolehua that was constructed in part with grant funding from the U.S. Department of Housing and Urban Development (“HUD”). The portion paid for by the HUD award at the time of beneficial occupancy was recorded at $276,000 with an additional $101,000 remaining for final project completion.

- **Improvements at the Community Colleges** – Capital improvement projects at the Community Colleges varied widely, ranging from new building construction to renovations for health and safety requirements. Significant projects in progress at fiscal year end included the Kauai Community College One-Stop Center with incurred costs of $3.8 million; Kapiolani Community College Lama (Library) Building air conditioning system replacement at $5.2 million; and Maui Community College Student Center renovations at $6.6 million. Fiscal year 2007 capitalized projects at Leeward Community College included the Student Center instructional food service renovation at $5.3 million and the campus wide repair or replacement of 2nd floor concrete railings and fascias at $3.8 million.

- **DAGS Transfers and Capital Repair & Replacement Projects –** The University Office of Capital Improvements currently administers all of the major University construction and renovation projects that, in the past, were managed by DAGS – Division of Public Works. For continuity and efficiency following the transition, a few of the older projects remained at DAGS and will be transferred to the University following contract completion. One such project, DAGS Job No. 12-31-4081, Renovation of Hamilton Library, Phase IIIA, was transferred to the University in fiscal year 2007. The project was accepted by DAGS in November 2002, however, contractor and administrative problems delayed transfer notification to the University. The delay complicated the transfer process because the renovation project involved three major components of Hamilton Library – interior, heating/ventilation/ air conditioning, and elevators – that were subsequently impacted by the October 2004 flood. Following an analysis by the Facilities Planning and Management Office, it was determined that the flood impairment loss to the renovated building components was $1.7 million. This adjustment reduced the transferred cost of the project from $9.0 million to $7.3 million.

At June 30, 2007 and 2006, amounts due to the State of Hawai‘i for general obligation bonds payable amounted to $4.6 million and $6.3 million, respectively. For fiscal year 2007, debt service paid by the University amounted to $1.9 million consisting of $1.7 million in principal and $237,646 in interest. In fiscal year 2006, debt service paid by the University amounted to $3.3 million consisting of $2.9 million in principal and $377,424 in interest. General obligation bonds have also been issued by the State of Hawai‘i on behalf of the University and are carried as a liability of the State of Hawai‘i. Debt service on these general obligation bonds amounted to $80.3 million and $73.8 million in fiscal years 2007 and 2006, respectively, and were paid for by the State of Hawai‘i on behalf of the University using state appropriations.

In June 2005, the State of Hawai‘i issued Series DG & DH general obligation (“G.O.”) refunding bonds. Proceeds from the Series DG & DH G.O. refunding bonds were used to partially refund a range of G.O. bonds, including the Series CG G.O. bonds for various State Departments including the University.

At June 30, 2007 and 2006, revenue bonds payable amounted to $264.1 million and $160.3 million, respectively. Debt service in fiscal year 2007 amounted to $11.1 million, consisting of $3.7 million of principal and $7.4 million of interest. Debt service in fiscal year 2006 amounted to $11.7 million, consisting of $3.6 million of principal and $8.1 million of interest. Principal reductions during fiscal year 2007 and 2006 were in accordance with scheduled debt service payments.

In June 2002, the University issued $150 million in Series 2002A revenue bonds to finance the construction of the new John A. Burns School of Medicine campus. While all unrestricted revenues of the University, excluding those revenues pledged under other revenue bond offerings, are pledged as collateral, the University anticipates that State of Hawai‘i Tobacco Settlement funds will be the primary source of support for debt service payments on these revenue bonds. The University did not receive State of Hawai‘i Tobacco Settlement funds in 2007, however, in June 2006, the University received $9.1 million in funds to cover the debt service due.

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

The University strives to manage its financial resources effectively, including the prudent use of debt to finance major capital projects. The University’s two revenue bonds, Series 2001A and Series 2001B, have been 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. In December 2006, the University issued $100 million of Series 2006A revenue bonds to finance the construction of a new dormitory at the University’s Mānoa campus and for the repair and maintenance of University housing projects. The underlying rating assigned to these bonds were “Aa3”, “A+”, and “A+” by Moody’s Investors Service, FitchRatings, and Standard & Poor’s, respectively. Both 2006 bonds were given municipal bond ratings of “AAA”, “Aaa”, and “AAA” by Standard & Poor’s, Moody’s Investors Service, and FitchRatings, respectively, based on a bond insurance policy issued by MBIA Insurance Corp.

In addition to the general obligation and revenue bond liabilities discussed above, the University entered into a capital lease to finance the construction of the Kau‘iokahaloa Nui faculty housing project in November 1995. At June 30, 2007 and 2006, capital lease obligations amounted to $14.3 million and $14.7 million, respectively. Debt service in fiscal year 2007 amounted to $1.2 million consisting of $415,000 for principal and $820,000 for interest. Debt service in fiscal year 2006 amounted to $1.2 million consisting of $395,000 for principal and $840,000 for interest.

Net Assets

Net assets represent the residual interest in the University’s assets after liabilities are deducted. At June 30, 2007 and 2006, total net assets amounted to $1.6 billion and $1.4 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 $890.9 million and $843.4 million and at June 30, 2007 and 2006, respectively, an increase of $47.5 million in fiscal year 2007 and $40.2 million in fiscal year 2006. The fiscal year 2007 increase represents $138.8 million of capital asset additions and $86.1 million reclassification of unspent Series 2006A bond proceeds to restricted net assets, less $97.3 million decrease of capital assets investments in construction in progress, library books and buildings, $13.0 million of debt financed medical school additions and $65.4 million of depreciation expense. The fiscal year 2006 increase represents $110.7 million of capital asset additions, less $13.0 million of debt financed medical school additions and $60 million of depreciation expense.

Restricted nonexpendable net assets representing the University and Foundation’s permanent endowment funds, which are required to be maintained in perpetuity, amounted to $133.5 million and $111.4 million at June 30, 2007 and 2006, respectively. The increase of $22.1 million and $6.5 million in fiscal years 2007 and 2006, 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, 2007, 2006 and 2005 (in thousands):

	2007	2006	2005
Plant facilities	$ 217,679	$ 164,403	$ 103,634
Donor-restricted activities	151,002	107,579	87,195
Loan activities	28,163	26,601	27,408
External sponsor activities	2,782	3,685	5,992
	$ 399,626	$ 302,268	$ 224,229

The overall increase in restricted expendable net assets was attributable to the continued large influx of donor restricted funds by the Foundation and increase in capital appropriations from the State of Hawaii.

Net assets that are not subject to externally imposed restrictions governing their use are classified as unrestricted for financial reporting purposes. Although unrestricted net assets are not subject to externally imposed restrictions, all of the University’s unrestricted net assets have been internally designated for various academic and research programs and initiatives, contractual commitments, and capital projects. In addition, unrestricted net assets of $43.1 million, $40.0 million and $36.3 million were designated for endowment activities at June 30, 2007, 2006 and 2005, respectively. Unrestricted net assets were comprised of the following at June 30, 2007, 2006 and 2005 (in thousands):

	2007	2006	2005
Designated			
Capital projects	$ 28,551	$ 20,374	$ 17,207
Research and training	49,922	42,747	40,207
Quasi-endowment	43,140	40,006	36,283
Bond system	20,175	19,073	19,345
Contractual commitments	24,189	13,817	16,442
Other	8,059	9,697	8,095
	174,036	145,714	137,579
Undesignated (unfunded obligations for vacation, worker’s compensation liabilities, payroll, etc).	(19,776)	(37,442)	(40,943)
	$ 154,260	$ 108,272	$ 96,636

Results of Operations

The consolidated statement of revenues, expenses and changes in net assets is a presentation of the University’s results of operations for the year. It indicates whether the financial condition of the University improved or deteriorated. For financial reporting purposes, certain significant revenues, including state appropriations, private gifts, and investment income, which are relied upon and budgeted to support the University’s core operations, are required to be reported as nonoperating revenues. The University’s results of operations for the years ended June 30, 2007, 2006 and 2005, summarized to match revenues supporting core activities with expenses associated with core activities, is as follows (in thousands):

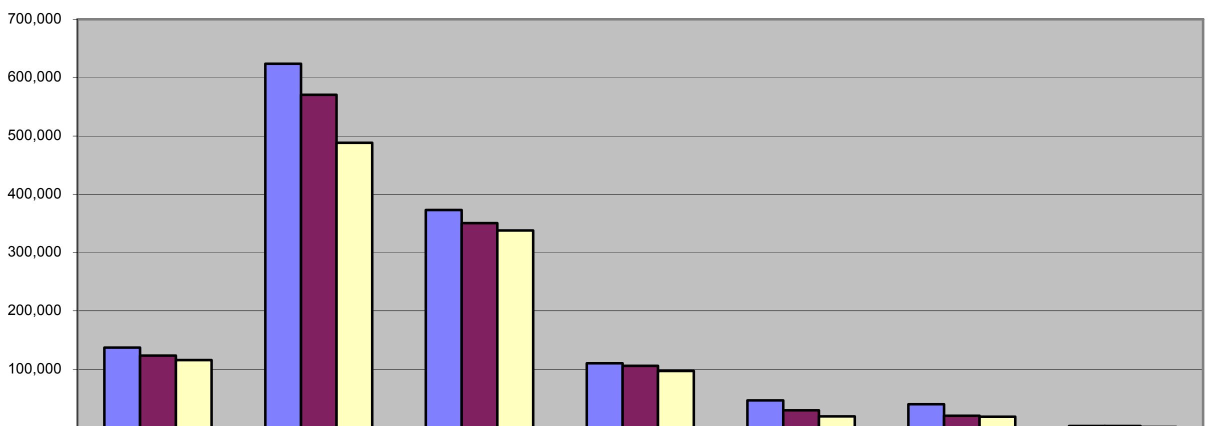
	2007			2006			2005	
	Amount	Percent of Total	Inc/(Dec) Fr 2006	Amount	Percent of Total	Inc/(Dec) Fr 2005	Amount	Percent of Total
Revenues								
Operating								
Tuition and fees, net	$ 136,950	10.27%	$ 13,718	$ 123,232	10.25%	$ 7,727	$ 115,505	10.72%
Grants and contracts	373,237	27.99%	22,806	350,431	29.14%	12,703	337,728	31.34%
Sales and services	110,094	8.27%	4,341	105,753	8.80%	8,679	97,074	9.01%
Other revenue	2,541	0.19%	(157)	2,698	0.22%	1,356	1,342	0.12%
Total operating revenues	622,822	46.71%	40,708	582,114	48.41%	30,465	551,649	51.20%
Non-operating								
State appropriations	623,984	46.80%	53,237	570,747	47.46%	82,554	488,193	45.30%
Investment income	46,549	3.49%	16,939	29,610	2.46%	10,434	19,176	1.78%
Private gifts	40,057	3.00%	20,022	20,035	1.67%	1,475	18,560	1.72%
Total non-operating revenues	710,590	53.29%	90,198	620,392	51.59%	94,463	525,929	48.80%
Total revenues supporting core activities	1,333,412	100.00%	130,906	1,202,506	100.00%	124,928	1,077,578	100.00%
Expenses								
Operating								
Compensation and benefits	767,285	59.36%	52,484	714,801	59.20%	50,605	664,196	61.10%
Supplies and materials	185,582	14.36%	15,618	169,964	14.08%	14,933	155,031	14.26%
Telecom and utilities	46,681	3.61%	1,773	44,908	3.72%	9,887	35,021	3.22%
Scholarships and fellowships	31,593	2.44%	(1,942)	33,535	2.78%	(1,856)	35,391	3.26%
Other expense	87,566	6.77%	7,896	79,670	6.60%	(2,834)	82,504	7.60%
Total operating expenses	1,118,707	86.55%	75,829	1,042,878	86.38%	70,735	972,143	89.44%
Non-operating								
Transfers to State, net	104,584	8.09%	7,483	97,101	8.04%	38,706	58,395	5.37%
Interest expense	3,919	0.30%	(3,511)	7,430	0.62%	4,838	2,592	0.24%
Total non-operating expenses	108,503	8.39%	3,972	104,531	8.66%	43,544	60,987	5.61%
Expenses associated with core activities before depreciation	1,227,210	-	79,801	1,147,409	-	114,279	1,033,130	-
Income from core activities before depreciation	106,202	-	51,105	55,097	-	10,649	44,448	-
Depreciation	65,387	5.06%	5,463	59,924	4.96%	6,176	53,748	4.95%
Expenses associated with core activities including depreciation	1,292,597	100.00%	85,264	1,207,333	100.00%	120,455	1,086,878	100.00%
Income (loss) from core activities	40,815	-	45,642	(4,827)	-	4,473	(9,300)	-
Other nonoperating activity								
Capital gifts and grants	150,290			140,374			136,518	
Permanent endowment	21,548			6,176			5,474	
Other revenue/expense, net	243			(5,401)			(8,691)	
Other nonoperating income, net	172,081			141,149			133,301	
Increase in net assets	212,896			136,322			124,001	
Net assets								
Beginning of year	1,365,374			1,229,052			1,105,051	
End of year	$ 1,578,270			$ 1,365,374			$ 1,229,052	

