

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

The net amount of the University's State general and capital appropriations for the years ended June 30, 2005 and 2004 were \$488,193,100 and \$49,184,944, and \$459,648,716 and \$20,655,923, respectively.

Net general and capital appropriations for the year ended June 30, 2005 are as follows:

General appropriations	
Act 200, SLH 2003 - Appropriation Warrant # 038	\$ 475,172,131
Act 51, SLH 2004 - Appropriation Warrant # 061	500,000
Act 149, SLH 2004 - Appropriation Warrant #102	286,112
Act 223, SLH 2004 - Appropriation Warrant #124	500,000
Act 236, SLH 2004 - Appropriation Warrant #128	142,000
Act 238, SLH 2004 - Appropriation Warrant #129	250,000
Others	
Allotments for salary increases and other adjustment	
Act 143, SLH 2003; Acts 53 & 74, SLH 2004; Act 24, SLH 2005	<u>11,531,646</u>
	488,381,889
Total funds lapsed	<u>(188,789)</u>
Total general fund appropriations	<u>\$ 488,193,100</u>
Capital appropriations	
Act 200, SLH 2003, Section 77	\$ 10,006,500
Act 200, SLH 2003, Section 77, 111 & 119, as amended by Act 41, SLH 2004	39,196,500
Total funds lapsed	<u>(18,056)</u>
Total state capital appropriations	<u>\$ 49,184,944</u>

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Net general and capital appropriations for the year ended June 30, 2004 are as follows:

General appropriations	
Act 200, SLH 2003 – Appropriations Warrant #013	\$ 458,176,837
Others	
Allotments for salary increases and other adjustment	
Act 143, SLH 2003 and Act 260, SLH 2004	<u>1,703,007</u>
	459,879,844
Total funds lapsed	<u>(231,128)</u>
Total general fund appropriations	<u>\$ 459,648,716</u>
Capital appropriations	
Act 200, SLH 2003, Section 77	\$ 21,544,000
Act 259, SLH 2001, amended by Act 177, SLH 2002	1,393,330
Total funds lapsed	<u>(2,281,407)</u>
Total state capital appropriations	<u>\$ 20,655,923</u>

19. 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 of Regents 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, 2005 and 2004 are as follows:

	2005	2004
Unrestricted net assets		
Designated		
Capital projects	\$ 118,162,616	\$ 124,165,606
Research and training	40,207,220	40,152,305
Quasi-endowment	36,282,565	35,963,746
Bond System	19,426,603	19,044,968
Contract commitments	16,441,905	12,132,773
Other designated net assets	8,095,622	7,475,171
Total designated	<u>238,616,531</u>	<u>238,934,569</u>
Undesignated (unfunded obligations for vacation, worker's compensation liabilities, payroll, etc.)	<u>(41,023,828)</u>	<u>(34,590,897)</u>
Total unrestricted net assets	<u>\$ 197,592,703</u>	<u>\$ 204,343,672</u>

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20. Segment Information

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

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

The University Bond System outstanding debt was issued pursuant to a Master Resolution as amended in November 2001. The Master Resolution established a Network of the University consisting of the University Bond System and any University Purpose, which, at the election of the Board is included in the Network pursuant to a Supplemental Resolution. The Master Resolution provides that all revenues collected or received from the Network should be used to support the Network (which includes the University Projects of the University Bond System) and bond related expenses.

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The following summary financial information as of June 30, 2005 and 2004 are presented before elimination of certain intra-University transactions.

