CERTIFIED PUBLIC ACCOUNTANTS

University of Hawai‘i
State of Hawai‘i

Consolidated Financial Statements, Required Supplementary Information and Other Supplementary Information

June 30, 2011 and 2010

Quality *Integrity* *Insight*

University of Hawai‘i
State of Hawai‘i
Index
June 30, 2011 and 2010

CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditors

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

In our opinion, based on our audits and the reports of other auditors, the financial statements listed in the accompanying index, which collectively comprise the consolidated financial statements of the University of Hawai‘i (the “University”), a component unit of the State of Hawai‘i, present fairly, in all material respects, the financial position of the University and its blended component units at June 30, 2011 and 2010, and the changes in their financial position and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the University of Hawai‘i Foundation (the “Foundation”), which represent 9.8 percent of the total assets and 0.9 percent of the total operating revenues of the University as of and for the year ended June 30, 2011, and 10.6 percent of total assets and 1.0 percent of total operating revenues of the University as of and for the year ended June 30, 2010. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the Foundation as of and for the years ended June 30, 2011 and 2010, are based solely on the reports of the other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing* Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

The Management’s Discussion and Analysis (“MD&A”) and Required Supplementary Information (“RSI”) Other Than MD&A are not required parts of the consolidated financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A and RSI Other Than MD&A. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2012, 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, 2011. 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
January 19, 2012

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

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, 2011 and 2010, with selected information for the year ended June 30, 2009. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

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

The University is Hawai‘i’s sole public higher education system and is governed by a Board of Regents consisting of fifteen members appointed by the Governor of the State of Hawai‘i. The University system is comprised of ten campuses with approximately 60,000 students and 10,000 faculty and staff. The University provides a broad range of 278 degree programs from baccalaureate to post-doctoral level, through a framework of sixteen colleges and nine professional schools. Through its seven community colleges on O‘ahu, Hawai‘i, Maui, and Kaua‘i, the University offers more than 190 certificate and associate degree programs and in certain areas, baccalaureate degrees. In addition to organized research institutes and administrative service and distance learning centers, the University system houses more than a hundred centers with a research, instruction, or public service purpose. The University is also engaged in instructional research and service activities at hundreds of Hawai‘i schools, hospitals and community sites, and carries out these activities across the Pacific Islands and in foreign countries.

Using the Financial Statements

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

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

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

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

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

Related Entities

The University maintains close relationships with two other entities, considered to be component units, whose financial information is blended into the University’s accompanying consolidated financial statements. The University of Hawai‘i Foundation (the “Foundation”) is a not-for-profit organization established to solicit and manage funds for the benefit of the University. The Research Corporation of the University of Hawai‘i (the “Research Corporation”) provides administrative support services for research and training programs of the University. Both of the University’s component units prepare stand-alone financial statements with footnotes, which are audited by independent auditors. The following tables summarize the individual components of the University’s consolidated financial position and results of operations for the years ended June 30, 2011, 2010 and 2009 (in thousands of dollars):

Condensed Consolidated Statements of Net Assets

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

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

	2009				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Current assets	$ 334,878	$ 41,747	$ 19,599	$ (23,191)	$ 373,033
Noncurrent assets	1,874,878	890	248,307	(15,118)	2,108,957
Total assets	2,209,756	42,637	267,906	(38,309)	2,481,990
Current liabilities	219,254	31,814	3,586	(32,525)	222,129
Noncurrent liabilities	531,819	1,942	6,042	-	539,803
Total liabilities	751,073	33,756	9,628	(32,525)	761,932
Net assets	$ 1,458,683	$ 8,881	$ 258,278	$ (5,784)	$ 1,720,058

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

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

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

	2009				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Operating revenue	$ 700,153	$ 5,485	$ 7,828	$ (8,928)	$ 704,538
Operating expenses	1,431,561	5,545	38,928	(11,715)	1,464,319
Operating loss	(731,408)	(60)	(31,100)	2,787	(759,781)
Nonoperating activity	789,053	(846)	4,667	(2,278)	790,596
Increase (decrease) in net assets	57,645	(906)	(26,433)	509	30,815
Net assets					
Beginning of year	1,401,038	9,787	284,711	(6,293)	1,689,243
End of year	$ 1,458,683	$ 8,881	$ 258,278	$ (5,784)	$ 1,720,058

Financial Position

The Consolidated Statements of Net Assets present the financial position of the University at the end of the fiscal year and display all assets and liabilities of the University. Assets and liabilities are presented using fair and current values, respectively. Two notable exceptions are receivables and capital assets, which are stated at historical cost less an allowance for doubtful accounts and accumulated depreciation, respectively. The difference between assets and liabilities is net assets, representing a measurement of the current financial condition of the University. The University's assets, liabilities and net assets at June 30, 2011, 2010 and 2009 are summarized as follows (in thousands):

	2011	Percentage of Total Assets	2010	Percentage of Total Assets	2009	Percentage of Total Assets	FY 11 vs 10 Change	FY 10 vs 09 Change
Current assets								
Cash and operating investments	$ 402,645	12%	$ 308,374	11%	$ 231,654	9%	$ 94,271	$ 76,720
Receivables, net	112,746	4%	107,528	4%	118,990	5%	5,218	(11,462)
Other current assets	22,498	1%	20,504	1%	22,389	1%	1,994	(1,885)
Total current assets	537,889	17%	436,406	16%	373,033	15%	101,483	63,373
Noncurrent assets								
Endowment and other investments	719,557	22%	499,332	19%	502,426	20%	220,225	(3,094)
Capital assets, net	1,513,137	46%	1,356,864	50%	1,275,918	52%	156,273	80,946
Other noncurrent assets	476,688	15%	394,617	15%	330,613	13%	82,071	64,004
Total assets	3,247,271	100%	2,687,219	100%	2,481,990	100%	560,052	205,229
Current liabilities	250,242	8%	230,903	9%	222,129	9%	19,339	8,774
Noncurrent liabilities								
Long-term debt	623,290	19%	344,315	13%	351,600	14%	278,975	(7,285)
Other noncurrent liabilities	388,094	12%	266,054	10%	188,203	8%	122,040	77,851
Total liabilities	1,261,626	39%	841,272	31%	761,932	31%	420,354	79,340
Net assets								
Invested in capital assets, net of related debt	1,182,287	36%	1,099,820	41%	1,040,144	42%	82,467	59,676
Restricted								
Nonexpendable	184,089	5%	170,706	6%	162,483	6%	13,383	8,223
Expendable	613,763	19%	509,592	19%	428,055	17%	104,171	81,537
Unrestricted	5,506	1%	65,829	3%	89,376	4%	(60,323)	(23,547)
Total net assets	$ 1,985,645	61%	$ 1,845,947	69%	$ 1,720,058	69%	$ 139,698	$ 125,889

A review of the University's Consolidated Statements of Revenues, Expenses and Changes in Net Assets at June 30, 2011, 2010 and 2009 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 existing current assets.

At June 30, 2011, 2010 and 2009, working capital amounted to $287.6 million, $205.5 million and $150.9 million, respectively. The University is working toward maintaining a prudent level of working capital to fund operations, including pre-funding its approximately $500 million in extramural grants which are on a cost reimbursement basis and dealing with increasing enrollment, and to provide for uncertainties such as possible cuts to federal programs and the impact of the economic situation in Europe. Based on the $1,435 million of operating expenses for the fiscal year ended June 30, 2011, the working capital at year end represents approximately 73 days of operating funds.

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

- Current assets consist primarily of cash and cash equivalents, operating investments and net receivables. Total current assets were $537.9 million, $436.4 million and $373.0 million at June 30, 2011, 2010 and 2009, respectively. Total current assets increased by $101.5 million, or 23.3 percent, at June 30, 2011 compared to June 30, 2010, primarily due to increases in operating investments, cash and cash equivalents, and net accounts receivable. Operating investments increased by $69.6 million primarily due to an increase of $75 million in cash invested in TCDs with maturities greater than 90 days and less than one year. This increase was primarily attributable to liquidation of auction rate securities as well as an increase in tuition revenue. Cash and cash equivalents increased by $24.7 million and net accounts receivable increased by $7.3 million. Total current assets increased by $63.4 million, or 17 percent, at June 30, 2010 compared to June 30, 2009, primarily due to increases in operating investments offset by decreases in cash and cash equivalents and due from State of Hawai‘i. Operating investments increased by $82.7 million primarily due to an increase of $77.0 million in cash invested in TCDs with maturities greater than 90 days and less than one year. This increase was primarily attributable to an increase in tuition revenue as well as decreases in grants and contracts receivable balances and decreased compensation and benefits payments. Cash and cash equivalents decreased by $6.0 million and due from State of Hawai‘i decreased by $10.8 million.

- Current liabilities consist primarily of accounts payable, accrued payroll and fringe benefits, advances from sponsors, and deferred revenue. Current liabilities also include amounts due to the State of Hawai‘i, the current portion of long-term liabilities and other current liabilities. Total current liabilities were $250.2 million, $230.9 million and $222.1 million at June 30, 2011, 2010 and 2009, respectively. Total current liabilities increased by $19.3 million, or 8.4 percent, at June 30, 2011 compared to June 30, 2010, primarily due to increases in the current portion of long-term liabilities, other current liabilities, and accounts payable. The current portion of long-term liabilities increased by $7.2 million in fiscal year 2011 compared to fiscal year 2010, primarily due to the issuance of the Series 2010A and Series 2010B revenue bonds. Accounts payable increased by $9.2 million and other current liabilities increased by $2.3 million. Total current liabilities increased by $8.8 million, or 3.9 percent, at June 30, 2010 compared to June 30, 2009, primarily due to increases in accrued payroll and fringe benefits, accounts payable and other current liabilities, offset by a decrease in advances from sponsors. Accrued payroll and fringe benefits increased by $14.1 million in fiscal year 2010 compared to fiscal year 2009, primarily due to a bargaining unit's payroll lag transition which commenced with the June 30, 2010 pay period. Accounts payable increased by $4.1 million and other current liabilities increased by $3.9 million. Advances from sponsors decreased by $16.8 million in fiscal year 2010 due to decreased unexpended federal and private grant revenues.

Endowment and Other Investments

The University's endowment and other investments, including endowments held with the Foundation, increased by $220.2 million to $719.6 million at June 30, 2011 and decreased by $3.1 million to $499.3 million at June 30, 2010. Endowments and other investments held with the Foundation amounted to $272.3 million at June 30, 2011 and $234.4 million at June 30, 2010. The fiscal year 2011 increase was primarily due to unspent Series 2010A and 2010B proceeds.

At June 30, 2011 and 2010, endowments and other investments include $48.4 million and $89.8 million in auction rate securities, respectively. The University classifies its auction rate securities as noncurrent investments as a result of uncertainties surrounding the timing of liquidation of these investments. During fiscal year 2011, the University has entered into an agreement with Citigroup Global Markets Inc. (“CGMI”), which provides the University with the option during June 2015 to require CGMI to purchase all of the University’s auction rate securities at the date the option is exercised. As a result of this agreement, in addition to the University continuing to receive its contractual interest payments in a timely manner, management believes it is appropriate to report the University’s auction rate securities at par value. In fiscal year 2011, the University’s auction rate securities portfolio decreased by $41.4 million due to redemptions in accordance with contractual terms.

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

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

The University’s spending rate policy is to limit the immediate impact that significant changes in the fair value of the endowment portfolio have on annual distributions. The spending rate policy provides for an annual distribution, ranging between three percent and five percent of the five-year moving average of the endowment portfolio’s fair value. In fiscal years 2011 and 2010, the University instituted a four percent distribution rate on restricted and unrestricted endowments. The total restricted and unrestricted distributions available to the University amounted to $2.5 million in fiscal year 2011 and $2.2 million in fiscal year 2010.