Revenues Supporting Core Activities

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

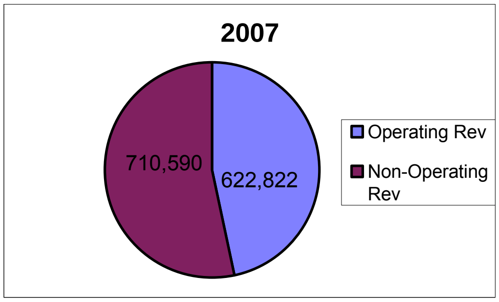
The following chart illustrates the trend in the University’s revenues for the years ended June 30, 2007, 2006 and 2005 (in thousands):

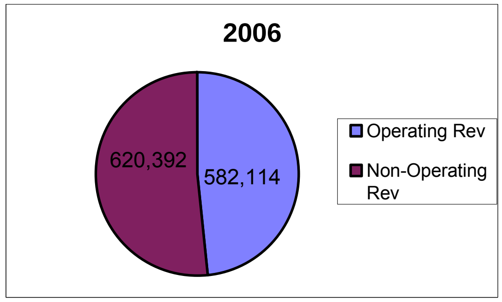
Revenues Supporting Core Activities

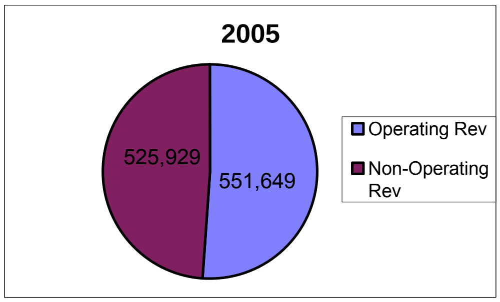


	Tuition and Fees, net	State Appropriations	Grants and Contracts	Sales and Services	Investment Income	Private Gifts	Other Revenue
2007	136,950	623,984	373,237	110,094	46,549	40,057	2,541
2006	123,232	570,747	350,431	105,753	29,610	20,035	2,698
2005	115,505	488,193	337,728	97,074	19,176	18,560	1,342

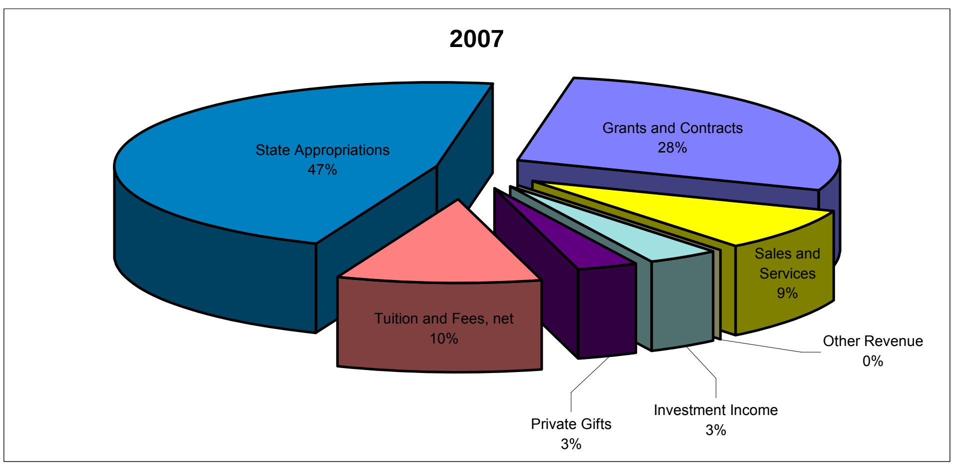
The following charts compare operating and nonoperating revenues for the years ended June 30, 2007, 2006 and 2005 (in thousands):

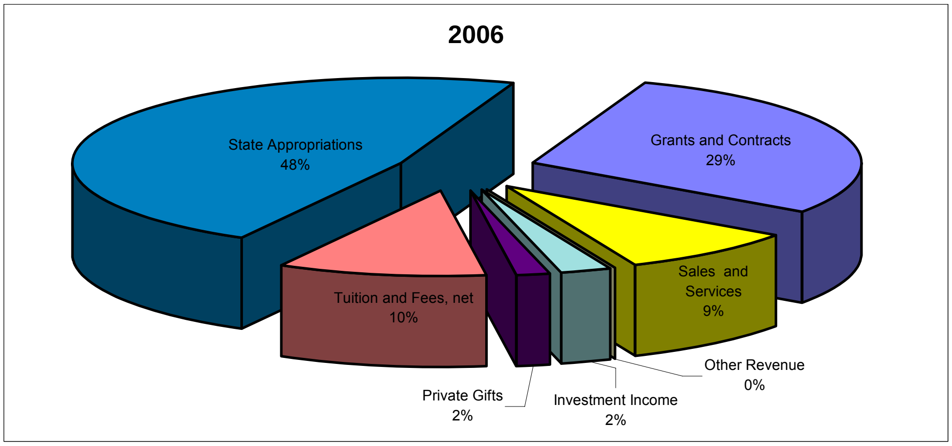


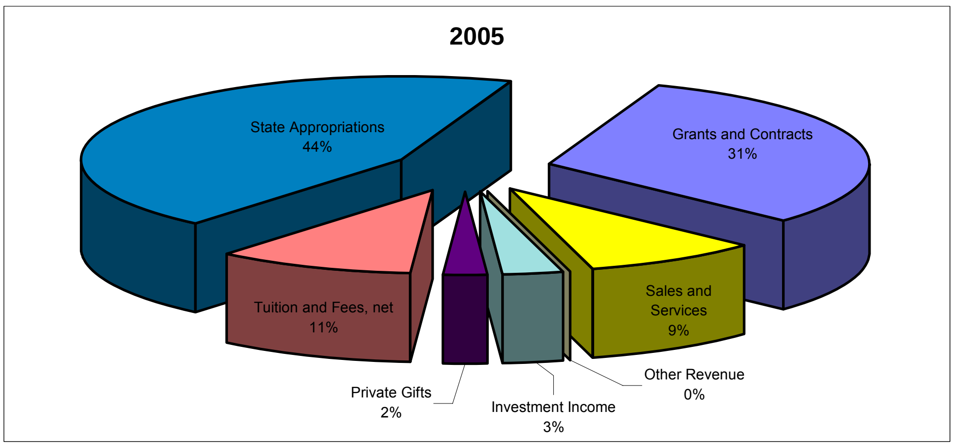




The following charts illustrate the composition of revenues for the years ended June 30, 2007, 2006 and 2005:







Tuition and fees revenue, net of scholarship allowances, increased by $13.7 million or 11.1 percent to $137.0 million in fiscal year 2007, and increased by $7.7 million or 6.7 percent to $123.2 million in fiscal year 2006 when compared to $115.5 million in fiscal year 2005. Scholarship allowances amounted to $36.2 million in fiscal year 2007 compared to $30.2 million in fiscal year 2006. For fiscal year 2007, the University’s Mānoa campus student enrollment decreased by 1.0 percent and undergraduate tuition and fee rates for all campuses increased between 14.3 and 23.3 percent. In fiscal year 2006, student enrollment at the Mānoa campus decreased by 0.9 percent and undergraduate tuition and fee rates for all campuses increased between 2.4 and 4.8 percent.

General state appropriations increased by $53.2 million or 9.3 percent to $624.0 million in fiscal year 2007 and increased by $82.6 million or 16.9 percent to $570.7 million in fiscal year 2006 when compared to $488.2 million in fiscal year 2005. A $14.9 million increase in the appropriation for non-discretionary costs paid to the Department of Budget and Finance related to non-imposed fringe benefits and debt service, a $7.8 million increase in collective bargaining appropriations and a $31.1 million in flood appropriation and revenue that lapsed accounted for the increase in fiscal year 2007. A $54.8 million increase in the appropriation for non-discretionary costs paid to the Department of Budget and Finance related to non-imposed fringe benefits and debt service, combined with a $20.0 million increase in collective bargaining appropriations and an additional $3.2 million appropriation to cover current expenses for the JABSOM in Kaka‘ako accounted for the majority of the increase in fiscal year 2006.

Revenues from federal, state, private and local grants and contracts increased by $22.8 million or 6.5 percent to $373.2 million in fiscal year 2007, and increased by $12.7 million or 3.8 percent to $350.4 million in fiscal year 2006 when compared to $337.7 million in fiscal year 2005. The fiscal year 2007 increase was attributable to an increase in federal grants and contracts, with the majority in a grant for the Maui High Performance Computing Center which is an Air Force Research Laboratory Center. The fiscal year 2006 increase was attributable to an increase in the number of awards and a 13.1 percent increase in the dollar value of research projects awarded to the University by such grants and contracts from the Department of Defense, Department of Health and Human Services, Natural Science Foundation, Hawai‘i Government Agencies, Department of Commerce and the Department of Education.

Sales and services revenues, which are mainly comprised of bookstores, student and faculty housing, food services, parking and athletics, increased by $4.3 million or 4.1 percent, to $110.1 million in fiscal year 2007 when compared to $105.8 million in fiscal year 2006. The increase was largely due to a slight decrease in scholarship allowance in housing which offsets with student housing revenue, an increase in gate receipts in athletics at the Mānoa campus and an increase from cafeteria sales in food service for boarding students at the Hilo campus. In fiscal year 2006, sales and services increased by $8.7 million or 8.9 percent to $105.8 million when compared to $97.1 million in fiscal year 2005. Increased revolving fund parking revenue as a result of additional gate sales at the Mānoa campus and parking pass sales at the JABSOM parking lot, growth in athletic radio and television rights revenue, and increased Foundation revenues accounted for a significant amount of the increase in fiscal year 2006.

The University's net investment income for fiscal year 2007 increased by $16.9 million or 57.2 percent to $46.5 million compared to $29.6 million in fiscal year 2006. The fiscal year 2007 increase was mainly due to a $5.5 million in additional investment income, $3.8 million additional unrealized gain, offset by a $159,000 decrease of realized gain. Net investment income for fiscal year 2006 increased by $10.4 million or 54.4 percent to $29.6 million compared to $19.2 million in fiscal year 2005. A $6 million increase in the net realized and unrealized gains for Foundation accounted for the majority of the overall increase.

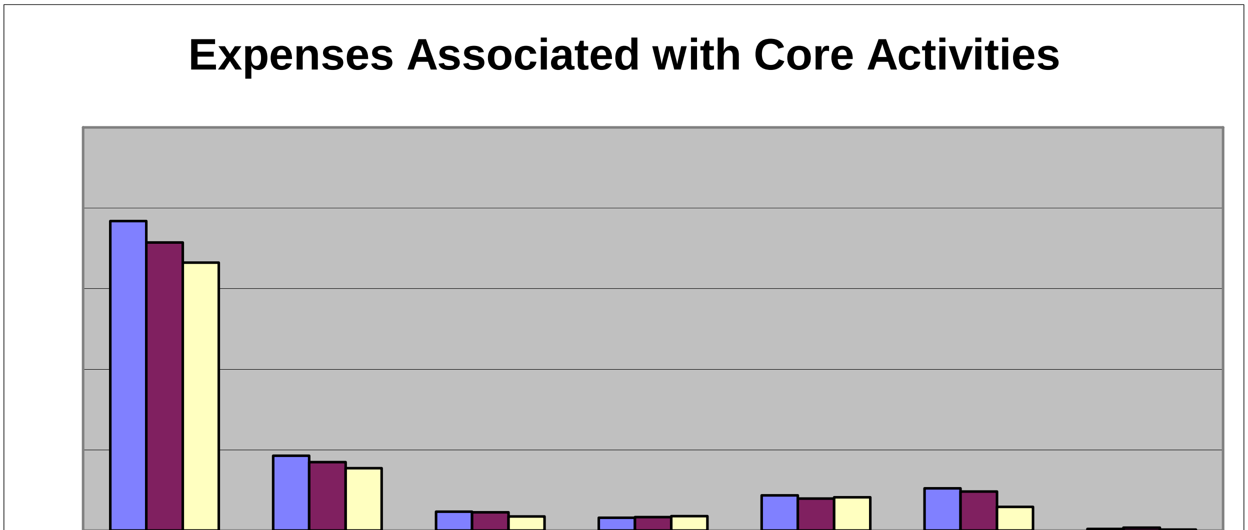
The components of net investment income for the years ended June 30, 2007, 2006 and 2005 were as follows (in thousands):

	2007	2006	Inc/(Dec) From 2006	2005	Inc/(Dec) From 2005
Interest and dividend income	$ 21,378	$ 13,818	$ 7,560	$ 13,527	$ 291
Investment income used to finance construction costs	(802)	(760)	(42)	(1,427)	667
Net realized and unrealized gains	25,973	16,552	9,421	7,076	9,476
	$ 46,549	$ 29,610	$ 16,939	$ 19,176	$ 10,434

For fiscal year 2007, private gifts, most of which are restricted as to use, increased by $20.0 million or 100.0 percent to $40.1 million in fiscal year 2007 when compared to $20.0 million in fiscal year 2006. The significant increase reflects the Foundation's dedication to raise private funds to support all ten campuses of the University. For fiscal year 2006, private gifts, most of which were restricted as to use, increased by $1.5 million or 7.9 percent to $20.0 million when compared with fiscal year 2005's total of $18.6 million. The fiscal year 2006 increase was primarily attributable to the success that the Foundation achieved in generating additional revenue sources. The University will continue to aggressively develop private revenue sources and cultivate the increasing trend in private gifts received.