	2005	2004
Condensed statement of net assets		
Assets		
Current assets	\$ 42,257,651	\$ 42,913,366
Capital assets, net	87,805,121	90,419,968
Other assets	10,430,846	8,808,717
Total assets	<u>\$ 140,493,618</u>	<u>\$ 142,142,051</u>
Liabilities		
Current liabilities	\$ 16,112,325	\$ 15,839,531
Noncurrent liabilities	37,781,721	42,263,164
Total liabilities	<u>53,894,046</u>	<u>58,102,695</u>
Net assets		
Invested in capital assets, net of related debt	46,744,233	44,237,669
Restricted expendable	3,414,635	3,297,035
Unrestricted	36,440,704	36,504,652
Total net assets	<u>86,599,572</u>	<u>84,039,356</u>
Total liabilities and net assets	<u>\$ 140,493,618</u>	<u>\$ 142,142,051</u>
	2005	2004
Condensed statement of revenues, expenses and changes in net assets		
Operating revenues		
Bookstores	\$ 27,560,217	\$ 26,722,663
Room and other rentals	16,416,496	15,818,972
Parking	4,567,120	4,662,188
Telecommunications	3,298,872	3,725,160
Other operating revenues	2,880,880	2,584,203
Total operating revenues	<u>54,723,585</u>	<u>53,513,186</u>
Operating expenses (including \$5,261,228 and \$5,220,317 in depreciation expense in 2005 and 2004, respectively)	<u>(54,277,932)</u>	<u>(53,250,713)</u>
Operating income	445,653	262,473
Nonoperating revenues	4,418,978	2,543,544
Nonoperating expenses	<u>(2,304,415)</u>	<u>(2,486,070)</u>
Increase in net assets	2,560,216	319,947
Net assets		
Beginning of year	<u>84,039,356</u>	<u>83,719,409</u>
End of year	<u>\$ 86,599,572</u>	<u>\$ 84,039,356</u>

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Notes to Consolidated Financial Statements
June 30, 2005 and 2004

	2005	2004
Condensed statement of cash flows		
Net cash flows provided by operating activities	\$ 5,624,391	\$ 4,106,937
Net cash flows provided by non-capital financing activities	360,311	327,484
Net cash flows used in capital and related financing activities	(7,027,941)	(7,051,965)
Net cash flows provided by investing activities	<u>(2,005,539)</u>	<u>374,679</u>
Net decrease in cash and cash equivalents	(3,048,778)	(2,242,865)
Cash and cash equivalents		
Beginning of year	<u>30,242,916</u>	<u>32,485,781</u>
End of year	<u>\$ 27,194,138</u>	<u>\$ 30,242,916</u>

21. Litigation, Other Contingent Liabilities and Commitments

Hawai'i Revised Statute §304-6 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. Effective June 25, 1999, Hawai'i Revised Statute §304 was amended by Act 102 of the 1999 Session Laws of Hawai'i which states that the University is not precluded from requesting and securing legislative appropriations to fund the settlement of any such claim or judgment against the University.

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

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

The University has significant construction commitments related to the John A. Burns School of Medicine Kaka'ako project, Mauna Kea Astronomy Education Center and Pan-Star Project in the amounts of \$16,900,000, \$3,500,000, and \$6,200,000, respectively at June 30, 2005.

22. New Accounting Pronouncements

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

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The GASB has issued Statement No. 46, an amendment of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, effective for the University's fiscal year beginning July 1, 2005. Statement No. 46 requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. The University is currently evaluating the effect that Statement No. 46 will have on its financial statements.

In June 2005, the GASB has issued Statement No. 47, *Accounting for Termination Benefits*, effective for the University's fiscal year beginning July 1, 2005. Statement No. 47 requires that liabilities and expenditures for termination benefits should be recognized to the extent the liabilities are normally expected to be liquidated with expendable available financial resources. The University is currently evaluating the effect that Statement No. 47 will have on its financial statements.

23. Manoa Flood

The University of Hawai'i at Mānoa campus experienced significant flooding as a result of heavy rains that fell on October 30, 2004. Approximately 35 buildings and their contents sustained moderate to severe damage. Clean-up and repair expenditures made up approximately \$20 million or 87.7 percent of the \$22.8 million flood loss total. During fiscal year 2005, the University received \$22.5 million in disaster aid from the State, of which \$22 million was in the form of emergency State appropriations and \$500,000 was from the State Insurance Reserve Fund.