Capital and Debt Activities

The University’s capital assets are separated into seven categories: land, buildings, infrastructure, land improvements, equipment, library materials, and construction in progress. At June 30, 2011, 2010 and 2009, total capital assets, net of accumulated depreciation amounted to $1.5 billion, $1.4 billion and $1.3 billion, respectively, which represented 47 percent, 50 percent and 52 percent, respectively, of the University’s total assets. Capital asset additions totaled $254.8 million, $181.5 million and $177.9 million in fiscal years 2011, 2010 and 2009, respectively, while depreciable capital asset disposals, net of accumulated depreciation, amounted to $13 million, $13.1 million and $11.4 million, respectively. Of the total capital asset additions, $6.6 million and $17.7 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 2010 and 2009, respectively. No projects were transferred by DAGS to the University in fiscal year 2011. Purchases of equipment, including information technology, amounted to approximately $19.7 million, $23.7 million and $16.6 million and purchases of library materials amounted to approximately $3.1 million, $3.9 million and $4.0 million during fiscal years 2011, 2010 and 2009, respectively.

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

Significant capital projects completed during fiscal year 2011, 2010 and 2009 or in progress as of June 30, 2010, 2009 and 2008 included:

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

- **University of Hawai‘i Hilo Science and Technology Building** – On August 2, 2011, a blessing and dedication was held for the University of Hawai‘i at Hilo's new Sciences and Technology Building. The $25 million building spans more than 42,000 square feet and fulfills the need for additional classrooms, office space and new state-of-the-art laboratories for UH Hilo's expanding physics, astronomy and chemistry programs. Key features include an auditorium that seats in excess of 140, along with smaller rooms of 60 and 24 seats. In addition to the tenant programs, the building's facilities will accommodate classes in biology, math, geography, history and communication. Based on projections, the building will serve more than 1,700 students in various classroom venues daily.

- **Library Learning Commons** – Groundbreaking for Windward Community College's new $41.6 million Library Learning Commons was held in March 2010. The new three-story library is envisioned as a campus gathering place for the campus and community and will be home to media labs, a learning and tutoring center, academic computing, a Hawaiian collection and a coffee shop. Every aspect of the building construction and ongoing maintenance has been reviewed to reduce energy consumption, water use and waste. The structure has been called a "model of sustainability" with the goal of attaining a LEED ("Leadership in Energy and Environmental Design") silver certification.

- **Johnson Hall** – The $6.7 million, year-long renovation was completed in August 2011 in time for the fall semester. The project includes major improvements to all 98 double rooms, lounges and offices, and installation of modern safety devices. Mānoa's oldest residence facility, Johnson Hall A and B were constructed in 1958 and 1962, respectively, at a cost of $897,000. With Johnson's reopening, the majority of the nearly 4,000 Mānoa campus housing units are either new or newly renovated, and Mānoa is now housing a record number of students on campus.

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

- **University of Hawai‘i Cancer Center** – Groundbreaking for the newly-renamed University of Hawai‘i Cancer Center was held on November 4, 2010. The $120 million cancer center project, part of the University of Hawai‘i at Mānoa, is being built adjacent to the UH Mānoa’s John A. Burns School of Medicine in Kaka‘ako. The more than 150,000 square foot building is due to be completed by 2013. Under a partnership agreement with The Queen’s Medical Center, Hawai‘i Pacific Health, and Kuakini Health Systems, the center will lead research efforts, including clinical trials and the hospitals will continue to deliver care to patients, making use of the latest research. The Cancer Center is one of 65 National Cancer Center Institute centers across the United States, a designation that brings grant funding needed to further the center’s work in epidemiology, natural products and cancer biology, prevention and control and carcinogenesis.

- **University of Hawai‘i West O‘ahu** – Construction of the much anticipated $116 million, six building project in Kapolei is well underway. This first phase includes a classroom building, laboratory building, campus center, library and resource center, administration building and maintenance and mechanical plant building. Located on the makai side of Farrington Highway along the new Kualaka‘i Parkway, the new classroom doors will open to approximately 2,000 students for fall 2012 classes. The architectural design of the new campus incorporates the latest trends in environmental sustainability and strives to achieve LEED certification. The construction of the entire campus and adjacent business and retail community will span several years. When completed, UH West O‘ahu will accommodate 7,600 students and 1,000 faculty and staff.

- **Ka Haka ‘Ula O Ke‘elikolani College of Hawaiian Language** – A bilingual blessing and groundbreaking was held on February 11, 12011 for the $20 million permanent College of Hawaiian Language facilities at the University of Hawai‘i at Hilo campus. The project consists of construction of a two-story concrete and steel structure with an approximate building floor area of 36,800 square feet. The project will be required to achieve LEED silver certification or better. The featured space for this educational facility is a 200-seat performing arts room with enhanced acoustics and includes a custom retractable lighting system (Haka) and a 36-feet high ceiling. Other notable spaces include a Distance Learning Center designed to support remote classroom instruction and video conferences as well as a Library and Archives collection for extremely rare printed and audio records.

The State of Hawai‘i at times issues general obligation bonds on behalf of the University to finance certain capital projects. At June 30, 2011, 2010 and 2009, amounts due to the State of Hawai‘i for general obligation bonds payable amounted to $1.0 million, $1.2 million and $1.3 million, respectively. For fiscal year 2011, debt service paid by the University amounted to $0.2 million consisting of $0.1 million in principal and $0.1 million in interest. For fiscal year 2010, debt service paid by the University amounted to $0.2 million consisting of $0.1 million in principal and $0.1 million in interest. For fiscal year 2009, debt service paid by the University amounted to $1.7 million consisting of $1.6 million in principal and $0.1 million in interest.

General obligation bonds have also been issued by the State of Hawai‘i that included financing for University projects. These bonds are carried as liabilities of the State. In fiscal year 2011 and 2010, the State appropriated funds directly to the Department of Budget and Finance in the amount of $72.1 million each year to pay for debt service on general obligation bonds issued for the University. As a result, the University itself received no appropriations and made no transfers for debt service on general obligation bonds for these fiscal years. In fiscal year 2009, the State appropriated funds to the University to pay for debt service on general obligation bonds in the amount of $87.7 million. The fiscal 2009 amount is reflected in nonoperating revenues in the Consolidated Statements of Revenues, Expenses and Changes in Net Assets.

The University also uses revenue bond financing for major capital projects. In October 2010, the University issued $292.7 million in Series 2010A-1 ($111.3 million), 2010A-2 ($27.4 million), 2010B-1 ($127.5 million), and 2010B-2 ($26.6 million) bonds (collectively, the “Series 2010 Bonds”) for the purpose of financing the costs of certain University projects. The Series 2010A-1 and Series 2010B-1 bonds are designated as “Build America Bonds” under the provisions of the American Recovery and Reinvestment Act of 2009. These University projects include the construction and maintenance of the University’s Cancer Center, renovations and additions to the Mānoa Campus Center, construction and equipment for an Information Technology Building, renovations to the Sinclair Library basement on the Mānoa campus, further development of the West O‘ahu campus, construction of a new Regional Biocontainment Laboratory, and various energy conservations/efficiency projects on the community college campuses on O‘ahu, Kaua‘i and Maui. The interest rates for the Series 2010 Bonds range from 2.50% – 6.03% (first interest payment due on April 1, 2011) and mature on October 1, 2030 and 2040.

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

At June 30, 2011, 2010 and 2009, revenue bonds payable amounted to $637 million, $351.6 million and $358.6 million, respectively. Debt service in fiscal year 2011 amounted to $31.1 million, consisting of $7.3 million of principal and $23.8 million of interest. Debt service in fiscal year 2010 amounted to $23.3 million, consisting of $7.0 million of principal and $16.3 million of interest. Debt service in fiscal year 2009 amounted to $16.1 million, consisting of $4.4 million of principal and $11.7 million of interest. Principal reductions during fiscal year 2011, 2010 and 2009 were in accordance with scheduled debt service payments.

In June 2002, the University issued $150 million in Series 2002A revenue bonds to finance the construction of the new John A. Burns School of Medicine campus. In October 2006, the University issued $133.8 million in Refunding Series 2006A bonds to refinance a portion of the University’s outstanding Series 2002A revenue bonds. The bond offering was structured to match the timing of receipt of projected State of Hawai‘i Tobacco Settlement funds. While all unrestricted revenues of the University, excluding those revenues pledged under other revenue bond offerings, are pledged as collateral, the University anticipates that State of Hawai‘i Tobacco Settlement funds will be the primary source of support for debt service payments on these revenue bonds. The University received State of Hawai‘i Tobacco Settlement funds in the amount of $12.4 million, $12.9 million and $14.8 million in fiscal years 2011, 2010 and 2009, respectively, to cover the debt service due.

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

Net Assets

Net assets represent the residual interest in the University's assets after liabilities are deducted. At June 30, 2011, 2010 and 2009, total net assets amounted to $2 billion, $1.8 billion and $1.7 billion, respectively. Net assets are reported in four major categories: invested in capital assets, net of related debt; restricted nonexpendable; restricted expendable; and unrestricted.

Net assets invested in capital assets, net of accumulated depreciation and the related outstanding debt used to finance the acquisition, construction or improvement of those assets, amounted to $1.2 billion, $1.1 billion and $1.0 billion at June 30, 2011, 2010 and 2009, respectively. The $82.5 million increase in fiscal year 2011, as compared to fiscal year 2010, was primarily attributable to $254.8 million of capital asset additions, offset by $85.6 million of depreciation expense, $13 million in net disposals, and $70.1 million net increase in related debt. The $100 million increase in fiscal year 2010, as compared to fiscal year 2009, was primarily attributable to $181.5 million of capital asset additions, offset by $87.4 million of depreciation expense.

Restricted nonexpendable net assets representing the University's and Foundation's permanent endowment funds, which are required to be maintained in perpetuity, amounted to $184.1 million, $170.7 million and $162.5 million at June 30, 2011, 2010 and 2009, respectively. The increases of $13.4 million and $8.2 million in fiscal years 2011 and 2010, 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, 2011, 2010 and 2009 (in thousands):

	2011	2010	2009
Plant facilities	$ 422,226	$ 343,958	$ 263,082
Donor-restricted activities	151,016	130,691	125,469
Loan activities	26,826	28,389	28,197
External sponsor activities	13,695	6,554	11,307
	$ 613,763	$ 509,592	$ 428,055

In fiscal year 2011, the overall increase of $104.2 million in restricted expendable net assets was attributable to increases of $78.3 million in plant facilities and $20.3 million in donor-restricted activities, and an increase in external sponsor activities of $7.1 million. In fiscal year 2010, the overall increase of $81.5 million in restricted expendable net assets was attributable to increases of $80.9 million in plant facilities and $5.2 million in donor-restricted activities, offset by a decrease in external sponsor activities of $4.8 million.

