

**University of Hawai'i**  
**State of Hawai'i**  
**Notes to Consolidated Financial Statements**  
**June 30, 2005 and 2004**

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**3. Accounts Receivable**

The composition of accounts receivable at June 30, 2005 and 2004 are summarized as follows:

	2005	2004
U.S. government	\$ 52,682,797	\$ 42,101,576
State and local government	13,040,269	7,424,189
Private agencies	9,011,182	6,603,916
Other	19,353,027	18,216,551
	<u>94,087,275</u>	<u>74,346,232</u>
Less: Allowance for doubtful accounts	(7,067,970)	(6,517,496)
	<u>\$ 87,019,305</u>	<u>\$ 67,828,736</u>

**4. U.S. Government Funding**

The Federal government reimburses the University for certain overhead costs (e.g., facilities and administrative costs) incurred in support of federally sponsored programs based on cost reimbursement rates negotiated with the University's cognizant agency, the U.S. Department of Health and Human Services. These reimbursements amounted to approximately \$30,857,000 and \$28,377,000 in fiscal years 2005 and 2004, respectively. The University expends 98.95%, and 1.05% of the 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 condition of the University.

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**5. Notes and Contributions Receivable**

The composition of notes and contributions receivable at June 30, 2005 and 2004 are summarized as follows:

	<b>2005</b>	<b>2004</b>
<b>Student notes</b>		
Federal loan programs	\$ 18,183,338	\$ 17,161,949
State loan programs	8,025,147	8,568,515
University loan funds	55,581	56,195
Other notes receivable	165,131	146,615
Total student and other notes outstanding	<u>26,429,197</u>	<u>25,933,274</u>
Less: Allowance for doubtful notes receivable	5,251,394	5,234,310
Total student and other notes receivable, net	<u>21,177,803</u>	<u>20,698,964</u>
<b>Contributions receivable</b>	6,977,414	4,608,452
Less: Allowance for uncollectible pledges	240,829	315,969
Less: Discount to present value	46,532	18,403
Total contributions receivable, net	<u>6,690,053</u>	<u>4,274,080</u>
Total notes receivable and contributions receivable, net	27,867,856	24,973,044
Less: Current portion, net	<u>7,696,969</u>	<u>6,849,385</u>
	<u>\$ 20,170,887</u>	<u>\$ 18,123,659</u>

The allowance for doubtful notes receivable at June 30, 2005 and 2004 are comprised of:

	<b>2005</b>	<b>2004</b>
Federal Perkins loan program	\$ 2,786,357	\$ 2,803,699
State of Hawai'i Higher Education loans	2,345,412	2,336,885
Nursing/Health Profession loans	67,595	42,131
Short-term loans	52,030	51,595
	<u>\$ 5,251,394</u>	<u>\$ 5,234,310</u>

Payments on contributions receivable at June 30, 2005 are expected to be collected in:

Less than one year	\$ 3,088,767
One year to five years	<u>3,888,647</u>
	<u>\$ 6,977,414</u>

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

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

As discussed in Note 1 to the financial statements, pledges for permanent endowment do not meet eligibility requirements, as defined by GASB Statement No. 33, until the related gift is received. Accordingly, permanent endowment pledges totaling approximately \$2,576,000 are not recognized as assets in the accompanying financial statements. Because of uncertainties with regard to their realizability and valuation, bequest intentions and other conditional promises are not recognized as assets until the specified conditions are met.