Casualty loss	
Rent of temporary facilities	\$ 222,524
Clean-up costs	10,190,363
Repairs and other	9,803,599
Impairment loss	2,583,814
	<u>22,800,300</u>
Recoveries	
State appropriation	(22,000,000)
State Insurance Reserve Fund	(500,000)
	<u>(22,500,000)</u>
Loss from Manoa flood, net of recoveries	<u>\$ (300,300)</u>

For fiscal year 2006, an additional \$31 million was appropriated by the State Legislature to the University for on-going flood repairs. The University expects the economic loss from capital assets and other intangibles to far exceed the accounting loss. Any third party insurance recoveries and federal aid attributable to the flood will be remitted to the State.

Supplementary Information

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Report of Independent Auditors on Supplemental Information

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

The report on our audits of the basic consolidated financial statements of the University of Hawai'i as of June 30, 2005 and 2004, and for the years then ended, appears on page 2 of this document. 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 and II) included hereinafter is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects in relation to the consolidated financial statements taken as a whole.

PricewaterhouseCoopers LLP

Honolulu, Hawai'i
February 7, 2006

University of Hawai'i
State of Hawai'i
Condensed Statements of Net Assets
Condensed Statements of Revenue, Expenses and Changes in Net Assets
Current Unrestricted Funds Excluding General Fund and
University Bond System
As of and for the Years Ended June 30, 2005 and 2004 **Schedule I**

	2005	2004
Condensed statements of net assets		
Assets		
Current assets	\$ 130,890,687	\$ 136,346,364
Noncurrent assets	1,093,862	1,760,296
Total assets	<u>\$ 131,984,549</u>	<u>\$ 138,106,660</u>
Liabilities		
Current liabilities	\$ 72,948,197	\$ 74,814,757
Noncurrent liabilities	2,033,025	1,916,125
Total liabilities	<u>74,981,222</u>	<u>76,730,882</u>
Net assets		
Unrestricted	<u>57,003,327</u>	<u>61,375,778</u>
Total net assets	<u>57,003,327</u>	<u>61,375,778</u>
Total liabilities and net assets	<u>\$ 131,984,549</u>	<u>\$ 138,106,660</u>
Condensed statements of revenues, expenses and changes in net assets		
Operating revenues	\$ 190,713,115	\$ 182,571,533
Operating expenses	(191,020,903)	(182,301,645)
Operating income (loss)	(307,788)	269,888
Nonoperating revenues	13,891,701	11,178,259
Nonoperating expenses and transfers	(17,956,364)	(13,611,682)
Decrease in net assets	<u>(4,372,451)</u>	<u>(2,163,535)</u>
Net assets		
Beginning of year	<u>61,375,778</u>	<u>63,539,313</u>
End of year	<u>\$ 57,003,327</u>	<u>\$ 61,375,778</u>

1. Basis of Presentation

The accompanying condensed statements of net assets and related 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 are presented on the accrual basis of accounting.

**University of Hawai'i
State of Hawai'i
Schedule of Series 2002A Revenue Bond Proceeds Activity
Years Ended June 30, 2005 and 2004**

Schedule II

	2005	2004
Beginning balance	\$ 91,316,182	\$ 137,122,681
Additions		
Interest income	2,694,778	5,966,587
Other	102,393	102,393
Total additions	<u>2,797,171</u>	<u>6,068,980</u>
Deductions		
Payments-building, construction in progress	69,568,836	46,769,038
Investment-realized/unrealized loss	1,267,599	4,954,221
Other	106,290	152,220
Total deductions	<u>70,942,725</u>	<u>51,875,479</u>
Ending balance	<u>\$ 23,170,628</u>	<u>\$ 91,316,182</u>