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 $37.1 million, $25.0 million and $19.3 million were designated for endowment activities at June 30, 2011, 2010 and 2009, respectively. Unrestricted net assets were comprised of the following at June 30, 2011, 2010 and 2009 (in thousands):

	2011	2010	2009
Designated			
Research and training	$ 49,161	$ 36,545	$ 44,755
Contract commitments	31,542	28,668	49,010
Quasi-endowment	37,148	25,025	19,264
Capital projects	37,126	37,756	30,717
Bond System	12,103	14,426	17,833
Other designated net assets	8,531	8,563	8,403
	175,611	150,983	169,982
Undesignated (unfunded obligations for vacation, worker’s compensation liabilities, other postemployment benefits, payroll, etc).	(170,105)	(85,154)	(80,606)
	$ 5,506	$ 65,829	$ 89,376

Results of Operations

The Consolidated Statements 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, 2011, 2010 and 2009, summarized to match revenues supporting core activities with expenses associated with core activities, are as follows (in thousands of dollars):

	2011		2010		2009		Increase (Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	FY 11 vs 10	FY 10 vs 09
Revenues								
Operating								
Tuition and fees, net	$ 223,857	17.2%	$ 209,588	16.9%	$ 181,078	12.7%	$ 14,269	$ 28,510
Grants and contracts	502,414	38.6%	474,347	38.4%	399,640	28.0%	28,067	74,707
Sales and services	141,795	10.9%	127,405	10.3%	120,899	8.5%	14,390	6,506
Other revenue	3,063	0.2%	2,847	0.2%	2,921	0.2%	216	(74)
Total operating revenues	871,129	66.9%	814,187	65.8%	704,538	49.4%	56,942	109,649
Non-operating								
State appropriations	359,077	27.6%	369,948	29.9%	731,394	51.2%	(10,871)	(361,446)
Net Investment income (expense)	47,307	3.6%	28,146	2.3%	(31,928)	-2.2%	19,161	60,074
Private gifts	24,703	1.9%	24,398	2.0%	23,285	1.6%	305	1,113
Total non-operating revenues	431,087	33.1%	422,492	34.2%	722,751	50.6%	8,595	(300,259)
Total revenues supporting core activities	1,302,216	100.0%	1,236,679	100.0%	1,427,289	100.0%	65,537	(190,610)
Expenses								
Operating								
Compensation and benefits	1,007,237	73.1%	964,094	74.3%	995,777	63.3%	43,143	(31,683)
Supplies, services and cost of goods sold	218,469	15.8%	202,521	15.6%	201,618	12.8%	15,948	903
Telecom and utilities	62,398	4.5%	54,541	4.2%	57,959	3.7%	7,857	(3,418)
Scholarships and fellowships	53,411	3.9%	46,314	3.6%	36,297	2.3%	7,097	10,017
Other expense	93,437	6.8%	89,023	6.9%	93,440	6.0%	4,414	(4,417)
Total operating expenses	1,434,952	104.1%	1,356,493	104.6%	1,385,091	88.1%	78,459	(28,598)
Non-operating (revenues) expenses								
Transfers (from) to State, net	(163,992)	-11.9%	(160,971)	-12.4%	97,038	6.2%	(3,021)	(258,009)
Interest expense	22,244	1.6%	14,004	1.1%	11,175	0.7%	8,240	2,829
Total non-operating (revenues) expenses	(141,748)	-10.3%	(146,967)	-11.3%	108,213	6.9%	5,219	(255,180)
Expenses associated with core activities before depreciation	1,293,204	-	1,209,526	-	1,493,304	-	83,678	(283,778)
Income (loss) from core activities before depreciation	9,012	-	27,153	-	(66,015)	-	(18,141)	93,168
Depreciation	85,591	6.2%	87,401	6.7%	79,228	5.0%	(1,810)	8,173
Expenses associated with core activities including depreciation	1,378,795	100.0%	1,296,927	100.0%	1,572,532	100.0%	81,868	(275,605)
Loss from core activities	(76,579)		(60,248)		(145,243)		$ (16,331)	$ 84,995
Other nonoperating activity								
Capital gifts and grants	217,673		191,025		172,118			
Permanent endowment	12,315		6,101		13,479			
Other revenue (expenses) net	(13,711)		(10,989)		(9,539)			
Other nonoperating income, net	216,277		186,137		176,058			
Increase in net assets	139,698		125,889		30,815			
Net assets								
Beginning of year	1,845,947		1,720,058		1,689,243			
End of year	$ 1,985,645		$ 1,845,947		$ 1,720,058			

Revenues Supporting Core Activities

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

Fiscal year 2011 was the fifth year in the University’s six-year plan to increase tuition and fee rates. Tuition and fees revenue, net of scholarship allowances, increased by $14.3 million, or 6.8 percent, to $223.9 million in fiscal year 2011, and increased by $28.5 million, or 15.7 percent, to $209.6 million in fiscal year 2010. Scholarship allowances amounted to $95.9 million, $82.3 million and $61.3 million in fiscal year 2011, 2010 and 2009, respectively. For fiscal year 2011, the increases in tuition and fees revenue and scholarship allowances are primarily attributable to increased enrollment at the UH Hilo, UH West O‘ahu and community college campuses and undergraduate tuition and fee rate increases for all campuses ranging from 11.1 percent to 12.1 percent. For fiscal year 2010, the increases in tuition and fees revenue and scholarship allowances are primarily attributable to increased enrollment in the UH Mānoa, UH Hilo and community college campuses and undergraduate tuition and fee rate increases for all campuses ranging from 10.5 percent to 15.8 percent.

Revenues from federal, state and local grants and contracts and nongovernmental sponsored programs increased by $28.1 million, or 5.9 percent, to $502.4 million in fiscal year 2011, and increased by $74.7 million, or 18.7 percent, to $474.3 million in fiscal year 2010. The fiscal year 2011 net increase was attributable to a $40.9 million increase in federal grants and contracts, offset by a $3.1 million decrease in nongovernmental sponsored programs and a decrease of $9.7 million in local grants and contracts. The fiscal year 2010 net increase was attributable to a $68.3 million and $10.3 million increase in federal grants and contracts and nongovernmental sponsored programs, respectively, and a decrease of $4.0 million in local grants and contracts.

Sales and services revenues, which are mainly comprised of bookstores, student and faculty housing, food services, parking and athletics, increased by $14.4 million, or 11.3 percent, to $141.8 million in fiscal year 2011, and increased by $6.5 million, or 5.4 percent, to $127.4 million in fiscal year 2010. In fiscal year 2011, the increase was largely due to an increase in Sales and Services of Educational Departments, other auxiliary enterprises, and student housing. In fiscal year 2010, the increase was largely due to increases in sales and services of other educational activities.

General state appropriations decreased by $10.9 million, or 3 percent, to $359.1 million in fiscal year 2011, and decreased by $361.4 million, or 49.4 percent, to $369.9 million in fiscal year 2010. The decrease in fiscal year 2011 was mainly attributable to legislative reductions and restrictions. The decrease in fiscal year 2010 was mainly attributable to a $307.3 million decrease in general state appropriation support due primarily to Act 162, SLH 2009, which appropriated $254.2 million directly to the Department of Budget and Finance to pay for debt service and fringe benefits on behalf of the University. Other contributing factors to the fiscal year 2010 decrease was a $9.9 million decrease in collective bargaining appropriations and a $44.2 million increase in executive restrictions.

The University’s net investment income for fiscal year 2011, as compared to fiscal year 2010, increased by $19.2 million, resulting in net investment income of $47.3 million. The fiscal year 2011 increase was mainly due to a $17.1 million increase in net unrealized gains and a $3.7 million increase in net realized gains, offset by a $1.2 million decrease in interest and dividend income. The fiscal year 2010 increase was mainly due to a $58.4 million increase in net unrealized gains and a $2.6 million decrease in net realized losses, offset by a $4.7 million decrease in interest and dividend income.

The components of net investment income for the years ended June 30, 2011, 2010 and 2009 were as follows (in thousands):

				Increase (Decrease)	
	2011	**2010**	**2009**	**FY 11-10**	**FY 10-09**
Interest and dividend income	$ 10,551	$ 11,778	$ 16,521	$ (1,227)	$ (4,743)
Net realized gains (losses)	3,209	(539)	(3,140)	3,748	2,601
Net unrealized gains (losses)	34,931	17,803	(40,582)	17,128	58,385
Other, net	(1,384)	(896)	(4,727)	(488)	3,831
	$ 47,307	$ 28,146	$ (31,928)	$ 19,161	$ 60,074

Private gifts, most of which are restricted as to use, increased by $0.3 million, or 1.2 percent, to $24.7 million in fiscal year 2011 when compared to $24.4 million in fiscal year 2010. The fiscal year 2011 increase was primarily attributable to various private gifts given to the Foundation. Private gifts increased by $1.1 million, or 4.8 percent, to $24.4 million in fiscal year 2010 when compared to $23.3 million in fiscal year 2009. The fiscal year 2010 increase was primarily attributable to various private gifts given to the Foundation. The University will continue to aggressively develop private revenue sources and cultivate the increasing trend in private gifts received.

Expenses Associated with Core Activities

The University is committed to recruiting and retaining outstanding faculty and staff, and providing compensation equivalent to peer institutions and nonacademic employers. Of the University’s operating expenses, approximately 66.2 percent during fiscal year 2011, approximately 66.8 percent during fiscal year 2010 and 68.0 percent during fiscal year 2009 were related to compensation and benefits. Compensation and benefits increased by $43.1 million, or 4.5 percent, to $1,007.2 million in fiscal year 2011 as compared to fiscal year 2010, and decreased by $31.7 million, or 3.2 percent, to $964.1 million in fiscal year 2010 as compared to fiscal year 2009. The fiscal year 2011 increase was attributable to the recognition of additional postretirement health and life insurance benefits during the year. The University recognized $150.6 million, $101.5 million and $94.8 million related to postretirement health and life insurance benefits in fiscal year 2011, 2010 and 2009, respectively. The fiscal year 2010 decrease was attributable to the system-wide salary reduction which commenced in December 2009.

Supplies, services and cost of goods sold expense includes service fees, printing and binding, advertising, dues and subscriptions, controlled property acquisitions, cost of goods sold for resale items and other miscellaneous operating costs. In fiscal year 2011, such expenses increased by $15.9 million, or 7.9 percent, to $218.5 million as compared to fiscal year 2010. In fiscal year 2010, such expenses increased by $0.9 million, or 0.4 percent, to $202.5 million as compared to fiscal year 2009. The increase was primarily attributable to increases in supplies and materials, and controlled property purchases offset by a decrease in other services costs.

The University is committed to providing affordable yet quality education to its students. Scholarships and fellowships, primarily comprised of academic and athletic scholarships and fellowships, are payments, other than for tuition, fees, and housing, of financial aid made directly to students. Scholarships and fellowships increased by $7.1 million, or 15.3 percent, to $53.4 million in fiscal year 2011 as compared to fiscal year 2010, and increased by $10.0 million, or 27.6 percent, to $46.3 million in fiscal year 2010 as compared to fiscal year 2009. The increases in fiscal years 2011 and 2010 were primarily attributable to increased requests for financial aid related to increased enrollment and scheduled tuition increases.

The University depreciates its capital assets over their estimated useful lives using the straight-line method. Depreciation expense decreased by $1.8 million, or 2.1 percent, to $85.6 million during fiscal year 2011 as compared to fiscal year 2010, and increased by $8.2 million, or 10.3 percent, to $87.4 million during fiscal year 2010 as compared to fiscal year 2009. The decrease in fiscal year 2011 was attributable to disposals during the year. The increase in 2010 was primarily attributable to depreciation of infrastructure, building and equipment additions and reclassifications from construction in progress.

Transfers from State amounted to $151.6 million for fiscal year 2011 as compared to $148.1 million in fiscal year 2010 and a Transfers to State of $111.8 million in fiscal year 2009. For fiscal year 2011 and 2010, Transfers from State were primarily for fringe benefit expenses and the University’s Cancer Center cigarette stamp tax collections. For fiscal year 2009, increases in Transfers to State for debt service on general obligation bonds, fringe benefit expense and executive restrictions were offset by an increase in University’s Cancer Center cigarette stamp tax collections and a decrease in interest paid on Tobacco settlement funds.