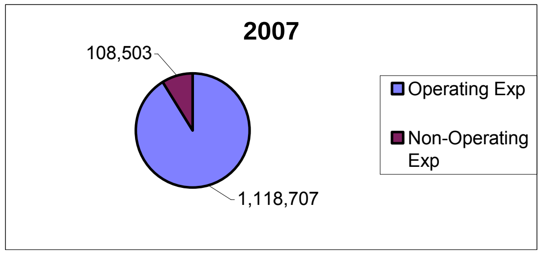
Expenses Associated with Core Activities

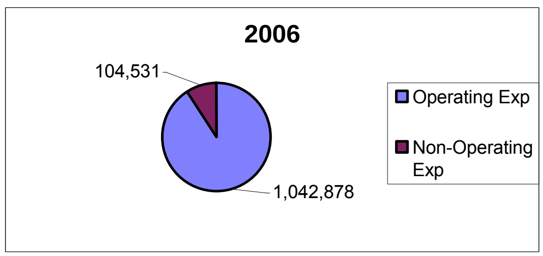
The following chart illustrates the trend in the University’s expenses for the years ended June 30, 2007, 2006 and 2005 (in thousands):

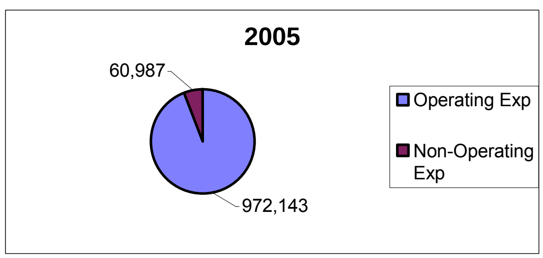


	Compensation and Benefits	Supplies and Materials	Telecom and Utilities	Scholarships and Fellowships	Other Expenses	Transfers to State, net	Interest Expense
2007	767,285	185,582	46,681	31,593	87,566	104,584	3,919
2006	714,801	169,964	44,908	33,535	79,670	97,101	7,430
2005	664,196	155,031	35,021	35,391	82,504	58,395	2,592

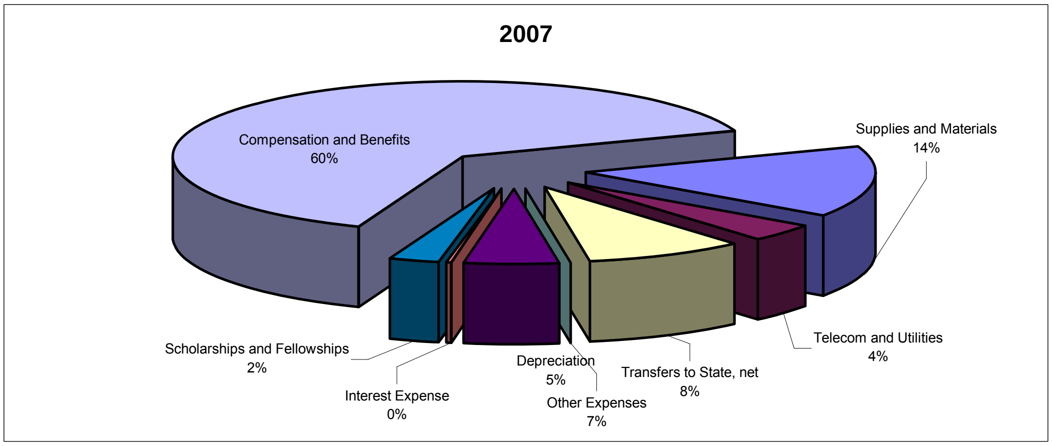
The following charts compare operating and nonoperating expenses for the years ended June 30, 2007, 2006 and 2005 (in thousands):

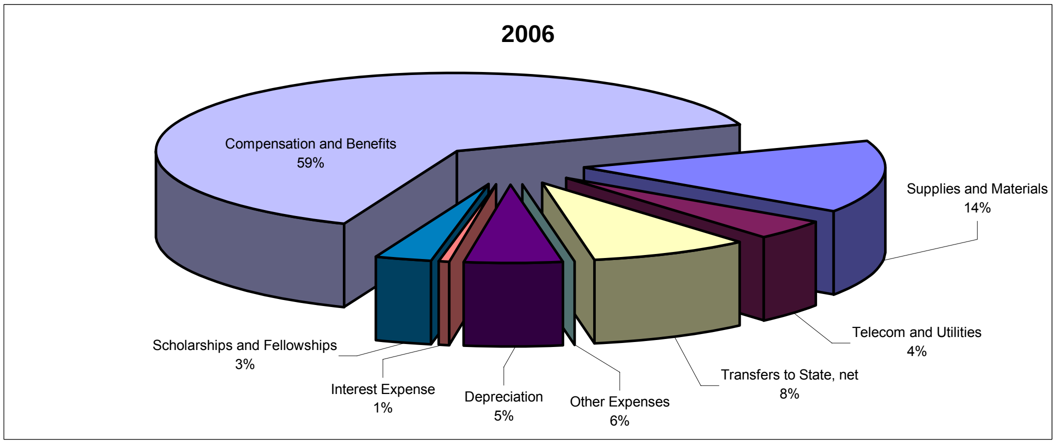


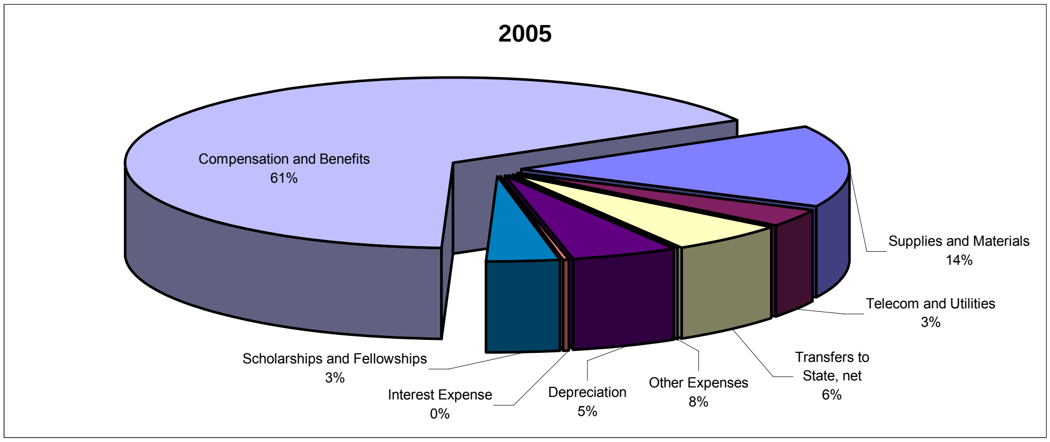




The following charts illustrate the composition of expenses for the years ended June 30, 2007, 2006 and 2005:







The University is committed to recruiting and retaining outstanding faculty and staff, and providing compensation equivalent to peer institutions and nonacademic employers. Approximately 59.9 percent of the University’s expenses were related to compensation and benefits during fiscal year 2007 compared to 59.2 percent in fiscal year 2006. Compensation and benefits increased by $52.5 million or 7.3 percent to $767.3 million in fiscal year 2007, and increased by $50.6 million or 7.6 percent to $714.8 million in fiscal year 2006 when compared to $664.2 million in fiscal year 2005. The increases for fiscal years 2007 and 2006 were attributable to scheduled pay rate increases under collective bargaining agreements, the addition of new faculty and administrative employees to support increases in other academic, research and public service programs, an increase in fringe benefits assessed by the state, and an increase in RCUH wage and fringe adjustments.

Supplies and materials expense includes service fees, printing and binding, advertising, dues and subscriptions, controlled property acquisitions and other miscellaneous operating costs. In fiscal year 2007, supplies and materials expense increased by $15.6 million or 9.2 percent, to $185.6 million when compared to $170.0 million in fiscal year 2006. The increase was primarily attributable to reclassified controlled property acquisitions. In fiscal year 2006, supplies and materials expense increased by $14.9 million or 9.6 percent, to $170.0 million when compared to $155.0 million in fiscal year 2005. Service fees and supplies expense along with the acquisitions of the ‘Imaloa Astronomy Center of Hawai‘i and the John A. Burns School of Medicine’s Medical Education, Medical Research or Bioscience and Ancillary Buildings account for the majority of the fiscal year 2006 increase.

The University is committed to providing an affordable yet quality education to its students. Scholarships and fellowships, primarily comprised of academic and athletic scholarships and fellowships, are payments of financial aid made directly to students. Scholarships and fellowships decreased by $1.9 million or 5.8 percent to $31.6 million in fiscal year 2007 and decreased by $1.9 million or 5.2 percent to $33.5 million in fiscal year 2006 when compared to $35.4 million in fiscal year 2005. The decrease for fiscal year 2007 and 2006 was primarily attributable to fewer awards from the U.S. Department of Education for the Gaining Early Awareness and Readiness for Undergraduate Programs (“GEAR-UP”).

The University continues its commitment to improve and maintain its facilities that service the diverse social needs of students, faculty, families and persons with disabilities. For fiscal year 2007, repairs and maintenance increased by $3.4 million or 19.7 percent to $20.6 million compared to $17.2 million in fiscal year 2006. The majority of repair and maintenance increases was in buildings and structures such as facilities management projects, accessibility modifications, capital renewal and deferred maintenance in all of the University’s campuses. Mānoa buildings and structure projects totaled $2.4 million while all other campuses totaled $2.3 million.

The University depreciates their capital assets over their estimated useful lives using the straight-line method. Depreciation expense, which represents the estimated utilization of the University’s capital assets each year, increased by $5.5 million or 9.1 percent to $65.4 million during fiscal year 2007 when compared to $59.9 million in fiscal year 2006. The increase in fiscal year 2007 was primarily attributable to an increase in depreciation for the JABSOM Research and Ancillary buildings. In fiscal year 2006, depreciation expense increased by $6.2 million or 11.5 percent to $59.9 million when compared to $53.7 million in fiscal year 2005. The increase in fiscal year 2006 depreciation expense was primarily attributable to depreciation expense being recorded for certain large capital assets which the University placed into service during those years. In particular, the ‘Imiloa Astronomy Center of Hawai‘i and the JABSOM Research and Ancillary buildings were placed into service in fiscal year 2006.

Transfers to state are primarily attributable to the return of general state appropriations for debt service on general obligation debt, excess fringe benefit appropriations and executive restrictions, offset by transfers from the state to cover debt service on the University's Series 2002A revenue bonds and the Hawai‘i Cancer Research Special fund. Transfers to state increased by $7.5 million or 7.7 percent to $104.6 million in fiscal year 2007 when compared to $97.1 million in fiscal year 2006. For fiscal year 2007, a $6.5 million increase in the pass-through costs for debt service on general obligation debt, offset by a $1.1 million decrease in excess fringe benefit appropriation, plus an additional $7.7 million transferred to Hawai‘i Cancer Research special fund from proceeds collected from the Cigarette Stamp Tax and a $9.1 million decrease due to not receiving proceeds for the tobacco settlement fund accounted for the overall change. Transfers to state increased by $38.7 million or 66.3 percent to $97.1 million in fiscal year 2006 when compared to $58.4 million in fiscal year 2005. For fiscal year 2006, a $10.1 million increase in excess fringe benefit appropriation plus a $28.4 million increase in the pass-through costs for debt service on general obligation debt accounted for the overall change.

