

Chaminade University of Honolulu

Financial Statements

June 30, 2011 and 2010

Together with Independent Auditor's Report

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A Hawaii Limited Liability Partnership

Independent Auditor's Report

To the Board of Regents
Chaminade University of Honolulu:

We have audited the accompanying statements of financial position of Chaminade University of Honolulu (the University) as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. 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 conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University as of June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KMH LLP

KMH LLP

Honolulu, Hawaii
November 3, 2011

Chaminade University of Honolulu

Statements of Financial Position

June 30, 2011 and 2010

	<u>Assets</u>	
	<u>2011</u>	<u>2010</u>
Cash and Cash Equivalents	\$ 1,897,356	\$ 1,050,267
Restricted Cash Equivalents	1,236,567	1,191,322
Receivables:		
Student loans (less allowance for doubtful accounts of \$176,759 in 2011 and \$245,392 in 2010)	609,787	601,850
Student and other (less allowance for doubtful accounts of \$1,517,500 in 2011 and \$1,302,000 in 2010)	924,222	1,001,362
Pledges	5,054,243	7,685,592
Grants	1,805,516	1,756,624
Total receivables	<u>8,393,768</u>	<u>11,045,428</u>
Inventories	261,359	283,838
Short-term Investments	7,474	1,341,746
Other Assets	1,247,922	725,485
Land, Buildings, Improvements and Equipment, net	47,027,820	44,718,968
Interest in Net Assets of Chaminade University		
Educational Foundation	1,232,880	1,046,225
Long-term Investments	9,305,277	8,028,284
Total assets	<u>\$ 70,610,423</u>	<u>\$ 69,431,563</u>

See accompanying notes to financial statements.

Chaminade University of Honolulu

Statements of Financial Position
June 30, 2011 and 2010

Liabilities and Net Assets

	<u>2011</u>	<u>2010</u>
Accounts Payable and Accrued Expenses	\$ 2,084,633	\$ 2,102,919
Accrued Payroll	1,030,124	1,017,327
Advance Tuitions and Other Deferred Revenues	1,953,408	979,403
Deposits Held in Custody for Others	273,097	347,641
Refundable U.S. Government Student Loans	654,357	648,242
Capital Lease Obligation	50,125	109,111
Notes Payable and Line of Credit Borrowings	5,778,592	9,507,266
Bonds Payable	9,395,530	9,544,612
Total liabilities	<u>21,219,866</u>	<u>24,256,521</u>
Commitments and Contingencies	-	-
Net Assets:		
Unrestricted:		
Undesignated	32,683,145	27,043,271
Designated as "quasi-endowment"	104,244	91,242
Total unrestricted	32,787,389	27,134,513
Temporary restricted	8,643,903	10,304,132
Permanently restricted	7,959,265	7,736,397
Total net assets	<u>49,390,557</u>	<u>45,175,042</u>
Total liabilities and net assets	<u>\$ 70,610,423</u>	<u>\$ 69,431,563</u>

See accompanying notes to financial statements.