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

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

Other Nonoperating Activities

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

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

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

Cash Flows

The Consolidated Statements of Cash Flows presents the University's significant sources and uses of cash and cash equivalents, including restricted cash balances. The University's cash is comprised primarily of cash held with the state treasury, demand deposits, and time certificates of deposit with an original maturity of three months or less. A summary of the University's cash flows for the years ended June 30, 2011, 2010 and 2009 is as follows (in thousands):

	2011	2010	2009	FY 11 vs. 10 Change	FY 10 vs. 09 Change
Cash received from operations	$ 864,124	$ 804,407	$ 696,631	$ 59,717	$ 107,776
Cash payments for operations	(1,176,369)	(1,125,901)	(1,310,302)	(50,468)	184,401
Net cash used in operating activities	(312,245)	(321,494)	(613,671)	9,249	292,177
Net cash provided by noncapital financing activities	413,804	420,267	764,561	(6,463)	(344,294)
Net cash provided by (used in) capital and related financing activities	166,372	(58,302)	(34,852)	224,674	(23,450)
Net cash used in investing activities	(243,253)	(46,473)	(168,550)	(196,780)	122,077
Net (decrease) increase in cash	24,678	(6,002)	(52,512)	30,680	46,510
Cash					
Beginning of year	47,031	53,033	105,545	(6,002)	(52,512)
End of year	$ 71,709	$ 47,031	$ 53,033	$ 24,678	$ (6,002)

The University's cash and cash equivalents increased by $24.7 million, or 52.5 percent, to $71.7 million at June 30, 2011 from $47 million at June 30, 2010. During fiscal year 2011, $312.2 million in cash was used for operating activities, offset by $413.8 million in cash provided by noncapital financing activities. The University's cash and cash equivalents decreased by $6.0 million, or 11.3 percent, to $47.0 million at June 30, 2010 from $53.0 million at June 30, 2009. During fiscal year 2010, $321.5 million in cash was used for operating activities, offset by $420.3 million in cash provided by noncapital financing activities. Noncapital financing activities include state appropriations and gifts received for other than capital purposes, and are used to support the University's core operations.

Net cash provided by capital and related financing activities amounted to $166.4 million in fiscal year 2011, net cash used in capital and related financing activities amounted to $58.3 million in fiscal year 2010 and $34.9 million in fiscal year 2009. The $224.7 million increase in net cash provided by capital and related financing activities in fiscal year 2011 as compared to fiscal year 2010 was primarily attributable to an increase of $298.5 million in proceeds from capital debt issuance. The $23.5 million increase in net cash used in capital and related financing activities in fiscal year 2010 as compared to fiscal year 2009 was primarily attributable to a $100 million decrease in proceeds from capital debt issuance, a $9.1 million increase in capital asset purchases, a $5.8 million increase in interest paid on capital debt and leases, a decrease in capital appropriations of $4.3 million and a $2.9 million decrease in capital gifts and grants, offset by an $87.7 million decrease in transfers to the State of Hawai‘i for debt service and a $12.9 million decrease in principal paid on capital debt and leases.

Net cash used in investing activities amounted to $243.3 million, $46.5 million, and $168.6 million in fiscal years 2011, 2010 and 2009, respectively. The increase in net cash used in investing activities of $196.8 million in fiscal year 2011 as compared to fiscal year 2010 is primarily attributable to a $1,381.2 million increase in the purchase of investments offset by a $1,184.6 increase in proceeds from sales and maturities of investments. The decrease in net cash used in investing activities of $122.1 million in fiscal year 2010 as compared to fiscal year 2009 is attributable to a $478.2 million increase in proceeds from the sales and maturities of investments offset by a $3.7 million decrease in income from interest and dividends on investments and a $352.4 million increase in investment purchases.

Looking Forward

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

System-wide enrollment increased in the fall 2010 to an all-time high of more than 60,000 students and has continued at that level in fall 2011 as the sluggish economy in the State of Hawai‘i and the country continues to encourage individuals to seek retraining and higher education to improve employment opportunities. Fiscal year 2012 is the last year of the University’s six-year tuition increase plan which was approved by the Board of Regents in 2005. On October 26, 2011, the University’s Board of Regents approved a new tuition increase schedule for fall 2012 through spring 2017. This new schedule provides stability and predictability for the University and its students while preserving affordability and access as the sole provider of public higher education in the State of Hawai‘i.

In fiscal year 2011, the University secured extramural research and training awards totaling approximately $489 million, a $37 million increase from the previous year. This represents an all time high in awards secured in a year as the University’s research programs continue to develop and faculty continue to compete successfully for contracts and grants despite decreases in federal funding at the national level.

The State continues to uphold a strong commitment to maintain and upgrade the University’s core facilities and infrastructure. General obligation bond funded capital improvement program appropriations for the fiscal biennium 2009 – 2011 were approximately $382 million as compared to approximately $309 million for the fiscal biennium 2007 – 2009. In addition, in October 2010, the University issued over $292 million in revenue bonds for the purpose of funding the costs of certain University projects, including the University’s Cancer Center. At present, the University has over $500 million in capital improvement projects under construction or to begin in the upcoming fiscal year.

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

Due to the unprecedented downturn in the State’s economy, and the resulting reductions in the revenue projections for the State by the Council on Revenues, general fund appropriations for fiscal year 2011 were reduced by $108 million from fiscal year 2009 levels and in addition the Governor restricted approximately $1.5 million of those general funds for fiscal year 2011. For fiscal year 2012 legislative appropriations and gubernatorial actions further reduced the University’s general funds by approximately $3 million, offset by an increase in general funds of $22 million to restore American Recovery and Reinvestment Act (“ARRA”) federal stabilization funds previously provided by the Legislature and the Governor which ended on September 30, 2011. Future general fund appropriations are dependent upon the Legislature and Counsel of Revenues projections. The University’s campuses continue to plan for and implement measures to deal with the above level of reductions in general funds, including salary reductions achieved in completed collective bargaining negotiations, hiring restrictions, operational consolidations and savings, and tuition and other non-general fund sources of revenue. The University remains committed to revenue generation and cost containment in order to provide the necessary resources to support and fund its operations and unprecedented enrollment growth.

University of Hawai‘i
State of Hawai‘i
Consolidated Statements of Net Assets
June 30, 2011 and 2010
(All dollars reported in thousands)

	2011	2010
Assets		
Current assets		
Cash and cash equivalents	$ 71,709	$ 47,031
Operating investments	330,936	261,343
Due from State of Hawai‘i	1,936	5,129
Accounts receivable, net	96,589	89,275
Current portion of notes and contributions receivable, net	13,090	11,773
Accrued interest receivable	1,131	1,351
Inventories	12,954	13,470
Prepaid expenses, deferred charges and other current assets	9,544	7,034
Total current assets	537,889	436,406
Noncurrent assets		
Due from State of Hawai‘i	418,309	335,480
Endowment and other investments	719,557	499,332
Notes and contributions receivable, net	29,020	32,059
Capital assets, net	1,513,137	1,356,864
Other noncurrent assets	29,359	27,078
Total noncurrent assets	2,709,382	2,250,813
Total assets	$ 3,247,271	$ 2,687,219
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$ 64,430	$ 55,212
Accrued payroll and fringe benefits	50,832	50,211
Advances from sponsors	37,499	38,290
Deferred revenue	35,905	35,151
Due to State of Hawai‘i	6,257	6,253
Current portion of long-term liabilities	42,654	35,462
Other current liabilities	12,665	10,324
Total current liabilities	250,242	230,903
Noncurrent liabilities		
Accrued vacation	44,301	41,888
Accrued workers' compensation	8,963	7,573
Other postemployment benefits	318,143	206,271
Due to State of Hawai‘i	881	1,032
Revenue bonds payable	623,290	344,315
Premium on bonds payable	6,621	1,630
Other noncurrent liabilities	9,185	7,660
Total noncurrent liabilities	1,011,384	610,369
Total liabilities	1,261,626	841,272
Commitments and contingencies		
Net assets		
Invested in capital assets, net of related debt	1,182,287	1,099,820
Restricted		
Nonexpendable	184,089	170,706
Expendable	613,763	509,592
Unrestricted	5,506	65,829
Total net assets	1,985,645	1,845,947
Total liabilities and net assets	$ 3,247,271	$ 2,687,219

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, 2011 and 2010
(All dollars reported in thousands)

	2011	2010
Operating revenues		
Student tuition and fees	$ 319,772	$ 291,890
Less: Scholarship allowances	95,915	82,302
Net student tuition and fees	223,857	209,588
Federal appropriations, grants and contracts	438,854	397,984
State and local grants and contracts	18,358	28,064
Nongovernmental sponsored programs	45,202	48,299
Sales and services of educational departments, other	50,856	43,808
Auxiliary enterprises		
Bookstores	31,074	30,200
Student housing (net of scholarship allowances of $1,603 and $1,898)	24,107	20,535
Other auxiliary enterprises revenues	35,758	32,862
Other operating revenues	3,063	2,847
Total operating revenues	871,129	814,187
Operating expenses		
Compensation and benefits	1,007,237	964,094
Supplies, services and cost of goods sold	218,469	202,521
Depreciation	85,591	87,401
Telephone and utilities	62,398	54,541
Scholarships and fellowships	53,411	46,314
Travel expenses	31,349	27,207
Repairs and maintenance	22,343	24,965
Other operating expenses	39,745	36,851
Total operating expenses	1,520,543	1,443,894
Operating loss	(649,414)	(629,707)
Nonoperating revenues (expenses)		
State appropriations	359,077	369,948
Private gifts	24,703	24,398
Net investment income	47,307	28,146
Interest expense	(22,244)	(14,004)
Net transfers from (to) State of Hawai‘i for		
Fringe benefits	140,144	128,981
Interest on Tobacco settlement	(19)	(59)
Restrictions	(4,972)	-
Bridge to Hope	134	801
University of Hawai‘i Cancer Center	16,283	18,379
Loss on disposal of capital assets	(12,970)	(13,124)
Other, net	(741)	2,135
Net nonoperating revenues before capital and endowment additions	546,702	545,601
Capital – state appropriations	204,614	174,776
Capital – federal grants/subsidies	14,207	7,098
Capital – gifts and grants	1,119	3,046
Net transfers from (to) State of Hawai‘i for capital assets	(2,267)	6,105
Transfers from State of Hawai‘i, Tobacco settlement	12,422	12,869
Additions to permanent endowments	12,315	6,101
Total other revenues	242,410	209,995
Net nonoperating revenues	789,112	755,596
Change in net assets	139,698	125,889
Net assets		
Beginning of year	1,845,947	1,720,058
End of year	$ 1,985,645	$ 1,845,947

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, 2011 and 2010
(All dollars reported in thousands)