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

**6. Inventories**

The inventories and the methods of valuation at June 30, 2005 and 2004 are comprised of:

		2005	2004
University of Hawai'i Bookstore merchandise inventory	At the lower of cost (determined by the weighted average cost method) or market.	\$ 10,205,530	\$ 9,031,790
University of Hawai'i Press merchandise inventory	Job order or specific identification method. Books remaining in inventory after the first year of publication are written off on the straight-line basis over a five-year period.	1,095,548	1,225,206
University of Hawai'i other inventories	Cost, applied on the first-in, first-out basis.	1,722,446	1,566,211
		<u>\$ 13,023,524</u>	<u>\$ 11,823,207</u>

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**7. Capital Assets**

A summary of capital assets at June 30, 2005 and 2004 are as follows:

	Beginning Balance	Additions	Deductions	Transfers	Ending Balance
<b>2005</b>					
<b>Non depreciable capital assets</b>					
Land	\$ 11,787,160	\$ 40,135	\$ -	\$ -	\$ 11,827,295
Construction in progress	164,705,516	141,020,965	1,059,153	(121,041,532)	183,625,796
Total capital assets not being depreciated	176,492,676	141,061,100	1,059,153	(121,041,532)	195,453,091
<b>Depreciable capital assets</b>					
Land improvements	41,774,870	159,640	1,543,091	16,059,925	56,451,344
Infrastructure	29,515,422	6,924,968	-	8,867,244	45,307,634
Buildings	823,017,458	60,106,592	18,508,595	89,175,417	953,790,872
Equipment	214,146,412	18,869,549	13,277,467	6,938,946	226,677,440
Library materials	146,298,417	8,072,939	7,363,166	-	147,008,190
Total capital assets being depreciated	1,254,752,579	94,133,688	40,692,319	121,041,532	1,429,235,480
Less: Accumulated depreciation	631,909,250	53,747,984	30,595,027	-	655,062,207
Capital assets, net	\$ 799,336,005	\$ 181,446,804	\$ 11,156,445	\$ -	\$ 969,626,364
<b>2004</b>					
<b>Non depreciable capital assets</b>					
Land	\$ 10,215,703	\$ 1,571,457	\$ -	\$ -	\$ 11,787,160
Construction in progress	100,528,144	91,917,372	279,000	(27,461,000)	164,705,516
Total capital assets not being depreciated	110,743,847	93,488,829	279,000	(27,461,000)	176,492,676
<b>Depreciable capital assets</b>					
Land improvements	41,598,682	22,892	-	153,296	41,774,870
Infrastructure	28,318,444	-	-	1,196,978	29,515,422
Buildings	817,641,045	651,503	2,603,911	7,328,821	823,017,458
Equipment	191,464,807	15,824,892	11,925,192	18,781,905	214,146,412
Library materials	141,568,749	5,192,351	462,683	-	146,298,417
Total capital assets being depreciated	1,220,591,727	21,691,638	14,991,786	27,461,000	1,254,752,579
Less: Accumulated depreciation	601,205,085	43,609,855	12,905,690	-	631,909,250
Capital assets, net	\$ 730,130,489	\$ 71,570,612	\$ 2,365,096	\$ -	\$ 799,336,005

Capital assets consist of land, land improvements, infrastructure, buildings, equipment, library books, and construction in progress. Assets acquired are recorded at cost, or if donated, at appraised value at the date of the gift. Land parcels comprising 1,581 acres or 93% of the

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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 most of the University's construction projects. Upon completion, the University records the total project cost, including amounts funded from state and federal sources. Net capital assets transferred to the University from DAGS amounted to \$62,503,042 and \$275,307 in 2005 and 2004, respectively.

**8. Other Noncurrent Assets**

Other noncurrent assets at June 30, 2005 and 2004 are comprised of:

	2005	2004
Interest in perpetual trusts held by others	\$ 11,649,455	\$ 10,940,941
Deferred bond refunding and issuance costs	2,195,259	2,379,133
	<u>\$ 13,844,714</u>	<u>\$ 13,320,074</u>

**9. Due From and Due To the State of Hawai'i**

Amounts due from and due to State of Hawai'i at June 30, 2005 and 2004 are as follows:

	2005		2004	
	Due from	Due to	Due from	Due to
Amounts due for State appropriations	\$ 8,903,090		\$ 5,062,974	
Employer fringe adjustments	122,601		58,412	
Total due from State of Hawai'i	<u>\$ 9,025,691</u>		<u>\$ 5,121,386</u>	
Imprest/petty cash advances		\$ 302,465		\$ 287,915
Refund of prior year expenditure		2,664		-
Advance		6,000,000		6,000,000
General obligation bonds -- current		2,856,930		2,857,869
Agency -- other		3,004		5,261
Due to State of Hawai'i -- current		<u>9,165,063</u>		<u>9,151,045</u>
General obligation bonds -- noncurrent		6,267,050		9,126,522
Total due to State of Hawai'i		<u>\$ 15,432,113</u>		<u>\$ 18,277,567</u>

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

Activity related to amounts due to the State of Hawai'i for general obligations for the year ended June 30, 2005 is as follows:

	Original Amount	Beginning Balance	Additions	Principal Repayment	Ending Balance
<b>Series X (interest rate, 4.00% to 5.00%)</b>					
Mānoa Student Housing Phase II	\$ 3,000,000	\$ 685,000	\$ -	\$ 158,000	\$ 527,000
Mānoa Campus Center	2,125,000	485,000	-	112,000	373,000
	<u>5,125,000</u>	<u>1,170,000</u>	<u>-</u>	<u>270,000</u>	<u>900,000</u>
<b>Series CG (interest rate 4.10% to 5.00%)</b>					
Student Housing					
Mānoa	11,916,584	1,596,268	-	864,270	731,998
Hilo	2,324,697	311,401	-	168,602	142,799
Parking Structure Phase I	6,920,761	927,060	-	501,940	425,120
Mānoa Campus Center	423	57	-	31	26
	<u>21,162,465</u>	<u>2,834,786</u>	<u>-</u>	<u>1,534,843</u>	<u>1,299,943</u>
<b>Series CS (interest rate, 5.00% to 5.25%)</b>					
Student Housing					
Mānoa	5,019,114	3,762,024	-	678,494	3,083,530
Hilo	979,133	733,898	-	132,361	601,537
Parking Structure Phase I	2,914,936	2,184,860	-	394,047	1,790,813
Mānoa Campus Center	178	134	-	24	110
	<u>8,913,361</u>	<u>6,680,916</u>	<u>-</u>	<u>1,204,926</u>	<u>5,475,990</u>
<b>Series DB (interest rate, 2.80% to 5.25%)</b>					
Student Housing					
Mānoa	731,292	731,292	-	-	731,292
Hilo	142,661	142,661	-	-	142,661
Parking Structure Phase I	424,710	424,710	-	-	424,710
Mānoa Campus Center	26	26	-	-	26
	<u>1,298,689</u>	<u>1,298,689</u>	<u>-</u>	<u>-</u>	<u>1,298,689</u>
<b>Series DG (interest rate, 5.00%)</b>					
Student Housing					
Mānoa	81,978	-	81,978	-	81,978
Hilo	15,992	-	15,992	-	15,992
Parking Structure Phase I	47,610	-	47,610	-	47,610
Mānoa Campus Center	3	-	3	-	3
	<u>145,583</u>	<u>-</u>	<u>145,583</u>	<u>-</u>	<u>145,583</u>
<b>Series DH (interest rate, 5.00%)</b>					
Student Housing					
Mānoa	2,126	-	2,126	-	2,126
Hilo	415	-	415	-	415
Parking Structure Phase I	1,234	-	1,234	-	1,234
	<u>3,775</u>	<u>-</u>	<u>3,775</u>	<u>-</u>	<u>3,775</u>
	<u>\$ 36,648,873</u>	<u>\$ 11,984,391</u>	<u>\$ 149,358</u>	<u>\$ 3,009,769</u>	<u>\$ 9,123,980</u>

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Activity related to amounts due to the State of Hawai'i for general obligations for the year ended June 30, 2004 is as follows:

	Original Amount	Beginning Balance	Additions	Principal Repayment	Ending Balance
<b>Series X (interest rate, 4.00% to 5.00%)</b>					
Mānoa Student Housing Phase II	\$ 3,000,000	\$ 834,500	\$ -	\$ 149,500	\$ 685,000
Mānoa Campus Center	2,125,000	590,500	-	105,500	485,000
	<u>5,125,000</u>	<u>1,425,000</u>	<u>-</u>	<u>255,000</u>	<u>1,170,000</u>
<b>Series CG (interest rate 4.10% to 5.00%)</b>					
<b>Student Housing</b>					
Mānoa	11,916,584	2,338,976	-	742,708	1,596,268
Hilo	2,324,697	456,289	-	144,888	311,401
Parking Structure Phase I	6,920,761	1,358,400	-	431,340	927,060
Mānoa Campus Center	423	83	-	26	57
	<u>21,162,465</u>	<u>4,153,748</u>	<u>-</u>	<u>1,318,962</u>	<u>2,834,786</u>
<b>Series CS (interest rate, 5.00% to 5.25%)</b>					
<b>Student Housing</b>					
Mānoa	5,019,114	4,406,672	-	644,648	3,762,024
Hilo	979,133	859,658	-	125,760	733,898
Parking Structure Phase I	2,914,936	2,559,250	-	374,390	2,184,860
Mānoa Campus Center	178	156	-	22	134
	<u>8,913,361</u>	<u>7,825,736</u>	<u>-</u>	<u>1,144,820</u>	<u>6,680,916</u>
<b>Series DB (interest rate, 2.80% to 5.50%)</b>					
<b>Student Housing</b>					
Mānoa	731,292	-	731,292	-	731,292
Hilo	142,661	-	142,661	-	142,661
Parking Structure Phase I	424,710	-	424,710	-	424,710
Mānoa Campus Center	26	-	26	-	26
	<u>1,298,689</u>	<u>-</u>	<u>1,298,689</u>	<u>-</u>	<u>1,298,689</u>
	<u>\$ 36,499,515</u>	<u>\$ 13,404,484</u>	<u>\$ 1,298,689</u>	<u>\$ 2,718,782</u>	<u>\$ 11,984,391</u>

The general obligation bonds are payable in annual installments, including semi-annual interest payments, ranging from \$129,000 to \$3,393,000 with the final installment due in July 2017. The bonds mature in designated numerical sequence and are payable from the operations of the University. The first principal payment on Series DB, DG, and DH is due on September 1, 2008, July 1, 2009, and June 1, 2006, respectively. The interest and principal payments are due as follows:

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

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At June 30, 2005, principal and interest maturities of reimbursable State of Hawai'i general obligation bonds for each of the next five years, the next subsequent five-year payments and thereafter are as follows:

Years ending June 30	Principal	Interest
2006	\$ 2,856,930	\$ 388,223
2007	1,634,674	237,647
2008	1,716,533	158,399
2009	1,589,736	81,572
2010	136,256	7,175
2011-2015	792,435	16,743
2016-2018	397,416	2,636
	<u>\$ 9,123,980</u>	<u>\$ 892,395</u>

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

The U.S. Department of Housing and Urban Development, under its College Housing Program subsidizes the University for interest payments, which represent the excess of the average annual debt service costs on the bonds over the average annual debt service that would have been required during the life of the bonds at an interest rate of 3%. Such subsidies amounted to \$278,900 and \$326,770 for the years ended June 30, 2005 and 2004, respectively.

In June 2005, the State issued \$772.6 million and \$18.7 million in general obligation Series DG and DH bonds (refunding bonds), respectively, of which the University's portion was approximately \$146,000 and \$4,000, with a 5% interest rate to advance refund approximately \$152,000 (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 \$188.7 million in general obligation Series DB bonds (refunding bonds) of which the University's portion was approximately \$1.3 million, with interest rates ranging from 2.80% to 5.25% to advance refund approximately \$1.3 million (University's portion) of outstanding general obligation Series CG bonds (refunded bonds) which have been partially defeased. The net proceeds from the issuance of the refunding bonds were placed in an irrevocable trust and were used to purchase securities of the United States government at various interest rates and maturities sufficient to meet the debt service requirements of the refunding bonds.