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

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

Construction of the Cancer Research Center in Kaka‘ako is expected to begin in Fall 2008. Townsend Capital LLC, a privately held real estate investment firm, will develop, finance and construct the center and in turn the University will lease the center after its expected completion in 2010. The 320,000 square foot center will be built on 5.5 acres of vacant land owned by the Hawai‘i Community Development Authority, a state agency that is responsible for the redevelopment of Kaka‘ako.

Other Nonoperating Activities

Revenues from other nonoperating activities generally are not used to support the University's current operations and are comprised primarily of capital gifts and grants, and additions to permanent endowments. Capital gifts and grants, state capital appropriations and transfers, may only be used for the purchase or construction of specified capital assets. Additions to permanent endowments must be retained in perpetuity; however investment earnings thereon may be available in future years to support specified programs. The most significant changes in other nonoperating activities during fiscal year 2007 compared to fiscal year 2006, and for fiscal year 2006 compared to 2005, were related to capital gifts and grants, including state capital appropriations and transfers.

Capital gifts and grants, state capital appropriations and transfers, increased by $9.9 million or 7.1 percent to $150.3 million in fiscal year 2007 compared to $140.4 million in fiscal year 2006. As part of the University’s on-going effort to gain autonomy, the Office of Capital Improvements was created to administer all major University construction projects that were once administered and financed by DAGS. During this transition, some older projects remained at DAGS for transfer to the University following contract completion. The Renovation of Hamilton Library, Phase IIIA project was completed and turned over to the University during fiscal year 2007. Due to a $1.7 million flood impairment loss, the transferred cost was reduced from $9.0 million to $7.3 million. In addition to the completed project turned over to the University, the State of Hawai‘i appropriated $129.1 million to the University for building renovation and other capital improvement projects on all campuses throughout the University system. The remainder of capital gifts and grants during fiscal year 2007 were primarily attributable to federal capital grants of $14.5 million and private capital gifts and grants of $471,000. In fiscal year 2006, capital gifts and grants, including state capital appropriations and transfers, increased by $3.8 million or 2.8 percent to $140.4 million compared to $136.5 million in fiscal year 2005. Construction or renovation projects completed and turned over to the University during fiscal year 2006, which amounted to approximately $13.4 million, included the Institute for Astronomy Hilo Facilities at $10.7 million and the UH Mānoa Electrical Distribution System Phase IV-A at $2.7 million. In addition to the completed projects turned over to the University, the State of Hawai‘i appropriated $103.5 million to the University for building renovation and other capital improvement projects on all campuses throughout the University system. The remainder of capital gifts and grants during fiscal year 2006 were primarily attributable to federal capital grants of $23.1 million and private capital gifts and grants of $761,000.

Cash Flows

The statement of cash flows presents the University’s significant sources and uses of cash and cash equivalents, including restricted cash balances. The University’s cash is comprised primarily of cash held with the state treasury, demand deposits, and time certificates of deposit with an original maturity of three months or less. A summary of the University’s cash flows for the years ended June 30, 2007 and 2006 is as follows (in thousands):

	2007	2006	FY 07 vs. 06 Change	2005	FY 06 vs. 05 Change
Cash received from operations	$ 668,382	$ 643,306	$ 25,076	$ 584,536	$ 58,770
Cash payments for operations	(1,156,276)	(1,084,594)	(71,682)	(1,036,639)	(47,955)
Net cash used in operating activities	(487,894)	(441,288)	(46,606)	(452,103)	10,815
Net cash provided by noncapital financing activities	627,457	568,972	58,485	507,815	61,157
Net cash used in capital and related financing activities	(36,407)	(125,929)	89,522	(133,936)	8,007
Net cash provided by (used in) investing activities	(91,844)	(4,512)	(87,332)	79,327	(83,839)
Net increase (decrease) in cash	11,312	(2,757)	14,069	1,103	(3,860)
Cash					
Beginning of year	26,503	29,260	(2,757)	28,157	1,103
End of year	$ 37,815	$ 26,503	$ 11,312	$ 29,260	$ (2,757)

The University’s cash and cash equivalents increased by $11.3 million or 42.7 percent from $26.5 million at June 30, 2006 to $37.8 million at June 30, 2007. During fiscal year 2007, $487.9 million in cash was used for operating activities, offset by $627.5 million in cash provided by noncapital financing activities. Noncapital financing activities include state appropriations and gifts received for other than capital purposes, and are used to support the University’s core operations. In fiscal year 2006, the University’s cash and cash equivalents decreased by $2.8 million or 9.4 percent from $29.3 million at June 30, 2005 to $26.5 million at June 30, 2006. During fiscal year 2006, $441.3 million in cash was used for operating activities, offset by $569.0 million in cash provided by noncapital financing activities.

Net cash used in capital and related financing activities amount to $36.4 million in fiscal year 2007, $125.9 million in fiscal year 2006 and $133.9 million in fiscal year 2005. The significant decrease in net cash used in capital and related financing activities in fiscal years 2007 as compared to fiscal years 2006 and 2005 was primarily attributable to the reduction of capital costs incurred due to the near completion of construction of the JABSOM campus in Kaka‘ako using the funds raised from the issuance of Series 2002A revenue bonds in June 2002. Correspondingly, net cash used in investing activities amounted to $91.8 million in fiscal year 2007 while net cash provided by investing activities amounted to $4.5 million in fiscal year 2006 and $79.3 million in fiscal year 2005. The changes during the three-year period were mainly due to the Series 2002A revenue bond proceeds being invested in fiscal year 2003, with these investments being liquidated in the subsequent years to fund the construction activities at JABSOM.

Looking Forward

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

Keenly aware that private giving can greatly expand its resources, the University continues to aggressively promote its Centennial Campaign, which is the most ambitious fund-raising campaign in the State’s history. In December 2007, the University Board of Regents accepted a $3 million estate gift from alumnus Norman W.H. Loui and renamed the Kapalama Media Conference Center at Honolulu Community College to the Norman W.H. Loui Conference Center. Considered the single largest gift to a University community college through the Foundation, the gift will support students in the college’s technical and trades programs.

To execute its long-range plan to modernize and expand its aging teaching and research facilities and develop and construct new facilities, the University will need continued support from the State of Hawai‘i capital improvement project program. This strategy addresses the University’s growth and the continuing effects of technology on teaching and research methodologies. In fiscal year 2008, the Governor has released over $101.1 million to fund these types of projects. In July 2007, $35.0 million was released for the design and construction of a new 4-year undergraduate college in Kapolei at the University’s West Oahu campus. In August 2007, $50.0 million was released for the plans, design, construction and equipment for capital renewal, health and safety and infrastructure projects at the University’s campuses. In September 2007, $6 million was released for the design and construction of a new College of Pharmacy complex at the University’s Hilo campus. In October 2007, $6.8 million was released for the design and construction of a temporary facility for the Community College Nursing Program. In November 2007, $3.3 million was released for the design and construction of reroofing the hanger at the Pacific Aerospace Training Center, located at the University’s Honolulu campus.

The University of Hawai‘i football team was invited to the 2008 Allstate Sugar Bowl in New Orleans after completing an undefeated regular season with a 12-0 record. The University will receive an estimated $4.5 million from this event. In January 2008, a new head football coach was hired with a five-year contract. Currently, the University is in the process of hiring a new athletic director and assistant football coaches. Management is in the process of determining how all these events will impact the University.

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

University of Hawai‘i
State of Hawai‘i
Consolidated Statements of Net Assets
June 30, 2007 and 2006
(All dollars reported in thousands)

	2007	2006
Assets		
Current assets		
Cash and cash equivalents	$ 30,964	$ 21,784
Operating investments	191,931	164,224
Due from State of Hawai‘i	13,551	7,965
Accounts receivable, net	100,450	80,983
Current portion of notes and contributions receivable, net	11,351	8,460
Accrued interest receivable	3,255	2,398
Inventories	9,736	11,427
Prepaid expenses, deferred charges and other current assets	9,001	5,641
Total current assets	370,239	302,882
Noncurrent assets		
Restricted cash and cash equivalents	6,851	4,719
Due from State of Hawai‘i	221,333	155,581
Endowment and other investments	379,767	249,037
Notes and contributions receivable, net	32,281	19,686
Capital assets, net	1,074,030	1,015,426
Other noncurrent assets	22,333	13,803
Total noncurrent assets	1,736,595	1,458,252
Total assets	$ 2,106,834	$ 1,761,134
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$ 48,131	$ 42,953
Accrued payroll and fringe benefits	28,575	24,515
Advances from sponsors	51,441	37,150
Deferred revenue	28,273	25,452
Due to State of Hawai‘i	8,021	7,943
Current portion of long-term liabilities	26,501	27,472
Investment trade settlements payable	1,310	385
Other current liabilities	5,697	3,952
Total current liabilities	197,949	169,822
Noncurrent liabilities		
Accrued vacation	34,995	32,913
Accrued workers’ compensation liability	7,369	8,428
Due to State of Hawai‘i	2,916	4,633
Capital lease obligation	13,820	14,255
Bonds payable	263,045	156,560
Premium on bonds payable	1,913	2,898
Other noncurrent liabilities	6,557	6,251
Total noncurrent liabilities	330,615	225,938
Total liabilities	528,564	395,760
Net assets		
Invested in capital assets, net of related debt	890,877	843,406
Restricted		
Nonexpendable	133,507	111,428
Expendable	399,626	302,268
Unrestricted	154,260	108,272
Total net assets	1,578,270	1,365,374
Total liabilities and net assets	$ 2,106,834	$ 1,761,134

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, 2007 and 2006
(All dollars reported in thousands)

	2007	2006
Operating revenues		
Student tuition and fees	$ 173,146	$ 153,424
Less: Scholarship allowances	36,196	30,192
Net student tuition and fees	136,950	123,232
Federal appropriations, grants and contracts	316,690	298,375
State and local grants and contracts	24,812	23,134
Nongovernmental sponsored programs	31,735	28,921
Sales and services of educational departments, other	35,452	35,516
Auxiliary enterprises		
Bookstores	28,060	27,381
Student housing (net of scholarship allowances of $470 and $987)	16,745	15,782
Other auxiliary enterprises revenues	29,837	27,075
Other operating revenues	2,541	2,698
Total operating revenues	622,822	582,114
Operating expenses		
Compensation and benefits	767,285	714,801
Supplies, services and cost of goods sold	185,582	169,964
Scholarships and fellowships	31,593	33,535
Depreciation	65,387	59,924
Telephone and utilities	46,681	44,908
Repairs and maintenance	20,644	17,242
Travel expenses	27,533	27,557
Other operating expenses	39,389	34,871
Total operating expenses	1,184,094	1,102,802
Operating loss	(561,272)	(520,688)
Nonoperating revenues (expenses)		
State appropriations	623,984	570,747
Private gifts	40,057	20,036
Net investment income	46,549	29,610
Interest expense	(3,919)	(7,430)
Transfers (to) from State of Hawai‘i for		
Debt service	(80,303)	(73,800)
Fringe benefits	(32,035)	(33,143)
Interest paid on Tobacco settlement	(46)	(60)
Bridge to Hope	122	759
Hawaii Cancer Research	7,678	-
Loss on disposal of capital assets	(1,397)	(4,463)
Other nonoperating income (expenses), net	1,640	(940)
Net nonoperating revenues before capital and endowment additions	602,330	501,316
Capital state appropriations	129,141	103,502
Capital federal grants/subsidies	14,494	23,141
Capital gifts and grants	471	761
Net transfers from State of Hawai‘i for capital assets	6,184	12,970
Transfers from State of Hawai‘i, Tobacco settlement	-	9,144
Additions to permanent endowments	21,548	6,176
Total other revenues	171,838	155,694
Net nonoperating revenues	774,168	657,010
Increase in net assets	212,896	136,322
Net assets		
Beginning of year	1,365,374	1,229,052
End of year	$ 1,578,270	$ 1,365,374

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, 2007 and 2006
(All dollars reported in thousands)