Chaminade University of Honolulu

Statements of Activities

For the Years Ended June 30, 2011 and 2010

	2011				2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains, and Other Support:								
Tuition and fees, net of discounts and scholarships of \$7,842,154 in 2011 and \$7,291,287 in 2010	\$ 25,648,206	\$ -	\$ -	\$ 25,648,206	\$ 22,312,753	\$ -	\$ -	\$ 22,312,753
Private gifts and grants	1,837,874	1,998,453	193,363	4,029,690	2,471,561	3,260,224	564,370	6,296,155
Auxiliary enterprises	4,240,905	-	-	4,240,905	4,352,791	-	-	4,352,791
Federal grants and contracts	6,826,952	-	-	6,826,952	6,457,153	-	-	6,457,153
Net realized and unrealized gains on investments	143,973	1,070,840	-	1,214,813	47,442	423,081	-	470,523
Investment income	57	172,718	-	172,775	-	212,031	-	212,031
Change in interest in net assets of Chaminade								
University Educational Foundation	-	157,150	29,505	186,655	-	(28,103)	(47,234)	(75,337)
Net assets released from restrictions	5,059,390	(5,059,390)	-	-	5,745,975	(5,745,975)	-	-
Other	381,102	-	-	381,102	235,553	-	-	235,553
Total revenues, gains, and other support	44,138,459	(1,660,229)	222,868	42,701,098	41,623,228	(1,878,742)	517,136	40,261,622
Expenses:								
Program expenses:								
Instructional	14,100,085	-	-	14,100,085	11,856,289	-	-	11,856,289
Academic support	8,442,062	-	-	8,442,062	7,585,345	-	-	7,585,345
Institutional support	6,691,455	-	-	6,691,455	6,343,581	-	-	6,343,581
Student services	3,263,108	-	-	3,263,108	3,269,283	-	-	3,269,283
Total program expenses	32,496,710	-	-	32,496,710	29,054,498	-	-	29,054,498
Fund-raising	1,107,182	-	-	1,107,182	1,084,474	-	-	1,084,474
Auxiliary enterprises	4,881,691	-	-	4,881,691	4,943,471	-	-	4,943,471
Total expenses	38,485,583	-	-	38,485,583	35,082,443	-	-	35,082,443
Change in net assets	5,652,876	(1,660,229)	222,868	4,215,515	6,540,785	(1,878,742)	517,136	5,179,179
Net Assets, Beginning of Year (2010, as restated)	27,134,513	10,304,132	7,736,397	45,175,042	20,593,728	12,182,874	7,219,261	39,995,863
Net Assets, End of Year	\$ 32,787,389	\$ 8,643,903	\$ 7,959,265	\$ 49,390,557	\$ 27,134,513	\$10,304,132	\$ 7,736,397	\$ 45,175,042

See accompanying notes to financial statements.

Chaminade University of Honolulu

Statements of Cash Flows

For the Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 4,215,515	\$ 5,179,179
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,380,749	3,166,135
Provision for doubtful accounts	234,549	437,974
(Increase) decrease in interest in net assets of Chaminade University Educational Foundation	(186,655)	75,337
Net realized and unrealized gains on investments	(1,214,813)	(470,523)
Contributions restricted for long-term investment	(341,745)	(630,470)
Change in operating assets and liabilities:		
Student loans receivable	(44,369)	(60,371)
Student and other receivables	(120,977)	(39,799)
Pledges receivable	2,722,385	1,199,183
Grants receivable	(48,892)	(1,119,961)
Inventories	22,479	385,393
Other assets	(544,655)	(9,430)
Accounts payable and accrued expenses	(18,286)	(827,620)
Accrued payroll	12,797	(4,885)
Advance tuitions and other deferred revenues	974,005	(687,180)
Deposits held in custody for others	(74,544)	(340,262)
Refundable U.S. government student loans	6,115	5,104
Net cash provided by operating activities	<u>8,973,658</u>	<u>6,257,804</u>
Cash Flows from Investing Activities:		
Proceeds from sale of investments	5,451,612	5,597,973
Purchases of investments	(4,179,524)	(5,930,845)
Purchases of land, buildings, improvements, and equipment	(5,772,497)	(7,929,317)
Net cash used in investing activities	<u>\$ (4,500,409)</u>	<u>\$ (8,262,189)</u>

(continued)

See accompanying notes to financial statements.