Due to the State of Hawai'i for general obligation bonds does not include approximately \$1.5 million and \$1.3 million of defeased liabilities at June 30, 2005 and 2004, respectively.

Act 259-SLH 2001, Section 58 provided general fund appropriation to pay for debt service on general obligation bonds issued for the University and transferred to the financial administration



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program of the Department of Budget and Finance. Appropriation for debt service amounted to \$45,405,122 and \$45,661,764 for the years ended June 30, 2005 and 2004, respectively.

**11. Long-Term Liabilities**

Long-term liability activity for the years ended June 30, 2005 and 2004 are summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
<b>2005</b>					
Leases and bonds payable					
Revenue bonds payable	\$ 167,385,000	\$ -	\$ 3,495,000	\$ 163,890,000	\$ 3,610,000
Capital lease payable	15,445,000	-	380,000	15,065,000	395,000
Total leases and bonds payable	182,830,000	-	3,875,000	178,955,000	4,005,000
Notes payable – RCUH	-	442,850	58,935	383,915	144,525
Installment contract payable (Note 14)	1,558,524	382,572	1,218,034	723,062	448,684
<b>Other liabilities</b>					
Workers' compensation	13,545,250	4,938,179	4,269,211	14,214,218	4,178,778
Compensated absences	45,953,653	18,059,489	14,818,349	49,194,793	17,755,193
Total other liabilities	59,498,903	22,997,668	19,087,560	63,409,011	21,933,971
Total long-term liabilities	\$ 243,887,427	\$ 23,823,090	\$ 24,239,529	\$ 243,470,988	\$ 26,532,180
<b>2004</b>					
Leases and bonds payable					
Revenue bonds payable	\$ 168,275,000	\$ -	\$ 890,000	\$ 167,385,000	\$ 3,495,000
Capital lease payable	15,805,000	-	360,000	15,445,000	380,000
Total leases and bonds payable	184,080,000	-	1,250,000	182,830,000	3,875,000
Notes payable – RCUH	4,783	-	4,783	-	-
Installment contract payable (Note 14)	2,027,861	16,500	485,837	1,558,524	1,190,328
<b>Other liabilities</b>					
Workers' compensation	13,329,649	3,927,143	3,711,542	13,545,250	4,671,470
Compensated absences	44,448,549	16,852,728	15,347,624	45,953,653	16,767,097
Total other liabilities	57,778,198	20,779,871	19,059,166	59,498,903	21,438,567
Total long-term liabilities	\$ 243,890,842	\$ 20,796,371	\$ 20,799,786	\$ 243,887,427	\$ 26,503,895

**Revenue Bonds Payable**

The University's revenue bonds payable at June 30, 2005 and 2004 are as follows:

	Series	Date Issued	Authorized	2005	2004
Student Housing System at Mānoa (interest rate, 3.0% to 3.5%)	2001A	December 19, 2001	\$ 655,000	\$ 270,000	\$ 400,000
Student Housing System at Mānoa Telecommunications System (interest rate, 3.0% to 5.25%)	2001B	December 19, 2001	18,665,000	16,195,000	16,985,000
University Health & Wellness Center (interest rate, 2.70% to 5.5%)	2002A	June 27, 2002	150,000,000	147,425,000	150,000,000
			<u>\$ 169,320,000</u>	<u>\$ 163,890,000</u>	<u>\$ 167,385,000</u>

In June 2002, the University issued University Bond Series 2002A to finance the construction of the new John A. Burns School of Medicine buildings in Kaka'ako. The proceeds of the 2002A bonds were placed with an escrow agent to be invested until they are used to pay for the cost of construction.