	2011	2010
Cash flows from operating activities		
Student tuition and fees	$ 221,141	$ 210,154
Grants and contracts	499,379	468,689
Other revenues	143,604	125,564
Payments to employees	(749,629)	(733,998)
Payments to suppliers and other	(373,329)	(345,589)
Payments for scholarships and fellowships	(53,411)	(46,314)
Net cash used in operating activities	(312,245)	(321,494)
Cash flows from noncapital financing activities		
State appropriations	362,270	380,718
Gifts and grants for other than capital purposes	40,111	29,268
Transfer from State of Hawai‘i for		
Bridge to Hope	134	801
University of Hawai‘i Cancer Center	16,283	18,379
Transfers to State of Hawai‘i for		
Fringe benefits	-	(10,044)
Restrictions	(4,972)	-
Interest on Tobacco Settlement	(19)	(59)
Other receipts (disbursements)	(3)	1,204
Net cash provided by noncapital financing activities	413,804	420,267
Cash flows from capital and related financing activities		
Capital appropriations	121,785	112,203
Capital gifts and grants	13,052	8,082
Proceeds from issuance of capital debt	298,450	-
Purchases of capital assets	(245,741)	(167,971)
Principal paid on capital debt	(7,429)	(7,214)
Interest paid on capital debt	(26,167)	(16,271)
Transfer from State of Hawai‘i, Tobacco settlement	12,422	12,869
Net cash provided by (used in) capital and related financing activities	166,372	(58,302)
Cash flows from investing activities		
Interest and dividends on investments, net	10,303	10,426
Proceeds from sales and maturities of investments	2,167,917	983,329
Purchase of investments	(2,421,473)	(1,040,228)
Net cash used in investing activities	(243,253)	(46,473)
Net increase (decrease) in cash and cash equivalents	24,678	(6,002)
Cash and cash equivalents		
Beginning of year	47,031	53,033
End of year	$ 71,709	$ 47,031

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, 2011 and 2010
(All dollars reported in thousands)

	2011	2010
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	$ (649,414)	$ (629,707)
Adjustments to reconcile operating loss to net cash used in operating activities		
On behalf payments by State for fringe benefits	140,144	139,024
Depreciation expense	85,591	87,401
Bad debt expense (recoveries), net	222	(703)
Changes in operating assets and liabilities		
Accounts receivable	(6,104)	671
Notes and contributions receivable	(105)	639
Inventories	516	801
Prepaid expenses and other assets	(6,939)	723
Accounts payable	5,326	1,621
Accrued payroll and benefits	3,715	12,286
Accrued workers' compensation liability	1,443	(1,032)
Advances from sponsors	(791)	(16,763)
Other postemployment benefits	111,872	78,360
Other, net	2,279	5,185
Net cash used in operating activities	$ (312,245)	$ (321,494)
Supplemental information of noncash transactions		
Noncash contributions	$ 1,330	$ 2,555
Net transfers from (to) State of Hawai'i for capital assets	(2,267)	6,105
Accounts payable for capital assets	16,242	15,543

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

1. Organization and Summary of Significant Accounting Policies

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

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

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

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

Basis of Presentation
The University follows the reporting model prescribed for special-purpose governments engaged only in business-type activities, as defined in GASB Statement No. 35, *Basic Financial Statements and Management’s Discussion and Analysis for Public Colleges and Universities*, as amended. The consolidated financial statements of the University are presented using the economic resources measurement focus and the accrual basis of accounting. The University has elected not to apply all Financial Accounting Standards Board (“FASB”) pronouncements issued after November 30, 1989.

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

The Research Corporation’s accounting policies conform to GAAP applicable to business-type activities of governmental units as promulgated by the GASB.

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

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

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

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

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

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

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

Split Interest Agreements

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

Accounts Receivable

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

Contributions

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

Capital Assets

Capital assets are recorded at cost, or if donated, at an appraised value at the date of the gift. Depreciation of capital assets is provided for on a straight-line basis over the estimated useful lives (3 to 100 years) of the respective assets. The University's policy is to capitalize tangible, nonexpendable personal property having an estimated useful life of more than one year. Interest incurred on tax-exempt construction financing, net of investment income on any unspent financing proceeds, is capitalized as a cost of construction. When taxable debt is incurred specifically for a project, interest is capitalized on amounts expended on the project using the weighted-average cost of outstanding borrowings. The capitalization of interest ceases when the project is substantially complete or construction activity is suspended for more than a brief period. The University incurred interest cost of $27,289 and $16,698 for the years ended June 30, 2011 and 2010, respectively, of which capitalized interest as a cost of construction amounted to $5,045 and $2,693, respectively. The University does not capitalize works of art or historical treasures that are held for exhibition, education, research and public service. These collections are neither disposed of for financial gain nor encumbered. Accordingly, such collections are not recognized or capitalized for financial statement purposes. Maintenance and repairs, as well as minor replacements, renewals and betterments, are charged to operations. Major renewals, replacements and betterments are capitalized in the year incurred. Capital assets retired or otherwise disposed of are removed from the appropriate asset and related accumulated depreciation accounts. Gains and losses on disposals and the net book value of transfers of capital assets are reflected in operations.

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

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

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

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

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

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

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

- **Restricted**:

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

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

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

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

Net Assets Restricted by Enabling Legislation

GASB Statement No. 46*, Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34*, requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. GASB Statement No. 46 also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Restricted net assets at June 30, 2011 and 2010 amounted to $797,852 and $680,298, respectively, of which $734,076 and $440,633 were restricted by enabling legislation.

Operating and Nonoperating Activities

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

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

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

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

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

Scholarships and Fellowships

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

State Appropriations

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

Management's Estimates

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

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

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

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

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

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

Reclassifications

Certain amounts in the 2010 consolidated financial statements have been reclassified to conform to the 2011 presentation. Such reclassifications have no impact on the 2010 change in net assets as previously reported.

2. Cash and Investments

The carrying amounts of cash and cash equivalents and time certificates of deposit held outside of the State Treasury as of June 30, 2011 and 2010, classified as cash and cash equivalents and operating investments, were $329,614 and $228,935, with corresponding bank balances of $332,837 and $242,733, respectively. The portion of such bank balances covered by the Federal Deposit Insurance Corporation or by collateral held by the State Director of Finance in the name of the University totaled $326,615 at June 30, 2011 and $237,921 as of June 30, 2010. Additional cash equivalent balances of $5,290 at June 30, 2011 and $1,342 as of June 30, 2010 represent deposits with investment brokers covered by the Securities Investor Protection Corporation and additional insurance provided by the investment brokers.

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

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

As a result of market declines, the fair market value of certain donor-restricted endowments was less than the historical cost value of such funds by $4,054 and $11,767 at June 30, 2011 and 2010, respectively. These unrealized losses have been recorded as reductions in unrestricted net assets. Future market gains will be used to restore this deficiency in unrestricted net assets before any net appreciation above the historical cost value of such funds increases restricted expendable net assets.

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

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

The Uniform Prudent Management of Institutional Funds Act (“HUPMIFA”), established under Hawai‘i Revised Statute §517E, was enacted by the State of Hawai‘i on July 1, 2009. HUPMIFA requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result, the University classifies as restricted nonexpendable net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in restricted nonexpendable net assets is classified as restricted expendable net assets until those amounts are expended and distributed by the University in accordance with its Board approved spending rate policy and in a manner consistent with the standard of prudence prescribed by HUPMIFA. In fiscal years 2011 and 2010, the University’s spending rate policy provided for annual distributions ranging from four percent to five percent of the trailing five-year moving average of the endowment fair value.

Investment management fees incurred by the University during fiscal years 2011 and 2010 approximated $1,745 and $1,308, respectively.

(All dollars reported in thousands)

At June 30, 2011 and 2010, the University's investments were comprised of the following:

	2011		2010	
	Fair Value	**Cost**	**Fair Value**	**Cost**
Money market funds	$ 25,267	$ 25,267	$ 23,989	$ 23,989
Fixed income securities	473,697	469,220	272,959	268,800
Equity securities	15,034	20,253	26,468	27,067
Mutual funds	80,561	64,224	50,675	50,439
Time certificates of deposit	258,000	258,000	181,997	181,997
Student loan auction rate securities	48,350	48,350	89,750	89,750
Limited partnerships	55,810	50,139	39,650	49,160
Absolute return	20,476	18,339	23,525	22,033
Real estate	21,377	22,144	10,629	12,216
Other investments	51,921	46,510	41,033	42,108
Total investments	1,050,493	1,022,446	760,675	767,559
Less: Current portion	330,936	330,314	261,343	260,521
Total noncurrent investments	$ 719,557	$ 692,132	$ 499,332	$ 507,038

Due to uncertainties surrounding the timing of liquidation of auction rate securities, which are comprised primarily of AAA-rated student-loan-backed taxable securities, all of the University's investments in such securities are classified as long-term investments in the Consolidated Statements of Net Assets. Liquidity for these auction rate securities is typically provided by an auction process which allows holders to sell their notes and resets the applicable interest rate at pre-determined intervals, usually every 7 to 28 days. The securities held by the University for which auctions have failed continue to earn interest at the contractual rate and are auctioned every 7 to 28 days until either the auction succeeds, the issuer calls the securities, or they mature.

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

(All dollars reported in thousands)

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

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

(All dollars reported in thousands)

Changes in the University's investments for the year ended June 30, 2010 were as follows:

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

(All dollars reported in thousands)

	2011	2010
Summary of net investment income		
Change in unrealized net gain	$ 34,931	$ 17,803
Net realized gain (loss)	3,209	(539)
	38,140	17,264
Interest and dividend income	10,453	11,495
Other	459	695
Investment income before management fees	49,052	29,454
Less: Management fees	1,745	1,308
Net investment income	$ 47,307	$ 28,146

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

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

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

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

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

(All dollars reported in thousands)

Credit Risk

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

The composition of fixed income securities at June 30, 2011 and 2010, along with credit quality ratings, is summarized below:

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

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

Interest Rate Risk

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

At June 30, 2011, the composition of the University's fixed income investments and maturities are summarized below:

		Investment Maturities (in Years)			
2011	**Fair Value**	**Less than 1**	**1 to 5**	**6 to 10**	**More than 10**
U.S. Treasury	$ 244,358	$ 153,580	$ 87,244	$ 3,330	$ 204
U.S. government agencies	207,263	99,886	90,326	10,276	6,775
Corporate bonds	22,076	501	8,146	13,342	87
Total fixed income securities	$ 473,697	$ 253,967	$ 185,716	$ 26,948	$ 7,066

(All dollars reported in thousands)

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

At June 30, 2011 and 2010, the University's exposure to foreign currency risk expressed in U.S. dollars was as follows:

	2011	2010
Equity securities		
British pound	$ 6,718	$ 6,633
Euro	12,008	13,799
Hong Kong dollar	1,760	1,520
Japanese yen	9,876	10,567
Korean won	1,248	1,315
Singapore dollar	1,437	1,351
Swiss franc	3,532	2,820
Other (27 countries)	10,321	6,425
	46,900	44,430
Fixed income securities		
Australian dollar	-	984
British pound	520	1,176
Euro	4,478	928
Japanese yen	1,970	2,311
Other (4 countries)	1,570	505
	8,538	5,904
Total exposure to foreign currency risk	$ 55,438	$ 50,334

3. Accounts Receivable

The composition of accounts receivable at June 30, 2011 and 2010 is summarized as follows:

	2011	2010
U.S. government	$ 51,963	$ 48,233
State and local government	4,324	6,635
Private agencies	8,912	8,093
Other	43,596	38,499
	108,795	101,460
Less: Allowance for doubtful accounts	12,206	12,185
	$ 96,589	$ 89,275

(All dollars reported in thousands)

4. U.S. Government Funding

The federal government reimburses the University for certain overhead costs (e.g., facilities and administrative costs) incurred in support of federally-sponsored programs based on cost reimbursement rates negotiated with the University's cognizant agency, the U.S. Department of Health and Human Services. These reimbursements amounted to approximately $46,128 in 2011 and $40,678 in 2010. During fiscal year 2011, the University expended 98.28 percent and 1.72 percent of this cost recovery on research and training programs and discovery and inventions, respectively. During fiscal year 2010, the University expended 98.36 percent and 1.64 percent of this cost recovery on research and training programs and discovery and inventions, respectively.