	2007	2006
Cash flows from operating activities		
Student tuition and fees	$ 139,703	$ 123,357
Grants and contracts	411,051	409,065
Sales and services of educational and other departmental activities	31,293	30,434
Auxiliary – Bookstore	27,911	27,512
Auxiliary – Student residence fees	16,613	15,181
Auxiliary – Other	31,256	26,971
Payments to employees	(616,739)	(556,099)
Payments for benefits	(152,195)	(159,842)
Payments to suppliers	(326,972)	(305,688)
Payments for scholarships and fellowships	(27,887)	(30,786)
Payments for program and support services	(26,993)	(22,882)
Payments for clean up efforts from Mānoa flood	(1,323)	(5,154)
Payments for clean up efforts from UH Lab School fire	(459)	-
Student loans issued	(3,708)	(4,144)
Student loans collected	4,443	4,769
Other receipts, net	6,112	6,018
Net cash used in operating activities	(487,894)	(441,288)
Cash flows from noncapital financing activities		
State appropriations	618,389	573,909
Recoveries received from State for Mānoa flood	3,420	4,329
Insurance proceeds for UH Lab school fire	2,750	-
Gifts and grants for other than capital purposes	24,565	19,487
Private gifts for endowment purposes	1,982	3,405
Transfer from State of Hawai‘i – Bridge to Hope	122	759
Transfer from State of Hawai‘i – Hawaii Cancer Research	7,678	-
Transfers to State of Hawai‘i for		
Fringe benefits	(32,035)	(33,143)
Interest on Tobacco settlement	(46)	(60)
Other payments	632	286
Net cash provided by noncapital financing activities	627,457	568,972
Cash flows from capital and related financing activities		
Capital appropriations	63,389	42,419
Capital gifts and grants	14,956	23,121
Proceeds from issuance of capital debt	235,359	149
Purchases of capital assets	(121,902)	(111,825)
Principal paid on capital debt and leases	(132,256)	(7,599)
Interest paid on capital debt and leases (net of amounts capitalized)	(15,650)	(7,538)
Transfers to State of Hawai‘i for debt service	(80,303)	(73,800)
Transfer from State of Hawai‘i, Tobacco settlement	-	9,144
Net cash used in capital and related financing activities	(36,407)	(125,929)
Cash flows from investing activities		
Interest and dividends on investments, net	20,666	13,094
Proceeds from sales and maturities of investments	592,948	537,522
Purchase of investments	(705,458)	(555,128)
Net cash used in investing activities	(91,844)	(4,512)
Net increase (decrease) in cash and cash equivalents	11,312	(2,757)
Cash and cash equivalents		
Beginning of year	26,503	29,260
End of year	$ 37,815	$ 26,503

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, 2007 and 2006
(All dollars reported in thousands)

	2007	2006
Cash and cash equivalents presented in the accompanying consolidated statements of net assets		
Cash and cash equivalents	$ 30,964	$ 21,784
Restricted cash and cash equivalents	6,851	4,719
	$ 37,815	$ 26,503
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	$ (561,272)	$ (520,688)
Adjustments to reconcile operating loss to net cash used in operating activities		
Write-off of capitalized subscription fees	10,452	-
Depreciation expense	65,387	59,924
Bad debt expense	1,953	3,210
Payments included in other nonoperating expenses for		
Clean-up efforts from Mānoa flood	(1,323)	(5,154)
Clean-up efforts from UH Lab School fire	(459)	-
Changes in operating assets and liabilities		
Accounts receivable	(21,454)	3,500
Notes and contributions receivable	1,097	904
Inventories	1,691	1,597
Prepaid expenses and other assets	(1,644)	(137)
Accounts payable	(7,269)	3,140
Accrued payroll and fringe benefits	4,060	1,142
Accrued vacation	3,820	3,015
Accrued workers’ compensation liability	(1,085)	(1,994)
Advances from sponsors	14,291	7,788
Deferred revenue	2,174	1,149
Other payables	1,687	1,316
Net cash used in operating activities	$ (487,894)	$ (441,288)
Supplemental information of noncash transactions		
Noncash contributions	$ 19,955	$ 3,292
Transfers from State of Hawai‘i for capital assets	7,268	13,379
Accounts payable for capital assets	14,563	5,946

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.

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

Basis of Presentation

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

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

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

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

Restricted Cash and Cash Equivalents
The University considers restricted cash at the Research Corporation and unspent cash and cash equivalents from the issuance of construction revenue bonds held with an escrow agent and invested until used for the cost of construction to be restricted.

Investments
Investments are stated at fair value with unrealized gains and losses on investments being 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 investment sold. The calculation of realized gains and losses is independent of the calculation of net changes in the fair value of investments.

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

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

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

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

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

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

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

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

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

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

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

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

- Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- Restricted:

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

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

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

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

The University recognizes revenue associated with the direct costs of research and training grants and contracts as the related expenditures are incurred. Funds received in advance for grants and contracts are recorded as an advance in the consolidated Statements of Net Assets until the related expenditures are incurred.

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

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

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

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

The University uses third party analyses to estimate its workers' compensation liability. Changes in the liability are the result of claims payments made during the fiscal year, new claims filed and changes in the estimates of existing claims. Anticipated payments by the third party for the next fiscal year are considered current and payments thereafter are considered noncurrent. The liability at June 30, 2007 and 2006 represents the University's best estimate of workers' compensation liabilities based on available information.

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

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

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

Net Assets Restricted by Enabling Legislation
The University adopted GASB Statement No. 46*, Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34*, which requires that limitations on the use of net assets 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, 2007 and 2006 amounted to $533,133 and $413,696, respectively, of which $214,461 and $160,850 was restricted by enabling legislation.

Reclassifications
Certain amounts in the 2006 consolidated financial statements have been reclassified to conform to the 2007 presentation. Such reclassifications have no impact on the 2006 change in net assets as previously reported.

Prior to 2007, the University classified unspent capital appropriations as cash and cash equivalents in the University's statement of net assets. During 2007, the University determined that unspent portions of capital appropriations should be reflected as due from State in the University's statement of net assets as opposed to cash and cash equivalents. Accordingly, the University has revised its 2006 financial statements to reclassify $155,581 in unspent capital appropriations from cash and cash equivalents and restricted cash and cash equivalents to due from State. The revisions had no impact on the 2006 change in net assets as previously reported.

2. Cash and Investments

The carrying amounts of cash and cash equivalents and time certificates of deposit not on deposit in the State Treasury as of June 30, 2007 and 2006 were $68,961 and $63,792, with corresponding bank balances of $96,123 and $88,978, respectively. The portion of such bank balances covered by federal deposit insurance or by collateral held by the State Director of Finance in the name of the University totaled $96,123 as of June 30, 2007 and $87,456 as of June 30, 2006. At June 30, 2006, the remaining bank balances of $1,522, as managed by the Foundation, were uncollateralized. No monies managed by the Foundation were uncollateralized as of June 30, 2007. Additional cash equivalent balances of $19,721 as of June 30, 2007 and $11,744 as of June 30, 2006 represent deposits with investment brokers covered by the Securities Investor Protection Corporation and additional insurance provided by the investment brokers.

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

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

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 $29 and $252 at June 30, 2007 and 2006, respectively. These unrealized losses have been recorded as reductions in unrestricted net assets. Future market gains will be used to restore this deficiency in unrestricted net assets before any net appreciation above the historical cost value of such funds increases restricted expendable net assets.

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

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

(All dollars reported in thousands)

State law allows spending of net appreciation, realized and unrealized in the fair value of the assets, of an endowment fund over the historic dollar value of the fund as is prudent under the standard established by Hawai‘i Revised Statute §517D-4. The University distributes its endowment fund income in accordance with its Board approved spending rate policy, which is consistent with state law. In fiscal year 2007 and 2006, the University's spending rate policy provides for an annual distribution ranging from 3% to 5% of the five-year moving average of the endowment fair value.

Investment management fees paid by the University during fiscal years 2007 and 2006 approximated $1,311 and $752, respectively.

At June 30, 2007 and 2006, the University's investments were comprised of the following:

	2007		2006	
	Fair Value	**Cost**	**Fair Value**	**Cost**
Money market funds	$ 4,724	$ 4,724	$ 4,949	$ 4,949
Fixed income securities	127,391	127,922	123,562	126,359
Equity securities	34,394	28,068	37,975	33,257
Mutual funds	85,553	70,518	71,383	61,466
Time certificates of deposit	59,417	59,417	53,375	53,375
Student loan auction rate securities	64,000	64,000	45,000	45,000
Investment agreements	89,871	89,871	-	-
Limited partnerships	39,680	33,774	25,163	23,418
Real assets	24,328	15,560	17,688	11,894
Absolute return	23,744	22,350	20,616	17,539
Other investments	18,596	16,598	13,550	13,077
Total investments	571,698	532,802	413,261	390,334
Less: Current portion	191,931	192,063	164,224	165,123
Total noncurrent investments	$ 379,767	$ 340,739	$ 249,037	$ 225,211

(All dollars reported in thousands)

Changes in the endowment and other investments for the year ended June 30, 2007 are as follows:

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

(All dollars reported in thousands)

Changes in the endowment and other investments for the year ended June 30, 2006 are as follows:

	Fair Value	Cost Basis	Unrealized Net Gain/(Loss)	Realized Net Gain/(Loss)
University Endowment Pool				
End of year	$ 55,279	$ 51,722	$ 3,557	
Beginning of year	51,757	48,464	3,293	
Net increase	3,522	3,258	264	$ 3,077
Foundation Endowment Pool				
End of year	142,027	120,888	21,139	
Beginning of year	124,655	109,947	14,708	
Net increase	17,372	10,941	6,431	6,828
Associated Students of the University of Hawai‘i				
End of year	6,592	6,219	373	
Beginning of year	6,231	5,951	280	
Net increase	361	268	93	286
School of Medicine				
End of year	15,074	16,079	(1,005)	
Beginning of year	29,534	30,667	(1,133)	
Net increase (decrease)	(14,460)	(14,588)	128	(339)
Operating investments				
End of year	164,224	165,123	(899)	
Beginning of year	131,805	132,762	(957)	
Net increase	32,419	32,361	58	(338)
Other				
End of year	30,065	30,303	(238)	
Beginning of year	31,886	31,991	(105)	
Net decrease	(1,821)	(1,688)	(133)	232
Total investments				
End of year	413,261	390,334	22,927	
Beginning of year	375,868	359,782	16,086	
Net increase	$ 37,393	$ 30,552	$ 6,841	$ 9,746

(All dollars reported in thousands)

	2007	2006
Summary of net investment income		
Change in unrealized net gain	$ 15,969	$ 6,841
Realized net gain	9,303	9,746
	25,272	16,587
Interest in perpetual trusts	771	(41)
Split interest agreements	106	143
Amounts held for others	(176)	(137)
Investment income used to finance construction costs	(802)	(760)
Net interest and dividend income	21,378	13,818
Net investment income	$ 46,549	$ 29,610

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

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

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

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

(All dollars reported in thousands)

The composition of fixed income securities at June 30, 2007 and 2006, along with credit quality ratings is summarized below:

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

		Credit Quality Rating				
	FY 2006 Fair Value	**U.S. Govt-Exempt**	**AAA**	**AA**	**A**	**BBB**
U.S. Treasury	$ 15,479	$ 15,479	$ -	$ -	$ -	$ -
U.S. government agencies	99,997	1,696	98,301	-	-	-
Corporate bonds	8,086	94	940	2,599	4,092	361
Total fixed income securities	$ 123,562	$ 17,269	$ 99,241	$ 2,599	$ 4,092	$ 361

Interest Rate Risk

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

(All dollars reported in thousands)

At June 30, 2007 and 2006, the composition of the University's fixed income investments and maturities are summarized below:

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

		Investment Maturities (in Years)			
	2006 Fair Value	Less than 1	1 to 5	6 to 10	More than 10
U.S. Treasury	$ 15,479	$ 5,538	$ 7,622	$ 2,310	$ 9
U.S. government agencies	99,997	50,355	44,777	2,819	2,046
Corporate bonds	8,086	1,473	3,802	2,666	145
Total fixed income securities	$ 123,562	$ 57,366	$ 56,201	$ 7,795	$ 2,200

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

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

(All dollars reported in thousands)

At June 30, 2007 and 2006, the University's exposure to foreign currency risk expressed in U.S. dollars is as follows:

	2007	2006
Equity securities		
Bermudian dollar	$ 652	$ 442
Brazilian real	974	637
British pound	6,300	5,028
Canadian dollar	613	687
European euro	14,237	12,441
Hong Kong dollar	24	10
Japanese yen	8,567	5,610
Korean won	2,990	1,384
Mexican peso	563	324
New Zealand dollar	302	193
Singapore dollar	252	974
Swiss franc	1,694	1,850
Taiwanese dollar	619	362
Venezuelan bolivar	-	186
Total exposure to foreign currency risk	$ 37,787	$ 30,128

3. Accounts Receivable

The composition of accounts receivable at June 30, 2007 and 2006 are summarized as follows:

	2007	2006
U.S. government	$ 65,082	$ 52,072
State and local government	10,549	8,111
Private agencies	10,939	7,764
Other	24,439	22,148
	111,009	90,095
Less: Allowance for doubtful accounts	(10,559)	(9,112)
	$ 100,450	$ 80,983

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 $35,642 in fiscal year 2007 and $33,711 in fiscal year 2006. During fiscal year 2007, the University expended 97.99% and 2.01% of this cost recovery on research and training programs and discovery and inventions, respectively. During fiscal year 2006, the University expended 95.28%, 3.53% and 1.19% of this cost recovery on research and training programs, housing assistance and discovery and inventions, respectively.