Chaminade University of Honolulu

Statements of Cash Flows

For the Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash Flows from Financing Activities:		
Drawings on lines of credit	\$ 9,250,000	\$ 13,700,000
Repayments of lines of credit borrowings	(12,350,000)	(11,450,000)
Proceeds from notes payable	150,611	254,761
Payments on notes payable	(779,285)	(130,000)
Repayment of cash overdraft	-	(168,524)
Repayments of bonds payable	(135,000)	(125,000)
Payment on capital lease	(58,986)	(43,978)
Increase in restricted cash equivalents	(45,245)	(236,455)
Proceeds from contributions and investment income restricted for:		
Investment in endowment	193,363	564,370
Investment in plant	148,382	66,100
Net cash (used in) provided by financing activities	<u>(3,626,160)</u>	<u>2,431,274</u>
Net increase in cash and cash equivalents	847,089	426,889
Cash and Cash Equivalents at beginning of year	<u>1,050,267</u>	<u>623,378</u>
Cash and Cash Equivalents at end of year	<u><u>\$ 1,897,356</u></u>	<u><u>\$ 1,050,267</u></u>
Supplemental Disclosure of Cash Flow Information --		
Cash Paid During the Year for Interest	<u><u>\$ 538,600</u></u>	<u><u>\$ 590,735</u></u>

See accompanying notes to financial statements.

Chaminade University of Honolulu

Notes to Financial Statements
June 30, 2011 and 2010

1. Organization and Summary of Significant Accounting Policies

a. Organization

Chaminade University of Honolulu (the University) is a private, co-educational Catholic university established in 1955 by the Society of Mary, Marianists. The mission of the University is to prepare its students for professional careers and personal growth in an educational environment in the liberal arts tradition enriched by Catholic and Marianist values. The University offers classes that lead to Associate, Bachelors, and Masters degrees.

The Marianist Center of Hawaii is an autonomous, religious, not-for-profit Hawaii corporation established and controlled by the Society of Mary, Marianists, a Roman Catholic Institute of Consecrated Life, which owns, holds, and manages the land and certain of the buildings of the University's Kalaepohaku (Honolulu) campus used for the promotion and maintenance of its charitable, educational, and religious purposes.

b. Basis of Accounting

Net assets and revenues, gains and other support, expenditures, and other deductions are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the University and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets not subject to donor-imposed stipulations over which the Board of Regents (Board) has discretionary control. Unrestricted net assets include Board-designated funds representing resources that the Board has segregated for specific operational or program objectives.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the University and/or the passage of time. Contributions with donor-imposed restrictions are reported as restricted support. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that must be maintained permanently by the University. The donors of these assets permit the University to use all of the income earned on related investments for general or specific purposes.

Chaminade University of Honolulu

Notes to Financial Statements
June 30, 2011 and 2010

1. Organization and Summary of Significant Accounting Policies (continued)

c. Cash and Cash Equivalents

For purposes of the statements of cash flows, the University considers all highly liquid instruments with original maturities of three months or less to be cash equivalents.

d. Restricted Cash Equivalents

Restricted cash equivalents include amounts deposited in money market funds, which are restricted by legal or contractual requirements associated with the servicing of the University's tax-exempt special-purpose revenue bonds.

e. Student Receivables

Student accounts receivable are stated at amounts due from students, net of an allowance for doubtful accounts. Receivables which are outstanding longer than the contractual payment terms are considered past due. The University determines its allowance by considering a number of factors, including the length of time accounts receivable are past due, the University's previous loss history, the student's current ability to pay its obligation to the University, and the condition of the general economy and the industry as a whole. The University writes off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts. As of June 30, 2011 and 2010, an allowance for doubtful accounts of \$1,694,259 and \$1,547,392, respectively, was recorded. Bad debt expense amounted to \$234,549 and \$437,974 for the years ended June 30, 2011 and 2010, respectively.

f. Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value in the statements of financial position with unrealized gains and losses included in the statements of activities.

Gains and losses on investments are reported in the statements of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

Donated investments and in-kind gifts are stated at fair value at the date of donation.