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, 2011 and 2010 is summarized as follows:

	2011	2010
Student notes		
Federal loan programs	$ 19,291	$ 19,253
State loan programs	8,672	7,943
University loan funds	67	67
Other notes receivable	73	86
Total student and other notes outstanding	28,103	27,349
Less: Allowance for doubtful accounts	6,719	5,828
Total student and other notes receivable, net	21,384	21,521
Contributions receivable	21,827	23,634
Less: Allowance for uncollectible pledges	1,024	1,178
Less: Discount to present value	77	145
Total contributions receivable, net	20,726	22,311
Total student notes and contributions receivable, net	42,110	43,832
Less: Current portion, net	13,090	11,773
	$ 29,020	$ 32,059

(All dollars reported in thousands)

The allowance for doubtful accounts at June 30, 2011 and 2010 is comprised of:

	2011	2010
Federal Perkins loan program	$ 3,524	$ 3,379
State of Hawai‘i Higher Education loans	3,122	2,350
Nursing/Health Profession loans	32	32
Hawai'i Educator loans	4	2
Short-term loans	37	65
	$ 6,719	$ 5,828

Payments on contributions receivable at June 30, 2011 are expected to be collected in:

Less than one year	$ 10,596
One year to five years	11,231
	$ 21,827

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

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

During the years ended June 30, 2011 and 2010, the University distributed $2,618 and $1,177 in student loans through the U.S. Department of Education Federal Perkins Loan, respectively, and $139,251 and $1,145 in Direct Loan programs, respectively. These distributions and related funding sources are not included as expenses and revenues in the accompanying financial statements.

As discussed in Note 1 to the consolidated financial statements, pledges for permanent endowments that do not meet eligibility requirements, as defined by GASB Statement No. 33, are not recorded as assets until the related gift is received. Accordingly, permanent endowment pledges totaling approximately $7,301 and $8,295 at June 30, 2011 and 2010, respectively, were not recognized as assets in the accompanying consolidated financial statements because of uncertainties with regard to their realizability, valuation, bequest intentions and other conditional promises until the specified conditions are met.

(All dollars reported in thousands)

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

6. Inventories

The inventories and the methods of valuation at June 30, 2011 and 2010 are summarized below:

		2011	2010
University of Hawai‘i Bookstore merchandise inventory	Lower of cost or market using the first-in, first-out retail inventory method.	$ 10,620	$ 11,145
University of Hawai‘i Chemistry Stockroom	Cost applied on the first-in, first-out basis.	1,148	1,130
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.	692	760
University of Hawai‘i other cost of goods sold	Cost applied on the first-in, first-out basis.	494	435
		$ 12,954	$ 13,470

(All dollars reported in thousands)

7. Capital Assets

A summary of capital assets at June 30, 2011 and 2010 is as follows:

	Beginning Balance	Additions	Deductions	Transfers	Ending Balance
2011					
Nondepreciable capital assets					
Land	$ 12,486	$ -	$ -	$ -	$ 12,486
Construction in progress	170,744	222,724	696	(128,357)	264,415
Total capital assets not being depreciated	183,230	222,724	696	(128,357)	276,901
Depreciable capital assets					
Land improvements	88,521	233	192	1,106	89,668
Infrastructure	95,249	568	-	5,685	101,502
Buildings	1,446,951	8,498	22,180	119,838	1,553,107
Equipment	313,383	19,703	10,038	1,728	324,776
Library materials	164,637	3,108	4,774	-	162,971
Total capital assets being depreciated	2,108,741	32,110	37,184	128,357	2,232,024
Less: Accumulated depreciation	935,107	85,591	24,910	-	995,788
Capital assets, net	$ 1,356,864	$ 169,243	$ 12,970	$ -	$ 1,513,137

	Beginning Balance	Additions	Deductions	Transfers	Ending Balance
2010					
Nondepreciable capital assets					
Land	$ 12,486	$ -	$ -	$ -	$ 12,486
Construction in progress	171,701	141,221	7,586	(134,592)	170,744
Total capital assets not being depreciated	184,187	141,221	7,586	(134,592)	183,230
Depreciable capital assets					
Land improvements	83,353	64	-	5,104	88,521
Infrastructure	82,890	6,966	75	5,468	95,249
Buildings	1,352,529	5,648	14,154	102,928	1,446,951
Equipment	277,954	23,657	9,320	21,092	313,383
Library materials	162,404	3,915	1,682	-	164,637
Total capital assets being depreciated	1,959,130	40,250	25,231	134,592	2,108,741
Less: Accumulated depreciation	867,399	87,401	19,693	-	935,107
Capital assets, net	$ 1,275,918	$ 94,070	$ 13,124	$ -	$ 1,356,864

(All dollars reported in thousands)

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

The State Department of Accounting and General Services (“DAGS”) administers certain of the University’s construction projects. Upon completion, the University records the total project cost, including amounts funded from state and federal sources. Capital assets transferred to the University from DAGS amounted to $6,616 in 2010. No capital assets were transferred to the University from DAGS in 2011.

8. Other Noncurrent Assets

Other noncurrent assets at June 30, 2011 and 2010 were comprised of:

	2011	2010
Interest in beneficial trusts held by others	$ 14,657	$ 16,769
Deferred bond refunding and issuance costs (Note 11)	8,090	8,197
Other	6,612	2,112
	$ 29,359	$ 27,078

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, 2011 and 2010 were as follows:

	2011		2010	
	Due from	Due to	Due from	Due to
State appropriations for current operations	$ 1,936		$ 5,129	
State capital appropriations-noncurrent	418,309		335,480	
Total due from State of Hawai‘i	$ 420,245		$ 340,609	
Imprest/petty cash advances		$ 94		$ 93
Advance		6,000		6,000
General obligation bonds – current		151		144
Employee fringe adjustments		12		16
Due to State of Hawai‘i – current		6,257		6,253
General obligation bonds – noncurrent		881		1,032
Total due to State of Hawai‘i		$ 7,138		$ 7,285

(All dollars reported in thousands)

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

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

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

Activity related to amounts due to the State of Hawai‘i for general obligation bonds for the year ended June 30, 2010 is as follows:

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

(All dollars reported in thousands)

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

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

At June 30, 2011, principal and interest maturities on general obligation bonds for each of the next five years, and the next subsequent five-year period and thereafter are as follows:

	Principal	Interest
Year ending June 30,		
2012	$ 151	$ 6
2013	159	5
2014	167	4
2015	175	3
2016	185	1
2017–2018	195	-
	$ 1,032	$ 19

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

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

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

(All dollars reported in thousands)

11. Long-Term Liabilities

Long-term liability activity for the years ended June 30, 2011 and 2010 is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
2011					
Bonds payable					
Revenue bonds payable	$ 351,600	$ 292,730	$ 7,285	$ 637,045	$ 13,755
Other liabilities					
Workers' compensation	11,745	5,239	3,796	13,188	4,225
Accrued vacation	65,893	23,678	20,596	68,975	24,674
Postretirement health care/life insurance benefits (Note 15)	206,271	150,637	38,765	318,143	-
Total other liabilities	283,909	179,554	63,157	400,306	28,899
Total long-term liabilities	$ 635,509	$ 472,284	$ 70,442	$ 1,037,351	$ 42,654
2010					
Leases and bonds payable					
Revenue bonds payable	$ 358,630	$ -	$ 7,030	$ 351,600	$ 7,285
Other liabilities					
Workers' compensation	12,777	3,655	4,687	11,745	4,172
Accrued vacation	67,679	20,106	21,892	65,893	24,005
Postretirement health care/life insurance benefits (Note 15)	127,911	101,521	23,161	206,271	-
Installment contract payable	47	-	47	-	-
Total other liabilities	208,414	125,282	49,787	283,909	28,177
Total long-term liabilities	$ 567,044	$ 125,282	$ 56,817	$ 635,509	$ 35,462

(All dollars reported in thousands)

Revenue Bonds Payable

The University’s revenue bonds payable at June 30, 2011 and 2010 is as follows:

	Series	Date Issued	Authorized	2011	2010
Student Housing System at Mānoa and Telecommunications System (interest rate, 3.0% to 5.25%)	2001B	December 19, 2001	$ 18,665	$ 10,160	$ 11,315
University Health & Wellness Center (interest rate, 2.70% to 5.59%)	2002A	June 27, 2002	150,000	6,660	9,800
Frear Hall Construction, Student Housing System at Mānoa, Food Service System and Student Housing System at Hilo (interest rate, 3.25% to 5.0%)	2006A	December 13, 2006	100,000	96,165	98,120
University Health & Wellness Center (interest rate, 3.5% to 5.0%)	Ref 2006A	October 25, 2006	133,810	132,475	132,940
Various acquisition and construction projects (interest rate, 2.5% to 6.0%)	2009A	April 15, 2009	100,000	98,855	99,425
University's Cancer Center (interest rate, 2.5% to 6.0%)	2010A-1, 2010A-2	October 7, 2010	138,640	138,640	-
Various construction projects (interest rate, 2.5% to 6.0%)	2010B-1, 2010B-2	October 7, 2010	154,090	154,090	-
			$ 795,205	$ 637,045	$ 351,600

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

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

(All dollars reported in thousands)

The University receives funds from the State of Hawai‘i Tobacco Settlement Special Fund, which are solely applied to the payment of principal and interest on the Series 2002A and Refunding Series 2006A bonds. The funds received from the State of Hawai‘i Tobacco Settlement Special Fund amounted to $12,422 in 2011 and $12,869 in 2010.

The revenue bonds are paid from certain unrestricted revenues in annual installments, including semi-annual interest payments ranging from $174 to $5,002 with the final payment due in October 2038. Series 2001B, 2006A and 2009A interest is payable semi-annually on April 1 and October 1, and the principal is payable on October 1 of each year. The Series 2002A and Refunding Series 2006A interest is payable semi-annually on January 15 and July 15, and the principal is payable on July 15 of each year. The Bond Resolution adopted on May 17, 2002 stipulates that all available monies on deposit in any special fund or revolving fund of the University, excluding monies on deposit in the University Revenue – Undertakings Fund (“University Bond System”), are pledged to the payment of the Series 2002A bonds, interest and premiums (if any). All available moneys on deposit in any special fund or revolving fund of the University, including moneys on deposit in the University Bond System, are pledged to the payment of the Series 2001B, 2006A and 2009A bonds, interest and premiums (if any).