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The revenue bonds are paid from certain unrestricted revenues in annual installments, including semi-annual interest payments ranging from \$250,700 to \$12,451,900 with the final installment due in July 2033. Series 2001A and 2001B 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 interest is payable semi-annually on January 15 and July 15, and the principal is payable on July 15 of each year. The Bond Resolution adopted on May 17, 2002 stipulates that all available moneys on deposit in any special fund or revolving fund of the University, excluding moneys on deposit in the University Revenue – Undertakings fund (“University Bond System”) are pledged to the payment of the bonds, interest and premiums (if any). Condensed financial statements for the special and revolving funds of the University excluding the Revenue Undertakings fund as well as a summary of the changes in net assets related to the Series 2002A bond proceeds are included in the supplementary information section on pages 64 and 65.

The University capitalizes interest costs net of related investment income on any unspent financing proceeds in connection with the John A. Burns School of Medicine construction project. During the years ended June 30, 2005 and 2004, interest costs of \$7,032,454 and \$6,490,014, net of related investment income of \$1,427,179 and \$1,012,366, respectively were capitalized.

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 revenue bonds. The funds received from the State of Hawai'i Tobacco Settlement Special Fund amounted to \$10,012,110 and \$10,035,536 in 2005 and 2004, respectively.

At June 30, 2005, the annual maturities of the revenue bonds are as follows:

	<b>Principal</b>	<b>Interest</b>
<b>Years ending June 30</b>		
2006	\$ 3,610,000	\$ 8,144,831
2007	3,720,000	8,033,608
2008	3,835,000	7,903,357
2009	3,990,000	7,758,872
2010	4,130,000	7,607,561
2011-2015	23,430,000	35,231,218
2016-2020	26,935,000	28,654,688
2021-2025	28,710,000	21,466,003
2026-2030	37,620,000	12,552,113
2031-2033	27,910,000	2,194,525
	<u>\$ 163,890,000</u>	<u>\$ 139,546,776</u>

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**Bond Premiums**

Activity related to the premiums on general obligation and revenue bonds for the years ended June 30, 2005 and 2004 are as follows:

	Series	Beginning Balance	Additions	Reductions	Ending Balance
<b>2005</b>					
Student Housing System at Mānoa and Telecommunications System	2001B	\$ 229,956	\$ -	\$ 40,976	\$ 188,980
John A. Burns School of Medicine	2002A	2,871,205	-	102,393	2,768,812
General obligation	DB	84,878	-	9,224	75,654
General obligation	DG	-	13,913	90	13,823
General obligation	DH	-	361	16	345
Total bond premiums		<u>\$ 3,186,039</u>	<u>\$ 14,274</u>	<u>\$ 152,699</u>	<u>\$ 3,047,614</u>
<b>2004</b>					
Student Housing System at Mānoa and Telecommunications System	2001B	\$ 313,235	\$ -	\$ 83,279	\$ 229,956
John A. Burns School of Medicine	2002A	2,973,598	-	102,393	2,871,205
General obligation	DB	-	91,268	6,390	84,878
Total bond premiums		<u>\$ 3,286,833</u>	<u>\$ 91,268</u>	<u>\$ 192,062</u>	<u>\$ 3,186,039</u>

**Deferred Bond Refunding and Issuance Costs**

Activity related to issuance costs for general obligation and revenue bonds for the years ended June 30, 2005 and 2004 are as follows:

	Series	Beginning Balance	Additions	Reductions	Ending Balance
<b>2005</b>					
Student Housing System at Mānoa and Telecommunications System	2001B	\$ 742,693	\$ -	\$ 132,340	\$ 610,353
John A. Burns School of Medicine	2002A	1,570,417	-	56,004	1,514,413
General obligation	DB	66,023	-	7,175	58,848
General obligation	DG	-	11,434	73	11,361
General obligation	DH	-	297	13	284
Total deferred refunding and issuance costs		<u>\$ 2,379,133</u>	<u>\$ 11,731</u>	<u>\$ 195,605</u>	<u>\$ 2,195,259</u>
<b>2004</b>					
Student Housing System at Mānoa and Telecommunications System	2001B	\$ 1,011,661	\$ -	\$ 268,968	\$ 742,693
John A. Burns School of Medicine	2002A	1,626,421	-	56,004	1,570,417
General obligation	DB	-	70,994	4,971	66,023
Total deferred refunding and issuance costs		<u>\$ 2,638,082</u>	<u>\$ 70,994</u>	<u>\$ 329,943</u>	<u>\$ 2,379,133</u>