1. Basis of Presentation

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

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PricewaterhouseCoopers LLP

Honolulu, Hawai'i
September 12, 2006

University of Hawai'i
 State of Hawai'i
 Statement of Net Assets — Community College System
 June 30, 2005

Schedule III

Assets	
Current assets	
Cash and cash equivalents	\$ 33,439,368
Due from the State of Hawai'i	10,200
Accounts receivables, net	5,319,388
Current portion of notes and contributions receivable, net	238,508
Accrued interest receivable	80,983
Inventories	3,588,664
Prepaid expenses, deferred charges and other current assets	52,183
Total current assets	<u>42,729,294</u>
Noncurrent assets	
Restricted cash and cash equivalents	266,312
Notes receivable and contributions receivable, net	1,368,516
Capital assets, net	179,648,319
Other noncurrent assets	5,103,153
Total noncurrent assets	<u>186,386,300</u>
Total assets	<u>\$ 229,115,594</u>
Liabilities and Net Assets	
Current liabilities	
Accounts payable	\$ 5,313,181
Accrued payroll and fringe benefits	3,518,546
Advances from sponsors	603,745
Deferred revenue	4,621,413
Due to the State of Hawai'i	87,517
Current portion of long-term liabilities	3,960,986
Other current liabilities	5,909
Total current liabilities	<u>18,111,298</u>
Noncurrent liabilities	
Accrued vacation	6,470,644
Accrued workers' compensation liability	1,921,317
Due to campuses and funds	4,274,173
Installment contracts payable	4,769
Total noncurrent liabilities	<u>12,670,904</u>
Net assets	
Invested in capital assets, net of related debt	179,634,163
Restricted - expendable	2,035,385
Unrestricted	16,663,844
Total net assets	<u>198,333,392</u>
Total liabilities and net assets	<u>\$ 229,115,594</u>

University of Hawai'i
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Statement of Revenues, Expenses and Changes in Net Assets — Community
College System
Year Ended June 30, 2005

Schedule IV

Operating revenues	
Student tuition and fees	\$ 36,826,324
Less: Scholarship allowances	<u>4,374,418</u>
Net student tuition and fees	32,451,905
Federal appropriations, grants and contracts	32,856,748
State and local grants and contracts	523,193
Nongovernmental sponsored programs	706,601
Sales and services of educational departments, other	5,198,371
Auxiliary enterprises	
Bookstores	8,436,729
Student housing (net of scholarship allowances of \$46,221)	60,943
Other auxiliary enterprises revenues	911,368
Other operating revenues	<u>65,199</u>
Total operating revenues	<u>81,211,058</u>
Operating expenses	
Compensation and benefits	136,888,490
Supplies, services and cost of goods sold	24,930,026
Scholarships and fellowships	10,137,487
Depreciation	8,101,536
Telephone and utilities	6,438,619
Repairs and maintenance	3,002,129
Travel expenses	1,938,680
Other operating expenses	<u>2,669,490</u>
Total operating expenses	<u>194,106,458</u>
Operating loss	<u>(112,895,400)</u>
Nonoperating revenues (expenses)	
State appropriations	79,394,213
Private gifts	14,776
Net investment income	573,791
Interest expense	(2,174)
Transfer from State of Hawai'i for fringe benefits	23,334,514
Loss on disposal of capital assets	(91,534)
Other nonoperating expenses, net	<u>(877,613)</u>
Net nonoperating revenues before capital and endowment additions	<u>102,345,973</u>
Capital state appropriations	12,617,000
Capital federal grants/subsidies	430,982
Capital gifts and grants	353,977
Transfers of endowment to University of Hawaii Foundation	(1,316,634)
Reductions to permanent endowments	<u>(519,393)</u>
Total other revenues	<u>11,565,932</u>
Net nonoperating revenues	<u>113,911,905</u>
Increase in net assets	1,016,505
Net assets	
Beginning of year	<u>197,316,887</u>
End of year	<u>\$ 198,333,392</u>