Chaminade University of Honolulu

Notes to Financial Statements
June 30, 2011 and 2010

1. Organization and Summary of Significant Accounting Policies (continued)

f. Investments (continued)

The University classifies all investments which will be liquidated within one year as short-term. All other investments and investments related to endowment funds have been classified as long-term in the accompanying statements of financial position.

g. Land, Buildings, Improvements, and Equipment

Buildings, improvements, and equipment are capitalized at cost, if purchased, or at fair market value at the date of donation. Depreciation is calculated on the straight-line basis over the estimated useful lives of the assets. The estimated useful lives are as follows:

Buildings and building improvements	10 to 30 years
Furniture, fixtures, and equipment	3 to 5 years

The University reports gifts of buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the University reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

h. Inventories

Inventories include textbooks, supplies, and logo items and are valued at the lower of cost (first-in, first-out method) or market. Sales proceeds and related gains are included in auxiliary enterprises in the accompanying statements of activities.

i. Bond Issue Cost

The cost of issuing bonds are deferred and amortized to expense using the straight-line method, which approximates the effective interest method, over the term of the debt. Amortization expense for the years ended June 30, 2011 and 2010 amounted to \$22,218.

Bond premium is amortized ratably over the term of the related bond using the effective interest method, and the unamortized balance is included with the related bond payable liabilities in the accompanying statements of financial position.

Chaminade University of Honolulu

Notes to Financial Statements
June 30, 2011 and 2010

1. Organization and Summary of Significant Accounting Policies (continued)

j. Contributions

Unconditional promises to give (pledges 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 using risk-free interest rates in the year in which the pledges are made. Amortization of the discounts is included in private gifts and grants revenue in the statements of activities. The University provides an allowance for uncollectible pledges based upon its best estimate of the amount of probable credit losses.

k. Endowment

The University's endowment consists of 50 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. Net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Prior to June 30, 2009, the University was subject to the Uniform Management of Institutional Funds Act (UMIFA). UMIFA focused on a historic dollar value threshold, an amount below which an organization could not spend from the fund.

The University became subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) on July 1, 2009. The University has interpreted UPMIFA as requiring 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 of this interpretation, the University classifies as permanently restricted 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 permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

Chaminade University of Honolulu

Notes to Financial Statements
June 30, 2011 and 2010

1. Organization and Summary of Significant Accounting Policies (continued)

k. Endowment (continued)

In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- a. The duration and preservation of the fund
- b. The purposes of the organization and the donor-restricted endowment fund
- c. General economic conditions
- d. The possible effect of inflation and deflation
- e. The expected total return from income and the appreciation of investments
- f. Other resources of the organization
- g. The investment policies of the organization.

The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. The Investment Sub-Committee of the Board of Regents' Finance Committee has the responsibility to periodically review the Investment Policy, to ensure that it is in accordance with the objectives of the University. The University's goal is to protect, over the long-term, the future purchasing power of the managed funds by earning a return of 5% in excess of the long-term inflation rate.

The University's goal is to select an asset allocation which can reasonably be expected to earn the required rate of total return while assuming a risk no greater than that of a "standard" endowment portfolio when projected over a five-year period. The University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Chaminade University of Honolulu

Notes to Financial Statements
June 30, 2011 and 2010

1. Organization and Summary of Significant Accounting Policies (continued)

k. Endowment (continued)

The University has a policy of appropriating for spending 5% of the year end market value. The policy also accounts for an annual increase of 3.5% in spending from the prior year (spending is frozen if more than 6%, and reset to 5%, if less than 4% of the year end market value).

In establishing this policy, the University considered the long-term expected return on its endowment. Accordingly, over the long term, the University expects the current spending policy to allow its endowment to maintain the future purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

l. Impairment of Long-Lived Assets

Long-lived assets, such as buildings, improvements, and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

m. Use of Estimates

The preparation of the financial statements requires management of the University to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, gains, and other support and expenditures during the period. Significant items subject to such estimates and assumptions include the carrying amounts of donated buildings, improvements and equipment, fair value of financial instruments, and valuation allowances for receivables. Actual results could differ from those estimates.