**Capital Lease Obligation**

On November 1, 1995, the Housing Finance and Development Corporation ("HFDC") issued \$17,680,000 in revenue bonds with interest rates ranging from 4.00% to 5.75%. The revenue bonds are payable by HFDC in annual installments, including semiannual interest payments, with the final installment due in October 2025. The revenue bonds were issued to provide permanent financing for the University's Kau'iokahaloa Nui Faculty Housing Project. At the time of issuance, HFDC entered into a Lease and Sublease Agreement with the University. The University

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agreed to give a ground lease for 30 years and 8 months to HFDC and HFDC agreed to lease the improvements and sublease the ground lease to the University for the same term.

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

The lease agreement has been accounted for as a capital lease by the University. The capitalized cost of \$20,130,000 and accumulated depreciation as of June 30, 2005 and 2004 of \$5,032,500 and \$4,516,346, respectively, are included in capital assets.

At June 30, 2005, the future minimum lease payments are as follows:

Years ending June 30	Lease Amount
2006	\$ 1,235,031
2007	1,235,078
2008	1,232,414
2009	1,232,130
2010	1,235,292
2011-2015	6,152,541
2016-2020	6,122,886
2021-2025	6,091,575
2026-2028	<u>1,213,630</u>
	25,750,577
Less: Amount representing interest	<u>10,685,577</u>
	<u>\$ 15,065,000</u>

**12. Line of Credit (Research Corporation)**

The Research Corporation has a revolving line of credit with First Hawaiian Bank in the amount of \$2,000,000 for short-term working capital, expiring on December 1, 2005. The terms of the revolving line of credit require repayment as specified in the credit agreement. All borrowings are collateralized by a security agreement over accounts receivable. The rate of interest on borrowings outstanding is 75% of the bank's reference rate (6.25% and 4.25% at June 30, 2005 and 2004, respectively). At June 30, 2005 and 2004, there were no borrowings under this line.

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**13. Notes Payable (Research Corporation)**

A summary of the Research Corporation's notes payable at June 30, 2005 and 2004, is as follows:

	2005	2004
Note payable to First Hawaiian Bank at 3.57%, collateralized by an IBM Processor, monthly payments of \$12,991 including interest due January 2008, by the University of Hawaii, Information Technology Services	\$ 383,915	\$ -
Less: Current installments of long-term debt	144,525	-
	<u>\$ 239,390</u>	<u>\$ -</u>

**14. Installment Contracts and Property Leases**

The University purchased certain equipment on installment with interest ranging from 6.000% to 12.896% per annum and annual maturities as follows:

	<u>Installment Contracts</u>	
	<u>Principal</u>	<u>Interest</u>
<b>Years ending June 30</b>		
2006	\$ 448,681	\$ 14,381
2007	92,182	15,245
2008	86,740	9,583
2009	86,077	3,605
2010	9,382	157
	<u>\$ 723,062</u>	<u>\$ 42,971</u>

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

	<b>Lease Amount</b>
<b>Years ending June 30</b>	
2006	\$ 2,190,754
2007	1,797,596
2008	1,559,966
2009	966,453
2010	961,201
2011-2015	1,557,440
2016-2020	66,740
	<u>\$ 9,100,150</u>

Lease expenditures for outside space for the years ended June 30, 2005 and 2004 amounted to approximately \$3,780,300 and \$3,325,800, respectively.