At June 30, 2011, future maturities of revenue bonds are as follows:

	Principal	Interest
Year ending June 30,		
2012	$ 13,755	$ 31,569
2013	14,225	31,078
2014	14,765	30,546
2015	15,390	29,912
2016	17,175	29,173
2017–2021	92,855	133,990
2022–2026	111,035	110,111
2027–2031	130,535	80,839
2032–2036	129,350	46,290
2037–2041	97,960	13,383
	$ 637,045	$ 536,891

(All dollars reported in thousands)

Bond Premiums

Activity related to the premiums on general obligation and revenue bonds for the years ended June 30, 2011 and 2010 is as follows:

	Series	Beginning Balance	Additions	Reductions	Ending Balance
2011					
Student Housing System at Mānoa and Telecommunications System	2001B	$ 81	$ -	$ 21	$ 60
John A. Burns School of Medicine	Ref 2006A	1,515	-	65	1,450
University's Cancer Center	2010 A	-	2,453	288	2,165
Various construction projects	2010B	-	3,267	347	2,920
General obligation	DB	29	-	7	22
General obligation	DG	5	-	1	4
Total bond premiums		$ 1,630	$ 5,720	$ 729	$ 6,621
2010					
Student Housing System at Mānoa and Telecommunications System	2001B	$ 108	$ -	$ 27	$ 81
John A. Burns School of Medicine	Ref 2006A	1,577	-	62	1,515
General obligation	DB	38	-	9	29
General obligation	DG	6	-	1	5
Total bond premiums		$ 1,729	$ -	$ 99	$ 1,630

Deferred Bond Refunding and Issuance Costs

Activity related to issuance costs for general obligation and revenue bonds for the years ended June 30, 2011 and 2010 is as follows:

	Series	Beginning Balance	Additions	Reductions	Ending Balance
2011					
Student Housing System at Mānoa and Telecommunications System	2001B	$ 262	$ -	$ 68	$ 194
John A. Burns School of Medicine	Ref 2006A	7,908	-	337	7,571
University's Cancer Center	2010A	-	1,091	939	152
Various construction projects	2010B	-	1,225	1,072	153
General obligation	DB	22	-	6	16
General obligation	DG	5	-	1	4
Total bond premiums		$ 8,197	$ 2,316	$ 2,423	$ 8,090
2010					
Student Housing System at Mānoa and Telecommunications System	2001B	$ 349	$ -	$ 87	$ 262
John A. Burns School of Medicine	Ref 2006A	8,235	-	327	7,908
General obligation	DB	29	-	7	22
General obligation	DG	6	-	1	5
Total bond premiums		$ 8,619	$ -	$ 422	$ 8,197

(All dollars reported in thousands)

12. Line of Credit (Research Corporation)

The Research Corporation has a revolving line of credit with First Hawaiian Bank in the amount of $2,000 for short-term working capital, expiring on February 1, 2012. The terms of the revolving line of credit require repayment as specified in the credit agreement. All borrowings are collateralized by a security agreement over the Research Corporation's accounts receivable. The rate of interest on borrowings was 3.28 percent at June 30, 2011 and 2010. At June 30, 2011 and 2010, there were no borrowings under this line.

13. Property Leases

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

	Lease Amount
Year ending June 30,	
2012	$ 2,703
2013	2,246
2014	1,023
2015	825
2016	255
2017–2021	406
2022–2026	342
Thereafter	2,057
	$ 9,857

Rent expense for outside space for the years ended June 30, 2011 and 2010 approximated $6,502 and $6,200, respectively.

14. Employee Benefits

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

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

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

Contribution requirements are not actuarially determined, but are established by the Hawai'i Revised Statues ("HRS") Chapter 88 and amended by the Hawai'i state legislature. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. The employee contribution rate is 7.8 percent of salary for the Contributory Plan and 6.0 percent of salary for the Hybrid Plan. There is no employee contribution for the Noncontributory Plan. Employer contributions are calculated as part of the State's total contribution requirements and are reimbursed to the State's General Fund as part of the fringe benefit rate on the University employees' actual salaries. The required employer contributions for the years ended June 30, 2011, 2010 and 2009 were $72,199, $75,609 and $79,724, respectively. Effective July 1, 2008, the employer contribution rate increased from 13.75 percent to 15.00 percent of salary.

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

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

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

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

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

Other Benefits

The State absorbs the fringe benefit cost for employees paid from State and federal appropriations. In fiscal years 2011 and 2010, the State appropriated funds to the Department of Budget and Finance to pay for these fringe benefit costs on behalf of the University. Fringe benefit costs included in total revenue and total expenditures amounted to $136,154 and $139,024 for fiscal years 2011 and 2010, respectively.

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

Sick leave accumulates at the rate of 14 hours for each full month of service without limit, but can be taken only in the event of an illness and is not convertible to pay upon termination of employment. Accordingly, accumulated sick leave, earned but not taken, is not reflected as an accrual in the accompanying consolidated financial statements. Employees who retire with 60 days of unused sick leave are entitled to three months of service credit in the ERS. For each additional 20 days, or major fraction thereof, of unused sick leave they have in excess of 60 days, their service period is increased by one month. As of June 30, 2011 and 2010, accumulated sick leave approximated $387,311 and $391,795, respectively.

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

The University manages its workers’ compensation program. Medical related payments for fiscal years 2011 and 2010 were $1,544 and $1,864, respectively. Temporary wage loss payments for fiscal years 2011 and 2010 amounted to $496 and $425, respectively.

15. Postemployment Benefits Other than Pensions

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

(All dollars reported in thousands)

Plan Description

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

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

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

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

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

Funding Policy and Annual OPEB Cost

Employer contributions are financed on a pay-as-you-go basis. The University’s contributions are calculated as part of the State’s total contribution requirements and are reimbursed to the State’s General Fund as part of the fringe benefit rate on the University employees’ actual salaries. The University’s annual OPEB cost is calculated based on the annual required contribution of the employer (“ARC”), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following tables present the annual OPEB cost and the percentage of annual OPEB cost contributed to the plan for the fiscal year ended June 30, 2011:

Projected June 30, 2011 Net OPEB Obligation (“NOO”)

July 1, 2010 net OPEB obligation	$ 206,271
Plus: Annual OPEB cost	150,637
Less: Employer contributions (estimated “pay as you go” method)	38,765
Equals: Expected June 30, 2011 net OPEB obligation	$ 318,143

(All dollars reported in thousands)

The University remitted $34,775 and $33,205 in State assessed OPEB contributions for the years ended June 30, 2011 and 2010, respectively. The University's actuarially determined minimum OPEB contribution was $38,765 and $23,161, for the years ended June 30, 2011 and 2010, respectively. The difference between the State assessed and University actuarially determined OPEB contribution is reported net with Transfers from (to) State for Fringe Benefits in the accompanying Consolidated Statements of Revenues, Expenses and Changes in Net Assets.

OPEB Summary

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2011	$150,637	25.7%	$318,143
June 30, 2010	$101,521	22.8%	$206,271
June 30, 2009	$94,770	31.3%	$127,911

Funded Status

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

The funding status as of the most recent actuarial valuation date of July 1, 2009 is as follows:

Actuarial value of assets	$ -
Actuarial accrued liability	1,849,949
Unfunded actuarial accrued liability ("UAAL")	$ 1,849,949
Funded ratio	0%
Covered payroll (active plan members)	$ 495,498
UAAL as a percentage of covered payroll	373.4%

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

(All dollars reported in thousands)

Actuarial Methods and Assumptions

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

State of Hawai‘i actuarial valuation date	July 1, 2009
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll
Amortization period	30 years
Asset valuation method	N/A
Actuarial assumptions	
Investment rate of return	4%
Projected salary increases	3.5%
Health care inflation rate	
Medical and Rx Pre-65	10.5% initial, 5% ultimate
Medical and Rx Post-65	10.25% initial, 5% ultimate

16. Other Noncurrent Liabilities

Other noncurrent liabilities at June 30, 2011 and 2010 are comprised of:

	2011	2010
Liabilities under split interest agreements	$ 5,400	$ 4,484
Amounts held for others	2,206	2,020
Other	1,579	1,156
	$ 9,185	$ 7,660

17. State Appropriations

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

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

(All dollars reported in thousands)

Act 180, SLH 2010 Section 4, provided $72,116 in general fund appropriations directly to the Department of Budget and Finance to pay for debt service on general obligation bonds issued for the University. As a result, the University itself received no appropriations and made no transfers for debt service on general obligation bonds for the year ended June 30, 2011.

Act 162, SLH 2009, Section 57, provided $72,093 in general fund appropriations directly to the Department of Budget and Finance to pay for debt service on general obligation bonds issued for the University. As a result, the University itself received no appropriations and made no transfers for debt service on general obligation bonds for the year ended June 30, 2010.

Act 192, SLH 2010 Section 21 through 23, authorized $4,900 in University non-general funds to be transferred into the State general fund in fiscal year 2011. No transfer of non-general funds into the State general fund occurred during fiscal year 2010. The net amount of the University’s State general and capital appropriations for the years ended June 30, 2011 and 2010 were $359,077 and $204,614 and $369,948 and $174,776, respectively.

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

General appropriations	
Act 180 SLH 2010, Appropriation Warrant No. 28	$ 360,687
Act 3, SP SLH 2009, Appropriation Warrant No. 12 (G 301)	70
	360,757
Total funds lapsed	(286)
G 10 301 Lapse adjustment	70
Executive restrictions	(1,464)
Total general appropriations	$ 359,077

Capital appropriations	
Act 162, SLH 2009 as amended by Act 180, SLH 2010	$ 181,485
Act 162, SLH 2009 Sections 62 & 90 as amended by Act 180, SLH 2010	7,000
Act 162, SLH 2009 as amended and renumbered by Act 180, SLH 2010	16,317
Total funds lapsed	(188)
Total capital appropriations	$ 204,614

(All dollars reported in thousands)

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

General appropriations	
Act 162, SLH 2009, Appropriation Warrant No. 16	$ 422,591
Act 3, SP SLH 2009, Appropriation Warrant No. 37 (G 301)	70
	422,661
Total funds lapsed	(556)
G 301 Lapse adjustment	(70)
Executive restrictions	(52,087)
Total general appropriations	$ 369,948

Capital appropriations	
Act 162, SLH 2009	$ 141,590
Section 125, Act 213, SLH 2009	3,494
Section 125 & 152, Act 213, SLH 2007, as amended by Act 158, SLH 2008	6,720
Section 213, SLH 2007, as amended & renumbered by Act 158, SLH 2008	45,399
Total funds lapsed	(22,427)
Total capital appropriations	$ 174,776

18. Unrestricted Net Assets

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

The unrestricted net assets at June 30, 2011 and 2010 were as follows:

	2011	**2010**
Unrestricted net assets		
Designated		
Research and training	$ 49,161	$ 36,545
Contract commitments	31,542	28,668
Quasi-endowment	37,148	25,025
Capital projects	37,126	37,756
Bond System	12,103	14,426
Other designated net assets	8,531	8,563
Total designated	175,611	150,983
Undesignated (unfunded obligations for vacation, worker’s compensation liabilities, payroll, etc.)	(170,105)	(85,154)
Total unrestricted net assets	$ 5,506	$ 65,829

(All dollars reported in thousands)

19. Segment Information

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

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

The University Bond System's outstanding debt was issued pursuant to bond resolutions adopted in November 2001 and February 2009. The bond resolutions established a network of the University consisting of the University Bond System and any University purpose which, at the election of the Board, is included in the network pursuant to a supplemental resolution. The bond resolutions provide that all revenues collected or received from the Network be used to support the Network (which includes the University projects of the University Bond System) and bond related expenses.

The following summary financial information of the Bond System as of June 30, 2011 and 2010 is presented before elimination of certain intra-University transactions.