(All dollars reported in thousands)

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, 2007 and 2006 are summarized as follows:

	2007	2006
Student notes		
Federal loan programs	$ 17,556	$ 18,014
State loan programs	6,697	7,326
University loan funds	52	53
Other notes receivable	123	132
Total student and other notes outstanding	24,428	25,525
Less: Allowance for doubtful notes receivable	5,336	6,397
Total student and other notes receivable, net	19,092	19,128
Contributions receivable	26,143	9,406
Less: Allowance for uncollectible pledges	911	132
Less: Discount to present value	692	256
Total contributions receivable, net	24,540	9,018
Total notes and contributions receivable, net	43,632	28,146
Less: Current portion, net	11,351	8,460
	$ 32,281	$ 19,686

The allowance for doubtful notes receivable at June 30, 2007 and 2006 are comprised of:

	2007	2006
Federal Perkins loan program	$ 2,947	$ 3,288
State of Hawai'i Higher Education loans	2,279	2,996
Nursing/Health Profession loans	60	64
Short-term loans	50	49
	$ 5,336	$ 6,397

Payments on contributions receivable at June 30, 2007 are expected to be collected in:

Less than one year	$ 7,319
One year to five years	17,221
	$ 24,540

(All dollars reported in thousands)

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

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

As discussed in Note 1 to the consolidated financial statements, pledges for permanent endowment do not meet eligibility requirements, as defined by GASB Statement No. 33, until the related gift is received. Accordingly, permanent endowment pledges totaling approximately $3,515 and $3,126 at June 30, 2007 and 2006, respectively, are not recognized as assets in the accompanying consolidated financial statements because of uncertainties with regard to their realizability and valuation, bequest intentions and other conditional promises until the specified conditions are met.

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

6. Inventories

The inventories and the methods of valuation at June 30, 2007 and 2006 are comprised of:

		2007	2006
University of Hawai‘i Bookstore merchandise inventory	At the lower of cost (determined by the weighted average cost method) or market.	$ 7,173	$ 8,744
University of Hawai‘i Chemistry Stockroom	Cost, applied on the first-in, first-out basis.	1,255	1,324
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.	875	990
University of Hawai‘i other cost of goods sold	Cost, applied on the first-in, first-out basis.	433	369
		$ 9,736	$ 11,427

(All dollars reported in thousands)

7. Capital Assets

A summary of capital assets at June 30, 2007 and 2006 are as follows:

	Beginning Balance	Additions	Deductions	Transfers	Ending Balance
2007					
Nondepreciable capital assets					
Land	$ 11,827	$ -	$ -	$ -	$ 11,827
Construction in progress	89,963	101,647	740	(44,247)	146,623
Total capital assets not being depreciated	101,790	101,647	740	(44,247)	158,450
Depreciable capital assets					
Land improvements	70,575	250	-	4,991	75,816
Infrastructure	50,900	151	-	4,276	55,327
Buildings	1,100,813	6,407	8,445	32,082	1,130,857
Equipment	238,763	22,255	8,131	2,898	255,785
Library materials	156,775	8,075	11,186	-	153,664
Total capital assets being depreciated	1,617,826	37,138	27,762	44,247	1,671,449
Less: Accumulated depreciation	704,190	65,387	13,708	-	755,869
Capital assets, net	$ 1,015,426	$ 73,398	$ 14,794	$ -	$ 1,074,030

	Beginning Balance	Additions	Deductions	Transfers	Ending Balance
2006					
Nondepreciable capital assets					
Land	$ 11,827	$ -	$ -	$ -	$ 11,827
Construction in progress	183,626	70,478	1,426	(162,715)	89,963
Total capital assets not being depreciated	195,453	70,478	1,426	(162,715)	101,790
Depreciable capital assets					
Land improvements	56,451	-	100	14,224	70,575
Infrastructure	45,307	2,802	-	2,791	50,900
Buildings	953,792	11,392	5,934	141,563	1,100,813
Equipment	226,677	15,956	8,007	4,137	238,763
Library materials	147,008	10,046	279	-	156,775
Total capital assets being depreciated	1,429,235	40,196	14,320	162,715	1,617,826
Less: Accumulated depreciation	655,062	59,924	10,796	-	704,190
Capital assets, net	$ 969,626	$ 50,750	$ 4,950	$ -	$ 1,015,426

(All dollars reported in thousands)

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

The State Department of Accounting and General Services ("DAGS") administer most of the University's construction projects. Upon completion, the University records the total project cost, including amounts funded from state and federal sources. Capital assets transferred to the University from DAGS amounted to $7,268 and $13,379 in 2007 and 2006, respectively.

8. Other Noncurrent Assets

Other noncurrent assets at June 30, 2007 and 2006 are comprised of:

	2007	2006
Interest in perpetual trusts held by others	$ 12,882	$ 11,789
Deferred bond refunding and issuance costs	9,451	2,014
	$ 22,333	$ 13,803

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, 2007 and 2006 are as follows:

	2007		2006	
	Due from	Due to	Due from	Due to
State appropriations for current operations	$ 13,547		$ 7,953	
Employer fringe adjustments	4		12	
Due from State of Hawai‘i – current	13,551		7,965	
State capital appropriations-noncurrent	221,333		155,581	
Total due from State of Hawai‘i	$ 234,884		$ 163,546	
Imprest/petty cash advances		$ 291		$ 304
Advance		6,000		6,000
General obligation bonds – current		1,716		1,635
Other		14		4
Due to State of Hawai‘i – current		8,021		7,943
General obligation bonds – noncurrent		2,916		4,633
Total due to State of Hawai‘i		$ 10,937		$ 12,576

(All dollars reported in thousands)

10. Due to the State of Hawaiʻi for General Obligation Bonds

Activity related to amounts due to the State of Hawaiʻi for general obligation bonds for the year ended June 30, 2007 is as follows:

	Original Amount	Beginning Balance	Principal Repayment	Ending Balance
Series X (interest rate, 4.00% to 5.00%)				
Mānoa Student Housing Phase II	$ 3,000	$ 360	$ 175	$ 185
Mānoa Campus Center	2,125	255	125	130
	5,125	615	300	315
Series CS (interest rate, 5.00% to 5.25%)				
Student Housing				
Mānoa	5,019	2,370	752	1,618
Hilo	979	463	147	316
Parking Structure Phase I	2,915	1,376	437	939
	8,913	4,209	1,336	2,873
Series DB (interest rate, 2.80% to 5.25%)				
Student Housing				
Mānoa	731	731	-	731
Hilo	143	143	-	143
Parking Structure Phase I	425	425	-	425
	1,299	1,299	-	1,299
Series DG (interest rate, 5.00%)				
Student Housing				
Mānoa	82	82	-	82
Hilo	16	16	-	16
Parking Structure Phase I	47	47	-	47
	145	145	-	145
	$ 15,482	$ 6,268	$ 1,636	$ 4,632

(All dollars reported in thousands)

Activity related to amounts due to the State of Hawai‘i for general obligation bonds for the year ended June 30, 2006 is as follows:

	Original Amount	Beginning Balance	Principal Repayment	Ending Balance
Series X (interest rate, 4.00% to 5.00%)				
Mānoa Student Housing Phase II	$ 3,000	$ 527	$ 167	$ 360
Mānoa Campus Center	2,125	373	118	255
	5,125	900	285	615
Series CG (interest rate 4.10% to 5.00%)				
Student Housing				
Mānoa	11,916	732	732	-
Hilo	2,325	143	143	-
Parking Structure Phase I	6,921	425	425	-
	21,162	1,300	1,300	-
Series CS (interest rate, 5.00% to 5.25%)				
Student Housing				
Mānoa	5,019	3,083	713	2,370
Hilo	979	602	139	463
Parking Structure Phase I	2,915	1,791	415	1,376
	8,913	5,476	1,267	4,209
Series DB (interest rate, 2.80% to 5.25%)				
Student Housing				
Mānoa	731	731	-	731
Hilo	143	143	-	143
Parking Structure Phase I	425	425	-	425
	1,299	1,299	-	1,299
Series DG (interest rate, 5.00%)				
Student Housing				
Mānoa	82	82	-	82
Hilo	16	16	-	16
Parking Structure Phase I	47	47	-	47
	145	145	-	145
Series DH (interest rate, 5.00%)				
Student Housing				
Mānoa	2	2	2	-
Hilo	1	1	1	-
Parking Structure Phase I	1	1	1	-
	4	4	4	-
	$ 36,648	$ 9,124	$ 2,856	$ 6,268

(All dollars reported in thousands)

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

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

At June 30, 2007, principal and interest maturities on general obligation bonds for each of the next five years, the next subsequent five-year payments and thereafter are as follows:

	Principal	Interest
Years ending June 30		
2008	$ 1,716	$ 158
2009	1,603	82
2010	137	7
2011	144	6
2012	151	6
2013-2017	881	14
	$ 4,632	$ 273

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

The U.S. Department of Housing and Urban Development, under its College Housing Program subsidizes the University for interest payments, which represent the excess of the average annual debt service costs on the bonds over the average annual debt service that would have been required during the life of the bonds at an interest rate of 3%. Such subsidies amounted to $31 and $79 for the years ended June 30, 2007 and 2006, respectively.

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

(All dollars reported in thousands)

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

Due to the State of Hawai‘i for general obligation bonds does not include approximately $1,500 of defeased liabilities at June 30, 2007 and 2006.

Act 213-SLH 2007, Section 97 provided general fund appropriation to pay for debt service on general obligation bonds issued for the University and transferred to the financial administration program of the Department of Budget and Finance. Appropriation for debt service amounted to $80,303 and $73,800 for the years ended June 30, 2007 and 2006, respectively.

11. Long-Term Liabilities

Long-term liability activity for the years ended June 30, 2007 and 2006 are summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
2007					
Leases and bonds payable					
Revenue bonds payable	$ 160,280	$ 233,810	$ 130,025	$ 264,065	$ 1,020
Capital lease payable	14,670	-	415	14,255	435
Total leases and bonds payable	174,950	233,810	130,440	278,320	1,455
Other liabilities					
Workers’ compensation	12,220	3,703	4,786	11,137	3,768
Compensated absences	52,210	20,919	17,099	56,030	21,035
Notes payable – RCUH (Note 16)	239	-	150	89	89
Installment contract payable (Note 16)	281	-	32	249	154
Total other liabilities	64,950	24,622	22,067	67,505	25,046
Total long-term liabilities	$ 239,900	$ 258,432	$ 152,507	$ 345,825	$ 26,501
2006					
Leases and bonds payable					
Revenue bonds payable	$ 163,890	$ -	$ 3,610	$ 160,280	$ 3,720
Capital lease payable	15,065	-	395	14,670	415
Total leases and bonds payable	178,955	-	4,005	174,950	4,135
Other liabilities					
Workers’ compensation	14,214	3,628	5,622	12,220	3,792
Compensated absences	49,195	19,168	16,153	52,210	19,297
Notes payable – RCUH (Note 16)	384	-	145	239	150
Installment contract payable (Note 16)	723	-	442	281	98
Total other liabilities	64,516	22,796	22,362	64,950	23,337
Total long-term liabilities	$ 243,471	$ 22,796	$ 26,367	$ 239,900	$ 27,472

(All dollars reported in thousands)

Revenue Bonds Payable
The University's revenue bonds payable at June 30, 2007 and 2006 are as follows:

	Series	Date Issued	Authorized	2007	2006
Student Housing System at Mānoa (interest rate, 3.0%)	2001A	December 19, 2001	$ 655	$ -	$ 135
Student Housing System at Mānoa Telecommunications System (interest rate, 3.0% to 5.25%	2001B	December 19, 2001	18,665	14,520	15,375
University Health & Wellness Center (interest rate 2.70% to 5.59%)	2002A	June 27, 2002	150,000	15,735	144,770
Frear Hall Construction (interest rate, 3.25% to 5.0%)	2006A	December 13, 2006	100,000	100,000	-
Student Housing System at Mānoa					
Food Service System					
Student Housing System at Hilo University Health & Wellness Center (interest rate. 3.5% to 5.0%)	Ref 2006A	October 25, 2006	133,810	133,810	-
			$ 403,130	$ 264,065	$ 160,280

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

The University receives funds from the State of Hawai‘i Tobacco Settlement Special Fund, which are solely applied to the payment of principal and interest on the Series 2002A and Refunding Series 2006A bonds. The funds received from the State of Hawai‘i Tobacco Settlement Special Fund amounted to $9,144 in 2006. No funds were received in 2007.