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**15. Employee Benefits**

**Employees' Retirement System**

Substantially all eligible employees of the University are members of the Employees' Retirement System of the State of Hawai'i ("ERS"), a cost-sharing multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. All contributions, benefits and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action. Prior to June 30, 1984, the plan consisted of only a contributions option. In 1984, legislation was enacted to add a new noncontributory option for members of the ERS who are also covered under Social Security. Persons employed in positions not covered by Social Security are precluded from the noncontributory option. The noncontributory option provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory option or to elect the new noncontributory option and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and noncontributory options, respectively. Both options provide a monthly retirement allowance based on the employee's age, years of credited service and average final compensation ("AFC"). The AFC is the average salary earned during the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after that date is based on the three highest paid years of service, excluding the vacation payment.

Most covered employees of the contributory option are required to contribute 7.8% of their salary. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. Under this method, employer contributions to the ERS are comprised of normal cost plus level annual payments required to liquidate the unfunded actuarial liability over the remaining period of 27 years from June 30, 2002.

The University's payroll for employees covered by the plan and total personal services, including student payroll, for the years ended June 30, 2005 and 2004 were approximately \$341,702,691 and \$334,397,000, and \$454,597,000 and \$432,406,000, respectively. The University is required to contribute an actuarially determined amount to the ERS. Contributions made to the ERS for the years ended June 30, 2005 and 2004 were \$31,232,000 and \$29,661,000, respectively, approximately 9% of covered payroll.

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

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

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The following data was obtained from the disclosures contained in the CAFR for the year ended June 30, 2004 are as follows:

Number of employers as of March 31, 2004 was:

State	1
Counties	<u>4</u>
Total employers	<u>5</u>

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

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

**Other Benefits**

The State absorbs the fringe benefit cost for employees paid from State and Federal appropriations. The University receives a State appropriation for these fringe benefit costs. Fringe benefit costs included in total revenue and total expenditures amounted to \$90,893,503 and \$84,389,994 for fiscal years 2005 and 2004, respectively.

All regular employees, with certain exceptions, earn vacation leave at the rate of one and three-quarters working days 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 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 one and three-quarters working days 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 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.

University 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.

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The University manages its workers' compensation program. Medical related payments for fiscal years 2005 and 2004 were \$2,671,389 and \$1,883,476, respectively. Temporary wage loss payments for fiscal years 2005 and 2004 amounted to \$450,821 and \$280,889, respectively.

**16. Post-Retirement Health Care and Life Insurance Benefits**

In addition to providing pension benefits, the State provides certain health care and life insurance benefits to all employees who retire from the University on or after age 62 with at least 10 years of service or age 55 with at least 30 years of service under the noncontributory option and age 55 with at least 5 years of service under the contributory option. Retirees hired before July 1, 1996 and credited with at least 10 years of service or have a total of 25 years of service, excluding sick leave credit, qualify for free medical, dental, drug, vision and life insurance premiums; however, retirees hired or rehired after June 30, 1996 who retire with 10 but less than 25 years of service must assume a portion of the monthly premiums. All disability retirees who retired after June 30, 1984 with less than 10 years of service also qualify for free medical insurance premiums.

Free life insurance coverage and dental coverage for dependents under age 19 are also available. Retirees covered by the medical portion of Medicare are eligible to receive a reimbursement of the basic medical coverage premiums. Contributions are based upon negotiated collective bargaining agreements, and are funded by the State as accrued. The University's share of the post-retirement health care and life insurance benefits expense was approximately \$24,124,000 and \$24,077,000 for the years ended June 30, 2005 and 2004, respectively.

**17. Other Noncurrent Liabilities**

Other noncurrent liabilities at June 30, 2005 and 2004 are comprised of:

	2005	2004
Liabilities under split interest agreements	\$ 3,390,482	\$ 3,400,334
Amounts held for others	2,590,911	2,486,644
	<u>\$ 5,981,393</u>	<u>\$ 5,886,978</u>

**18. State Appropriations**

By statutory provision, the University prepares a biennium budget for its programs. Budgeted expenditures are derived primarily from the General Appropriations Act of 2001, and from other specific appropriations acts in various Session Laws of Hawai'i ("SLH").

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