Chaminade University of Honolulu

Notes to Financial Statements
June 30, 2011 and 2010

1. Organization and Summary of Significant Accounting Policies (continued)

n. Concentrations of Credit Risk

Financial instruments that potentially subject the University to concentrations of credit risks primarily consist of temporary cash investments and student and pledges receivable. Non-interest bearing transaction accounts are fully insured by the Federal Deposit Insurance Corporation (FDIC). Other deposit accounts are FDIC insured up to \$250,000 per account holder. The University had approximately \$2,386,000 and \$1,407,000 in excess of federally-insured limits at June 30, 2011 and 2010, respectively. Management believes that the University is not exposed to any significant credit risk related to cash and cash equivalents.

At June 30, 2011 and 2010, approximately 67% and 53% of pledges receivable was due from one donor, respectively. The University maintains contact with donors throughout the year to identify and record an allowance for uncollectible pledges as they become known.

o. Income Taxes

The University has received a determination from taxing authorities that its stated purpose is tax exempt as described in Section 501(c)(3) of the Internal Revenue Code and that contributions to the University are deductible for tax purposes by the donor, subject to the normal limitations imposed by the aforementioned authorities.

In evaluating a tax position for recognition, management judgmentally evaluates whether it is more likely-than-not that a tax position will be sustained upon examination, including resolution of related appeals or litigation processes, based on the technical merits of the position. If the tax position meets the more-likely-than-not recognition threshold, the tax position is measured and recognized in the University's financial statements as the largest amount of tax benefit that, in management's judgment, is greater than 50% likely of being realized upon ultimate settlement.

The University has evaluated its tax positions and determined that there were no uncertain tax positions at June 30, 2011 and 2010. Interest and penalties, if any (none in 2011 or 2010), are included in institutional support expenses. As of June 30, 2011, the years that remain subject to examination by taxing authorities are 2008 and thereafter.

Chaminade University of Honolulu

Notes to Financial Statements
June 30, 2011 and 2010

1. Organization and Summary of Significant Accounting Policies (continued)

p. Advertising Costs

Advertising costs are expensed as incurred and approximated \$324,000 and \$321,000 for the years ended June 30, 2011 and 2010, respectively.

q. Subsequent Events

Management has evaluated subsequent events through November 3, 2011, the date the financial statements were available to be issued.

r. Reclassifications

Certain amounts have been reclassified for 2010 to conform to the classifications adopted in 2011. Such reclassifications had no effect on the University's previously reported changes in net assets.

s. Recently Issued Accounting Pronouncements

In January 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-01, which temporarily delays the effective date of the disclosures about troubled debt restructuring in ASU 2010-20. The additional disclosures are effective for the year ending June 30, 2012. The University does not believe that the adoption of this guidance will have a significant effect on the University's financial position or statement of activities.

In May 2011, the FASB issued ASU 2011-04, which provides clarifications of Accounting Standards Codification (ASC) Topic 820. This update also includes common principles and requirements for measuring fair value and for disclosing information about fair value in accordance with accounting principles generally accepted in the United States of America (GAAP). ASU 2011-04 is effective for the year ending June 30, 2012. The University does not believe that the adoption of this guidance will have a significant effect on the University's financial position or statement of activities.

Chaminade University of Honolulu

Notes to Financial Statements
June 30, 2011 and 2010

2. Restatement of Net Assets as of June 30, 2009

Unrestricted, temporarily restricted and permanently restricted net assets as of June 30, 2009 were restated from amounts previously report to properly reflect investment returns into the proper net asset classification. The adjustment had the net effect of decreasing unrestricted net assets by \$1,163,631, decreasing permanently restricted net assets by \$135,667 and increasing temporarily restricted net assets by \$1,299,298. The adjustment did not affect total net assets as of June 30, 2009. A summary of the restated net asset balance follows:

	<u>As Previously Reported</u>	<u>As Restated</u>
Unrestricted net assets	\$ 21,757,359	\$ 20,593,728
Temporarily restricted net assets	10,883,576	12,182,874
Permanently restricted net assets	<u>7,354,928</u>	<u>7,219,261</u>
Total net assets	<u>\$ 39,995,863</u>	<u>\$ 39,995,863</u>

3. Pledges Receivable

Pledges receivable consist of the following as of June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Contributions to be received within 1 year	\$ 941,786	\$ 2,989,886
Contributions to be received in 1 to 5 years	3,557,145	3,517,140
Contributions to be received in more than 5 years	<u>900,000</u>	<u>1,614,290</u>
	5,398,931	8,121,316
Less discount at rates from 0.16% to 4.19%	<u>(344,688)</u>	<u>(435,724)</u>
	<u>\$ 5,054,243</u>	<u>\$ 7,685,592</u>

There is no allowance for uncollectible pledges receivable at June 30, 2011 and 2010.

Chaminade University of Honolulu

Notes to Financial Statements
June 30, 2011 and 2010

4. Investments

Investments consist of the following as of June 30, 2011 and 2010:

	2011	2010
Common stocks	\$ 6,203,512	\$ 4,511,480
U.S. Government debt securities	1,967,982	930,846
Corporate debt securities	837,924	380,513
Cash and money market funds	303,333	3,299,017
Certificates of deposit	-	248,174
Total investments	<u>\$ 9,312,751</u>	<u>\$ 9,370,030</u>

5. Fair Value Measurements

The FASB ASC Topic 820 (ASC 820) establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy under ASC 820 are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the University has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Chaminade University of Honolulu

Notes to Financial Statements
June 30, 2011 and 2010

5. Fair Value Measurements (continued)

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The fair value of financial instruments is the amount at which the instrument could be exchanged in a current transaction between willing parties. The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents; Student and Other Receivables; Pledge Receivables; Accounts Payable and Accrued Expenses; Accrued Payroll; Advance Tuitions and Other Deferred Revenues; Deposits Held in Custody for Others; Refundable U.S. Government Student Loans – the carrying values approximate fair values due to the short maturity of these instruments or the use of market rates to discount the related cash flows.

Student Loans Receivable – the determination of fair value of these receivables is impractical, as the balance consists of federally-sponsored loans with U.S. Government-mandated interest rates and repayment terms.

Notes Payable to Marianist Center of Hawaii – the determination of fair value is impractical since the notes are payable to a related party.

Bonds Payable - the fair value, which amounted to \$7,914,282 and \$8,579,448 at June 30, 2011 and 2010, respectively, is estimated using municipal debt securities' yield curves and the bonds' rating as of year end.

The University's investments are recorded at fair value as follows:

Common stocks are determined using the closing price reported on the active market on which the individual securities are traded.

Money market funds are determined using the net asset value reported on the active market on which the funds are traded.

U.S. Government and corporate debt securities, and negotiable certificates of deposit are estimated using a market approach valuation technique that considers, among other things, credit information, observed market movements and sector news.

Chaminade University of Honolulu

Notes to Financial Statements
June 30, 2011 and 2010

5. Fair Value Measurements (continued)

There were no changes to the methodologies used to determine fair value for the years ended June 30, 2011 and 2010.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following summarizes financial assets measured at fair value on a recurring basis as of June 30, 2011 and 2010, segregated by the level of the valuation inputs within the fair value of hierarchy utilized to measure fair value:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
2011:				
Common stocks:				
Information technology	\$ 1,048,849	\$ -	\$ -	\$ 1,048,849
Industrials	718,807	-	-	718,807
Healthcare	799,787	-	-	799,787
Financials	848,239	-	-	848,239
Energy	805,283	-	-	805,283
Other	1,982,547	-	-	1,982,547
	<u>6,203,512</u>	<u>-</u>	<u>-</u>	<u>6,203,512</u>
Total common stocks	6,203,512	-	-	6,203,512
Money market funds	303,333	-	-	303,333
U.S. government obligations	-	1,967,982	-	1,967,982
Corporate debt securities	-	837,924	-	837,924
	<u>\$ 6,506,845</u>	<u>\$ 2,805,906</u>	<u>\$ -</u>	<u>\$ 9,312,751</u>