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

(All dollars reported in thousands)

At June 30, 2007, future maturities of revenue bonds are as follows:

Years ending June 30	Principal	Interest
2008	$ 1,020	$ 11,783
2009	4,415	11,676
2010	6,455	11,470
2011	6,715	11,211
2012	6,985	10,935
2013-2017	39,730	49,673
2018-2022	43,285	39,845
2023-2027	52,925	28,283
2028-2032	64,965	16,128
2033-2037	37,570	3,840
	$ 264,065	$ 194,844

Bond Premiums
Activity related to the premiums on general obligation and revenue bonds for the years ended June 30, 2007 and 2006 are as follows:

	Series	Beginning Balance	Additions	Reductions	Ending Balance
2007					
Student Housing System at Mānoa and Telecommunications System	2001B	$ 153	$ -	$ 31	$ 122
John A. Burns School of Medicine	2002A	2,666	-	2,666	-
John A. Burns School of Medicine	Ref 2006A	-	1,724	-	1,724
General obligation	DB	67	-	10	57
General obligation	DG	12	-	2	10
Total bond premiums		$ 2,898	$ 1,724	$ 2,709	$ 1,913
2006					
Student Housing System at Mānoa and Telecommunications System	2001B	$ 189	$ -	$ 36	$ 153
University Health & Wellness Center	2002A	2,768	-	102	2,666
General obligation	DB	76	-	9	67
General obligation	DG	14	-	2	12
General obligation	DH	1	-	1	-
Total bond premiums		$ 3,048	$ -	$ 150	$ 2,898

(All dollars reported in thousands)

Deferred Bond Refunding and Issuance Costs

Activity related to issuance costs for general obligation and revenue bonds for the years ended June 30, 2007 and 2006 are as follows:

	Series	Beginning Balance	Additions	Reductions	Ending Balance
2007					
Student Housing System at Mānoa and Telecommunications System	2001B	$ 495	$ -	$ 100	$ 395
John A. Burns School of Medicine	2002A	1,458	-	1,458	-
John A. Burns School of Medicine	Ref 2006A	-	9,004	-	9,004
General obligation	DB	52	-	8	44
General obligation	DG	9	-	1	8
Total deferred refunding and issuance costs		$ 2,014	$ 9,004	$ 1,567	$ 9,451
2006					
Student Housing System at Mānoa and Telecommunications System	2001B	$ 611	$ -	$ 116	$ 495
University Health & Wellness Center	2002A	1,514	-	56	1,458
General obligation	DB	59	-	7	52
General obligation	DG	11	-	2	9
General obligation	DH	1	-	1	-
Total deferred refunding and issuance costs		$ 2,196	$ -	$ 182	$ 2,014

Capital Lease Obligation

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

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

The lease agreement has been accounted for as a capital lease by the University. The capitalized cost of $20,130 and accumulated depreciation as of June 30, 2007 and 2006 of $6,065 and $5,549, respectively, are included in capital assets.

(All dollars reported in thousands)

At June 30, 2007, the future minimum lease payments are as follows:

		Lease Amount
Years ending June 30		
2008	$	1,232
2009		1,232
2010		1,235
2011		1,232
2012		1,232
2013-2017		6,143
2018-2022		6,111
2023-2026		4,863
		23,280
Less: Amount representing interest		9,025
	$	14,255

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, 2008. The terms of the revolving line of credit require repayment as specified in the credit agreement. All borrowings are collateralized by a security agreement over accounts receivable. The rate of interest on borrowings was 6.19% at June 30, 2007 and 2006. At June 30, 2007 and 2006, there were no borrowings under this line.

13. Property Leases

The University has entered into real property operating lease agreements with future minimum payments over the next five years as follows:

		Lease Amount
Years ending June 30		
2008	$	2,227
2009		1,367
2010		1,193
2011		990
2012		1,041
2013-2017		584
2018-2022		67
	$	7,469

Lease expenditures for outside space for the years ended June 30, 2007 and 2006 amounted to approximately $3,966 and $3,261, 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. All contributions, benefits and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action.

Prior to July 1, 1984, the ERS consisted of only a contributory option. In 1984, legislation was enacted to add a new noncontributory option for members of the ERS who are also covered under Social Security. Persons employed in positions not covered by Social Security are precluded from the noncontributory option. The noncontributory option provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory option or to elect the new noncontributory option and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and noncontributory options, respectively. Both options provide a monthly retirement allowance based on the employee's age, years of credited service and average final compensation ("AFC"). 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, if the employee became a member prior to January 1, 1971. 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 the same source.

Most covered employees of the contributory option are required to contribute 7.8% of their salary. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liability.

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

Actuarial valuation are 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

(All dollars reported in thousands)

The following data was obtained from the disclosures contained in the CAFR for the year ended June 30, 2006 is as follows:

Number of employers as of March 31, 2006 was:

State	1
Counties	4
Total employers	5

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

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

Other Benefits

The State absorbs the fringe benefit cost for employees paid from State and Federal appropriations. The University receives a State appropriation for these fringe benefit costs. Fringe benefit costs included in total revenue and total expenditures amounted to $116,614 and $107,153 for fiscal years 2007 and 2006, 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.

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 2007 and 2006 were $2,172 and $1,760, respectively. Temporary wage loss payments for fiscal years 2007 and 2006 amounted to $295 and $292, respectively.

(All dollars reported in thousands)

15. Post-Retirement Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State, pursuant to HRS Chapter 87, provides certain health care and life insurance benefits to all employees who retire from the University at:

- age 62 with at least 10 years of service or age 55 with at least 30 years of service under the noncontributory option.
- age 55 with at least 5 years of service or any age with 25 years of service excluding sick leave under the contributory option.
- age 62 with at least 5 years of service or age 55 with at least 30 years of service excluding sick leave under the hybrid option.

Retirees hired before July 1, 1996, qualify for the entire monthly health care premium (medical, dental, prescription drug, vision and life insurance coverage) with at least 10 years of credited service, and 50% of the monthly health care premium with less than 10 years of credited service. Retirees hired or rehired after June 30, 1996, qualify for the entire monthly health care premium with over 25 years of credited service. For those retiring with at least 15 years but less than 25 years of credited service, qualify for 75% of the monthly Medicare or non-Medicare premium, and for those with at least 10 years but less than 15 years of credited service, qualify for 50% of the monthly Medicare or non-Medicare premium. For those retiring with less than 10 years of credited service don’t qualify for the monthly health care premium. All disability retirees who retired after June 30, 1984 with less than 10 years of service also qualify for free medical insurance premiums.

Free life insurance coverage and dental coverage for dependents under age 19 are also available. Retirees covered by the medical portion of Medicare are eligible to receive a reimbursement of the basic medical coverage premiums. Contributions are financed on a pay-as-you-go basis. The University’s share of the post-retirement health care and life insurance benefits expense was approximately $24,267 and $19,841 for the years ended June 30, 2007 and 2006, respectively.

Effective July 1, 2003, the EUTF replaced the Hawaii Public Employees Health Fund under Act 88, SLH of 2001. The EUTF was established to provide a single delivery system of health benefits of state and county employees, retirees and their dependents.

16. Other Noncurrent Liabilities

Other noncurrent liabilities at June 30, 2007 and 2006 are comprised of:

	2007	2006
Liabilities under split interest agreements	$ 4,114	$ 3,811
Amounts held for others	2,348	2,168
Note payable – RCUH	-	89
Installment contract payable	95	183
	$ 6,557	$ 6,251

(All dollars reported in thousands)

17. State Appropriations

By statutory provision, the University prepares a biennium budget for its programs. Budgeted expenditures are derived primarily from the General Appropriations Act of 2005, and from other specific appropriations acts in various Session Laws of Hawai‘i (“SLH”).

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

The net amount of the University’s State general and capital appropriations for the years ended June 30, 2007 and 2006 were $623,984 and $129,141, and $570,747 and $103,502, respectively.

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

General appropriations	
Act 178, SLH 2005, Appropriation Warrant No. 51	$ 614,890
Act 187. SLH 2006, Appropriation Warrant No. 105 (G 330)	200
Act 248, SLH 2006, Appropriation Warrant No. 122 (G 331)	400
Act 240 SLH 2006, Appropriation Warrant No. 156 (G 334)	100
	615,590
Others	
Allotments for salary increases and other adjustment	
Act 94, 97, & 98, SLH 2005	7,759
	623,349
Total funds lapsed	(315)
G 319 (Flood) net encumbrance remaining that carries forward to FY 2008	950
Total general appropriations	$ 623,984
Capital appropriations	
Act 178, SLH 2005, Section 85	$ 3,448
Act 178, SLH 2005, Section 85 & 114	25,000
Act 178, SLH 2005, Section 85, as amended by Act 160, SLH2006	4,451
Act 178, SLH 2005, Section 85 & 114, as amended by Act 160, SLH2006	96,400
Act 178, SLH 2005, Section 85, 114, & 122, as amended by Act 160, SLH2006	(23)
Total funds lapsed	(135)
Total capital appropriations	$ 129,141

(All dollars reported in thousands)

Net general and capital appropriations for the year ended June 30, 2006 are as follows:

General appropriations	
Act 178, SLH 2005 – Appropriation Warrant #15	$ 591,449
Act 116, SLH 2005 – Appropriation Warrant #57	20
Act 151, SLH 2005 – Appropriation Warrant #62	50
Act 248, SLH 2005 – Appropriation Warrant #95	250
Act 26, SLH 2006 – Appropriation Warrant #111	6,400
Others	
Allotments for salary increases and other adjustment	
Act 94, 97, and 98, SLH 2005	3,102
	601,271
Total funds lapsed	(399)
Flood revenue reported in other nonoperating income/expenses	(4,079)
G 319 (Flood) appropriation remaining that carries forward to FY 2008	(26,046)
Total general appropriations	$ 570,747
Capital appropriations	
Act 200, SLH 2003, Section 77, as amended by Act 41, SLH 2004	$ 12,900
Act 200, SLH 2003, Sections 77 and 111, as amended by Act 41, SLH 2004	23,563
Act 200, SLH 2003, Sections 77 and 111, as amended by Act 41, SLH 2004 and Act 178, SLH 2005, Section 85	9,885
Act 200, SLH 2003, Sections 77 and 113, as amended by Act 41, SLH 2004	218
Act 259, SLH 2001, Section 91, as amended by Act 177, SLH 2002	200
Act 178, SLH 2005, Section 85	57,083
Total funds lapsed	(347)
Total capital appropriations	$ 103,502

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, 2007 and 2006 are as follows:

	2007	2006
Unrestricted net assets		
Designated		
Research and training	$ 49,922	$ 42,747
Quasi-endowment	43,140	40,006
Capital projects	28,551	20,374
Contract commitments	24,189	13,817
Bond System	20,175	19,073
Other designated net assets	8,059	9,697
Total designated	174,036	145,714
Undesignated (unfunded obligations for vacation, worker's compensation liabilities, payroll, etc.)	(19,776)	(37,442)
Total unrestricted net assets	$ 154,260	$ 108,272

19. Segment Information

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

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

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

(All dollars reported in thousands)

The following summary financial information as of June 30, 2007 and 2006 are presented before elimination of certain intra-University transactions.