	2011	2010
Condensed statements of net assets		
Assets		
Current assets	$ 69,522	$ 62,336
Capital assets, net	266,464	184,877
Other assets	322,951	105,965
Total assets	$ 658,937	$ 353,178
Liabilities		
Current liabilities	$ 43,935	$ 27,745
Noncurrent liabilities	495,281	207,506
Total liabilities	539,216	235,251
Net assets		
Invested in capital assets, net of related debt	75,613	71,077
Restricted expendable	1,037	1,037
Unrestricted	43,071	45,813
Total net assets	119,721	117,927
Total liabilities and net assets	$ 658,937	$ 353,178

(All dollars reported in thousands)

	2011	2010
Condensed statements of revenues, expenses and changes in net assets		
Operating revenues		
Bookstores	$ 31,452	$ 30,203
Room and other rentals	25,492	22,313
Parking	6,549	5,946
Telecommunications	3,883	3,576
Other operating revenues	7,804	7,178
Total operating revenues	75,180	69,216
Operating expenses (including $10,079 and $10,036 in depreciation expense in 2011 and 2010, respectively)	(70,929)	(67,080)
Operating income	4,251	2,136
Nonoperating revenues	18,939	5,482
Nonoperating expenses	(21,396)	(7,411)
Change in net assets	1,794	207
Net assets		
Beginning of year	117,927	117,720
End of year	$ 119,721	$ 117,927

	2011	2010
Condensed statements of cash flows		
Net cash flows provided by operating activities	$ 444	$ 12,934
Net cash flows provided by non-capital financing activities	1,638	1,720
Net cash flows provided by (used in) capital and related financing activities	216,231	(28,163)
Net cash flows provided by investing activities	1,217	939
Net (decrease) increase in cash and cash equivalents	219,530	(12,570)
Cash and cash equivalents		
Beginning of year	154,582	167,152
End of year	$ 374,112	$ 154,582

20. Litigation, Other Contingent Liabilities and Commitments

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

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

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

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

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

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

Risk Management

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

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

Construction and Other Contracts
The University is committed under contracts awarded for construction and other services. These commitments amounted to approximately $434,026 and $235,426 as of June 30, 2011 and 2010.

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

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

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

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

21. New Accounting Pronouncements

The GASB has recently issued the following accounting pronouncements:

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

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

- Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, issued in December 2010. The objective of this Statement is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance issued by the Financial Accounting Standards Board and the American Institute of Certified Public Accountants on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011.

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

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

Required Supplementary Information
Other Than Management's
Discussion and Analysis

University of Hawai‘i
State of Hawai‘i
Schedule of Funding Progress (Unaudited)
Year Ended June 30, 2011
(All dollars reported in thousands)

Postemployment Benefits Other than Pensions

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b) - (a)	Funded Ratio (a) / (b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b) - (a) / (c)
July 1, 2009	$0	$1,849,949	$1,849,949	0%	$495,498	373.4%
July 1, 2007	$0	$1,135,855	$1,135,855	0%	$477,152	238.0%

Other Supplementary Information

Accuity LLP

CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditors on Supplemental Information

To the Board of Regents
University of Hawai‘i

The report on our audits of the consolidated financial statements of the University of Hawai‘i as of June 30, 2011 and 2010, and for the years then ended, appears on page 1. Those audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplemental information (Schedules I, II, III, IV, V, VI, VII, VIII, and IX) included hereinafter is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Accuity LLP

Honolulu, Hawai‘i
January 19, 2012

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

University of Hawai‘i
State of Hawai‘i
Condensed Statements of Net Assets
Condensed Statements of Revenues, Expenses and Changes in Net Assets
Current Unrestricted Funds Excluding General Fund and
University Bond System
As of and for the Years Ended June 30, 2011 and 2010
(All dollars reported in thousands) Schedule I

	2011	2010
Condensed statements of net assets		
Assets		
Current assets	$ 353,828	$ 275,634
Noncurrent assets	54,551	71,695
Total assets	$ 408,379	$ 347,329
Liabilities		
Current liabilities	$ 95,873	$ 87,635
Noncurrent liabilities	10,283	9,600
Total liabilities	106,156	97,235
Net assets		
Unrestricted	302,223	250,094
Total net assets	302,223	250,094
Total liabilities and net assets	$ 408,379	$ 347,329
Condensed statements of revenues, expenses and changes in net assets		
Operating revenues	$ 339,327	$ 310,578
Operating expenses	288,195	272,761
Operating income (loss)	51,132	37,817
Nonoperating revenues and transfers	43,173	47,312
Nonoperating expenses and transfers	42,176	33,452
Change in net assets	52,129	51,677
Net assets		
Beginning of year	250,094	198,417
End of year	$ 302,223	$ 250,094

1. Basis of Presentation

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

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

University of Hawai‘i
State of Hawai‘i
Schedules of Series 2002A Revenue Bond Proceeds Activity
Years Ended June 30, 2011 and 2010
(All dollars reported in thousands) Schedule II

	2011	2010
Beginning balance	$ 11,990	$ 11,936
Additions		
Interest and investment income	36	43
Other	-	21
Total additions	36	64
Deductions		
Payments – building, construction in progress, other	300	-
Transfers to State of Hawai‘i	55	-
Management fees	10	10
Total deductions	365	10
Ending balance	$ 11,661	$ 11,990

1. Basis of Presentation

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

2. Refinancing

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

University of Hawai‘i
State of Hawai‘i
Condensed Statements of Net Assets
Condensed Statements of Revenues, Expenses and Changes in Net Assets
Current Unrestricted Funds Excluding General Fund
As of and for the Years Ended June 30, 2011 and 2010
(All dollars reported in thousands) Schedule III

	2011	2010
Condensed statements of net assets		
Assets		
Current assets	$ 384,795	$ 305,008
Noncurrent assets	54,551	71,695
Total assets	$ 439,346	$ 376,703
Liabilities		
Current liabilities	$ 113,248	$ 101,240
Noncurrent liabilities	11,414	10,594
Total liabilities	124,662	111,834
Net assets		
Unrestricted	314,684	264,869
Total net assets	314,684	264,869
Total liabilities and net assets	$ 439,346	$ 376,703
Condensed statements of revenues, expenses and changes in net assets		
Operating revenues	$ 414,507	$ 379,794
Operating expenses	344,351	326,206
Operating income	70,156	53,588
Nonoperating revenues and transfers	43,781	47,718
Nonoperating expenses and transfers	64,122	51,972
Change in net assets	49,815	49,334
Net assets		
Beginning of year	264,869	215,535
End of year	$ 314,684	$ 264,869

1. Basis of Presentation

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

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

University of Hawai‘i
State of Hawai‘i
Schedules of Series 2006A Revenue Bond Proceeds Activity
Years Ended June 30, 2011 and 2010
(All dollars reported in thousands)

Schedule IV

	2011	2010
Beginning balance	$ 26,272	$ 36,601
Additions		
Interest and investment income	82	58
Total additions	82	58
Deductions		
Payments – building, construction in progress, other	7,767	10,363
Transfers to State of Hawai‘i	559	-
Management fees	19	24
Total deductions	8,345	10,387
Ending balance	$ 18,009	$ 26,272

1. Basis of Presentation

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

University of Hawai‘i
State of Hawai‘i
Schedules of Series 2009A Revenue Bond Proceeds Activity
Years Ended June 30, 2011 and 2010
(All dollars reported in thousands) Schedule V

	2011	2010
Beginning balance	$ 79,404	$ 88,018
Additions		
Interest and investment income	426	378
Total additions	426	378
Deductions		
Payments – building, construction in progress, other	37,138	8,923
Transfers to State of Hawai‘i	264	-
Management fees	49	69
Total deductions	37,451	8,992
Ending balance	$ 42,379	$ 79,404

1. Basis of Presentation

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

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

	2010A-1	2010A-2
Beginning balance	$ -	$ -
Additions		
Bond proceeds	111,265	29,828
Interest and investment income	163	20
Total additions	111,428	29,848
Deductions		
Payments − building, construction in progress, other	22,859	173
Management fees	53	15
Total deductions	22,912	188
Ending balance	$ 88,516	$ 29,660

1. Basis of Presentation

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

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

	2010B-1	2010B-2
Beginning balance	$ -	$ -
Additions		
Bond proceeds	127,535	29,822
Interest and investment income	126	38
Total additions	127,661	29,860
Deductions		
Payments – building, construction in progress, other	13,122	173
Transfers to State of Hawai‘i	-	280
Management fees	64	15
Total deductions	13,186	468
Ending balance	$ 114,475	$ 29,392

1. Basis of Presentation

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

University of Hawai‘i
State of Hawai‘i
Statements of Net Assets – Community College System
June 30, 2011 and 2010
(All dollars reported in thousands) Schedule VIII

	2011	2010
Assets		
Current assets		
Cash and cash equivalents	$ 5,045	$ 2,079
Operating investments	55,422	45,480
Accounts receivable, net	7,543	5,900
Current portion of notes and contributions receivable, net	187	167
Accrued interest receivable	50	91
Inventories	4,181	4,563
Prepaid expenses, deferred charges and other current assets	309	741
Total current assets	72,737	59,021
Noncurrent assets		
Due from State of Hawai‘i	59,944	75,987
Endowment and other investments	38,433	18,622
Deferred charges	34	-
Notes and contributions receivable, net	1,401	1,479
Capital assets, net	242,280	222,017
Other noncurrent assets	1,621	1,559
Total noncurrent assets	343,713	319,664
Total assets	$ 416,450	$ 378,685
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$ 6,964	$ 6,322
Accrued payroll and fringe benefits	7,806	7,645
Advances from sponsors	1,398	1,221
Due to RCUH	685	520
Deferred revenue	6,151	6,381
Due to State of Hawai‘i	134	109
Current portion of long-term liabilities	6,078	5,767
Investment trade settlement payable	516	-
Other current liabilities	469	26
Total current liabilities	30,201	27,991
Noncurrent liabilities		
Accrued vacation	9,285	8,669
Accrued workers’ compensation	1,727	1,280
Revenue bonds payable	35,608	1,979
Total noncurrent liabilities	46,620	11,928
Net assets		
Invested in capital assets, net of related debt	207,277	220,038
Restricted – expendable	90,241	79,615
Unrestricted	42,111	39,113
Total net assets	339,629	338,766
Total liabilities and net assets	$ 416,450	$ 378,685

The accompanying notes are an integral part of Schedule VIII.

University of Hawai‘i
State of Hawai‘i
Statements of Revenues, Expenses and Changes in Net Assets – Community College System
Years Ended June 30, 2011 and 2010
(All dollars reported in thousands) Schedule IX

	2011	2010
Operating revenues		
Student tuition and fees	$ 71,859	$ 64,343
Less: Scholarship allowances	20,905	15,497
Net student tuition and fees	50,954	48,846
Federal appropriations, grants and contracts	68,420	60,272
State and local grants and contracts	1,264	1,863
Nongovernmental sponsored programs	824	1,170
Sales and services of educational departments, other	8,123	8,389
Auxiliary enterprises		
Bookstores	11,226	11,536
Other auxiliary enterprises revenues	1,107	1,404
Other operating revenues	65	53
Total operating revenues	141,983	133,533
Operating expenses		
Compensation and benefits	189,417	187,433
Supplies, services and cost of goods sold	36,265	37,171
Scholarships and fellowships	23,880	19,955
Depreciation	10,909	10,598
Telephone and utilities	11,229	10,549
Repairs and maintenance	3,502	3,718
Travel expenses	2,563	2,186
Other operating expenses	3,604	4,297
Total operating expenses	281,369	275,907
Operating loss	(139,386)	(142,374)
Nonoperating revenues (expenses)		
State appropriations	102,406	105,096
Private gifts	1	1
Net investment income	407	478
Interest expense	(999)	(24)
Transfers from State of Hawai‘i for		
Fringe Benefits	38,291	38,060
Restrictions	(325)	-
Loss on disposal of capital assets	(19)	(426)
Other, net	(5,146)	(1,909)
Net nonoperating revenues before capital and endowment additions	134,616	141,276
Capital – state appropriations	4,107	5,067
Capital – federal grants/subsidies	1,524	313
Capital – gifts and grants	7	1,014
Net transfers (to) from State of Hawai‘i for capital assets	(5)	(79)
Transfers to other funds	-	(653)
Total other revenues	5,633	5,662
Net nonoperating revenues	140,249	146,938
Change in net assets	863	4,564
Net assets		
Beginning of year	338,766	334,202
End of year	$ 339,629	$ 338,766

The accompanying notes are an integral part of Schedule IX.

1. Basis of Presentation

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

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