	2007	2006
Condensed statement of net assets		
Assets		
Current assets	$ 53,778	$ 48,049
Capital assets, net	98,396	84,815
Other assets	93,567	7,056
Total assets	$ 245,741	$ 139,920
Liabilities		
Current liabilities	$ 18,798	$ 14,041
Noncurrent liabilities	131,544	34,758
Total liabilities	150,342	48,799
Net assets		
Invested in capital assets, net of related debt	51,082	48,368
Restricted expendable	6,561	3,411
Unrestricted	37,756	39,342
Total net assets	95,399	91,121
Total liabilities and net assets	$ 245,741	$ 139,920

	2007	2006
Condensed statement of revenues, expenses and changes in net assets		
Operating revenues		
Bookstores	$ 28,060	$ 27,386
Room and other rentals	17,107	16,802
Parking	4,908	4,835
Telecommunications	3,090	3,309
Other operating revenues	3,505	3,185
Total operating revenues	56,670	55,517
Operating expenses (including $5,245 and $5,235 in depreciation expense in 2007 and 2006, respectively)	(57,855)	(54,328)
Operating income (loss)	(1,185)	1,189
Nonoperating revenues	8,008	5,366
Nonoperating expenses	(2,545)	(2,034)
Increase in net assets	4,278	4,521
Net assets		
Beginning of year	91,121	86,600
End of year	$ 95,399	$ 91,121

(All dollars reported in thousands)

	2007	2006
Condensed statement of cash flows		
Net cash flows provided by operating activities	$ 5,100	$ 6,437
Net cash flows provided by non-capital financing activities	3,515	2,817
Net cash flows provided by (used in) capital and related financing activities	81,281	(7,372)
Net cash flows provided by investing activities	6,359	5,006
Net increase in cash and cash equivalents	96,255	6,888
Cash and cash equivalents		
Beginning of year	34,082	27,194
End of year	$ 130,337	$ 34,082

20. Litigation, Other Contingent Liabilities and Commitments

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

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

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

The University’s significant construction commitments at June 30, 2007 are as follows:

Frear Hall Redevelopment	$ 39,534
Systemwide Facility Improvements	26,883
Komohana Agricultural Complex	11,580
Systemwide Fire, Health & Safety Improvements	8,330
Hilo – Student Life and Events Center	7,731
KCC – One stop information center	5,796
Mānoa Food Service	5,451
Other	22,941
Total commitments	$ 128,246

In January 2008, the Office of Hawaiian Affairs (“OHA”) and the State announced a settlement resolving the ceded land revenues dispute, which is subject to legislative approval. No further action will be taken on House Bill 266 (State OHA settlement) during the 2008 legislative session.

The University has estimated its pro rata portion of the payment due to OHA for fiscal years 2004 to 2007 to be $1,400. The University is seeking clarification regarding this amount and is currently in discussions with the State Attorney General’s office regarding this matter. While the financial impact of this matter to the University is unknown, management believes that the ultimate resolution of this matter will not have a material adverse impact on the University’s financial condition.

21. New Accounting Pronouncements

In August 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*, effective for the University’s fiscal year beginning July 1, 2007. Statement No. 45 requires accrual-based measurement, recognition and disclosure of other post-employment benefits (“OPEB”) expense, such as retiree medical and dental costs, over the employees’ years of service, along with the related liability, net of any plan assets. For the University, this may result in increased expenses and a related liability which will likely be significant. The University is currently evaluating the effect that Statement No. 45 will have on its financial statements.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, effective for the University’s fiscal year beginning July 1, 2007. Statement No. 48 requires that transactions in which immediate cash payments are exchanged for an interest in expected future cash flows from revenue or receivable collections be classified as a collateralized borrowing unless the criteria of a sale are met. The Statement also includes a provision which disallows the revaluing of assets transferred between financial reporting entities. The University is currently evaluating the effect that Statement No. 48 will have on its financial statements.

In May 2007, The GASB issued Statement No. 50, *Pension Disclosures – An Amendment of GASB Statements No. 25 and 27*. This Statement is to amend note disclosure standards of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* and No. 27, *Accounting for Pensions by State and Local Governmental Employers,* to conform with applicable changes adopted in Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* The provisions of this Statement are effective for periods beginning after June 15, 2007, except for requirements related to the use of the entry age actuarial cost method for the purpose of reporting a surrogate funded status and funding progress of plans that use the aggregate actuarial cost method, which are effective for periods for which the financial statements contain information resulting from actuarial valuations as of June 15, 2007, or later. Management has not yet determined the effect this Statement will have on the Department’s financial statements.

In November 2007, the GASB issued Statement No. 52, *Land and Other Real Estate Held As Investments by Endowments*, effective for the University’s fiscal year beginning July 1, 2008. Statement No. 52 requires that land and other real estate held as investments by endowments be reported at fair value at the reporting date. Changes in fair value during the period should be reported as investment income. The University is currently evaluating the effect that Statement No. 48 will have on its financial statements.

22. Subsequent Events

In the first half of fiscal year 2008, over $101.1 million in capital improvements program funds were released by the Governor for University projects. In July 2007, $35 million was released for the design of the first increment of the University of Hawai‘i – West Oahu campus in Kapolei and the construction of infrastructure improvements to serve the campus and other University owned properties. In August 2007, $50 million was released for plans, designs and construction for the capital renewal, health and safety and infrastructure projects at University campuses. In September 2007, $6 million was released for the plans, design and construction of the University of Hawai‘i at Hilo College of Pharmacy building. In October 2007, $6.837 million was released for the design, construction and equipment for the Community College system, Temporary Facilities for Nursing Program, statewide. In November 2007, $3.288 million was released for design and construction for the reroofing of Honolulu Community College’s Pacific Aerospace Training Center Hangar 111.

Supplementary Information

Accuity LLP
CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditors on Supplemental Information

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

The report on our audits of the consolidated financial statements of the University of Hawai'i as of June 30, 2007 and 2006, and for the years then ended, appears on page 2. Those audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplemental information (Schedules I, II, III, IV, V and VI) included hereinafter is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects in relation to the consolidated financial statements taken as a whole.

Accuity LLP

Honolulu, Hawai'i
March 26, 2008

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University of Hawai‘i
State of Hawai‘i
Condensed Statements of Net Assets
Condensed Statements of Revenue, Expenses and Changes in Net Assets
Current Unrestricted Funds Excluding General Fund and University Bond System
As of and for the Years Ended June 30, 2007 and 2006
(All dollars reported in thousands) Schedule I

	2007	2006
Condensed statements of net assets		
Assets		
Current assets	$ 171,401	$ 139,520
Noncurrent assets	-	3,726
Total assets	$ 171,401	$ 143,246
Liabilities		
Current liabilities	$ 68,445	$ 73,956
Noncurrent liabilities	2,534	2,148
Total liabilities	70,979	76,104
Net assets		
Unrestricted	100,162	67,142
Total net assets	100,162	67,142
Total liabilities and net assets	$ 171,141	$ 143,246
Condensed statements of revenues, expenses and changes in net assets		
Operating revenues	$ 228,044	$ 206,802
Operating expenses	(200,044)	(203,182)
Operating income	28,000	3,620
Nonoperating revenues	16,314	15,883
Nonoperating expenses and transfers	(11,294)	(15,038)
Increase in net assets	33,020	4,465
Net assets		
Beginning of year	67,142	62,677
End of year	$ 100,162	$ 67,142

1. **Basis of Presentation**

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

University of Hawai‘i
State of Hawai‘i
Schedule of Series 2002A Revenue Bond Proceeds Activity
Years Ended June 30, 2007 and 2006
(All dollars reported in thousands) Schedule II

	2007	2006 Revised
Beginning balance	$ 15,263	$ 35,415
Additions		
Interest and investment income	912	1,133
Total additions	912	1,133
Deductions		
Payments – building, construction in progress, other	2,886	21,268
Management fees	12	17
Total deductions	2,898	21,285
Ending balance	$ 13,277	$ 15,263

1. Basis of Presentation

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

2. Refinancing

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

3. Revision

The 2006 schedule was revised due to the incorrect inclusion of non-cash transactions.

University of Hawai‘i
State of Hawai‘i
Condensed Statement of Net Assets
Condensed Statement of Revenue, Expenses and Changes in Net Assets
Current Unrestricted Funds Excluding General Fund
As of and for the Year Ended June 30, 2007
(All dollars reported in thousands) Schedule III

Condensed statement of net assets	
Assets	
Current assets	$ 203,455
Total assets	$ 203,455
Liabilities	
Current liabilities	$ 79,323
Noncurrent liabilities	3,392
Total liabilities	82,715
Net assets	
Unrestricted	120,740
Total net assets	120,740
Total liabilities and net assets	$ 203,455
Condensed statement of revenues, expenses and changes in net assets	
Operating revenues	$ 284,714
Operating expenses	(250,402)
Operating income	34,312
Nonoperating revenues	18,420
Nonoperating expenses and transfers	(18,688)
Increase in net assets	34,044
Net assets	
Beginning of year	86,696
End of year	$ 120,740

1. **Basis of Presentation**

   The accompanying condensed statement of net assets and related condensed statement 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.

University of Hawai‘i
State of Hawai‘i
Schedule of Series 2006A Revenue Bond Proceeds Activity
Year Ended June 30, 2007
(All dollars reported in thousands) Schedule IV

Beginning balance	$ -
Additions	
Bond proceeds	100,987
Investment income	2,113
Total additions	103,100
Deductions	
Payments – building, construction in progress, other	12,449
Transfers – retire indebtedness	780
Total deductions	13,229
Ending balance	$ 89,871

1. Basis of Presentation

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

University of Hawai‘i
State of Hawai‘i
Statements of Net Assets — Community College System
June 30, 2007 and 2006
(All dollars reported in thousands) Schedule V

	2007	2006
Assets		
Current assets		
Cash and cash equivalents	$ 58,335	$ 50,610
Accounts receivables, net	7,166	5,036
Current portion of notes and contributions receivable, net	286	318
Accrued interest receivable	115	118
Merchandise inventories	2,385	3,311
Prepaid expenses, deferred charges and other current assets	171	42
Total current assets	68,458	59,435
Noncurrent assets		
Restricted cash and cash equivalents	303	289
Notes and contributions receivable, net	1,344	1,129
Capital assets, net	179,115	175,031
Other noncurrent assets	5,103	5,103
Total noncurrent assets	185,865	181,552
Total assets	$ 254,323	$ 240,987
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$ 5,693	$ 3,726
Accrued payroll and fringe benefits	4,056	3,819
Advances from sponsors	1,024	874
Due to RCUH	184	-
Deferred revenue	5,370	4,791
Due to State of Hawai‘i	48	87
Current portion of long-term liabilities	5,051	4,698
Other current liabilities	24	25
Total current liabilities	21,450	18,020
Noncurrent liabilities		
Accrued vacation	7,005	6,643
Accrued workers’ compensation liability	1,467	2,044
Due to campuses and funds	2,903	3,596
Total noncurrent liabilities	11,375	12,283
Net assets		
Invested in capital assets, net of related debt	179,115	175,025
Restricted – expendable	2,110	1,912
Unrestricted	40,273	33,747
Total net assets	221,498	210,684
Total liabilities and net assets	$ 254,323	$ 240,987

University of Hawai‘i
State of Hawai‘i
Statements of Revenues, Expenses and Changes in Net Assets – Community College System
Years Ended June 30, 2007 and 2006
(All dollars reported in thousands) Schedule VI

	2007	2006
Operating revenues		
Student tuition and fees	$ 41,344	$ 37,008
Less: Scholarship allowances	4,901	4,146
Net student tuition and fees	36,443	32,862
Federal appropriations, grants and contracts	31,385	31,510
State and local grants and contracts	1,199	767
Nongovernmental sponsored programs	1,038	978
Sales and services of educational departments, other	6,670	6,207
Auxiliary enterprises		
Bookstores	9,005	8,360
Student housing (net of scholarship allowances of $21 and $7)	137	127
Other auxiliary enterprises revenues	1,462	1,557
Other operating revenues	78	77
Total operating revenues	87,417	82,445
Operating expenses		
Compensation and benefits	153,760	142,350
Supplies, services and cost of goods sold	27,429	21,466
Scholarships and fellowships	8,266	7,867
Depreciation	8,123	8,468
Telephone and utilities	9,153	7,930
Repairs and maintenance	2,867	2,729
Travel expenses	2,160	2,166
Other operating expenses	3,073	2,825
Total operating expenses	214,831	195,801
Operating loss	(127,414)	(113,356)
Nonoperating revenues (expenses)		
State appropriations	103,935	86,884
Private gifts	(2)	62
Net investment income	1,316	828
Interest expense	-	(1)
Transfers from State of Hawai‘i for		
Fringe benefits	29,811	26,775
Bridge to Hope	-	30
Loss on disposal of capital assets	(81)	(267)
Other transfers	(9)	-
Other nonoperating expenses, net	(2,522)	(1,097)
Net nonoperating revenues before capital and endowment additions	132,448	113,214
Capital state appropriations	7,140	14,189
Capital federal grants/subsidies	-	24
Capital gifts and grants	439	76
Transfers to other funds	(1,799)	(1,796)
Total other revenues	5,780	12,493
Net nonoperating revenues	138,228	125,707
Increase in net assets	10,814	12,351
Net assets		
Beginning of year	210,684	198,333
End of year	$ 221,498	$ 210,684