Chaminade University of Honolulu

Notes to Financial Statements
June 30, 2011 and 2010

5. Fair Value Measurements (continued)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
2010:				
Common stocks:				
Information technology	\$ 940,923	\$ -	\$ -	\$ 940,923
Industrials	617,960	-	-	617,960
Healthcare	617,509	-	-	617,509
Financials	574,657	-	-	574,657
Energy	544,887	-	-	544,887
Other	1,215,544	-	-	1,215,544
Total common stocks	4,511,480	-	-	4,511,480
Money market funds	3,299,017	-	-	3,299,017
U.S. government obligations	-	930,846	-	930,846
Corporate debt securities	-	380,513	-	380,513
Negotiable certificates of deposit	-	248,174	-	248,174
	<u>\$ 7,810,497</u>	<u>\$ 1,559,533</u>	<u>\$ -</u>	<u>\$ 9,370,030</u>

6. Land, Buildings, Improvements, and Equipment

Land, buildings, improvements, and equipment consists of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Land	\$ 1,308,600	\$ 1,308,600
Buildings and building improvements	57,250,251	52,216,911
Furniture, fixtures, and equipment	9,712,392	13,306,850
	68,271,243	66,832,361
Less accumulated depreciation	<u>(24,135,317)</u>	<u>(26,008,337)</u>
	44,135,926	40,824,024
Construction in progress	2,891,894	3,894,944
	<u>\$ 47,027,820</u>	<u>\$ 44,718,968</u>

Depreciation expense for the years ended June 30, 2011 and 2010 was \$3,463,645 and \$3,157,579, respectively.

Chaminade University of Honolulu

Notes to Financial Statements
June 30, 2011 and 2010

7. Long Term Debt

a. Bonds Payable

The State of Hawaii constitution allows independent educational institutions the ability to issue tax-exempt State of Hawaii Special-Purpose Revenue Board (SPRB) bonds for the purpose of capital improvements.

The issuance of SPRB, Series 2006 was completed in March 2006 for \$10,000,000 at a premium of \$140,846. Management's objective for the issuance of the bonds was for the purpose of supporting capital projects, refinancing existing debt, and for funding a future debt service reserve. The issuance consists of serial bonds with fixed interest rates ranging from 4.0% to 5.0% and maturing at various dates between January 1, 2007 and January 1, 2016, and term bonds with fixed interest rates ranging from 4.7% to 5.0% and maturing at various dates between January 1, 2017 and January 1, 2036. The bond issue was insured by a third-party insurer. These obligations are secured by all tuition and fees received by the University, certain property, and by restricted cash equivalents. These obligations also include certain restrictive covenants with which the University must comply.

Related unamortized debt issuance costs amounted to \$544,324 and \$566,541 and are included in other assets in the accompanying statements of financial position at June 30, 2011 and 2010, respectively. The University's obligation under the bond issuance and unamortized bond premium amounted to \$9,395,530 and \$9,544,612 as of June 30, 2011 and 2010, respectively.

Interest expense on bonds payable amounted to \$455,695 and \$452,759 for the years ended June 30, 2011 and 2010, respectively.

Future maturities of the University's bonds payable as of June 30, 2011 are as follows:

Years ending June 30,	Principal	Interest	Total
2012	\$ 150,000	\$ 444,859	\$ 594,859
2013	175,000	438,859	613,859
2014	205,000	431,859	636,859
2015	230,000	423,659	653,659
2016	245,000	412,159	657,159
Thereafter	8,320,000	4,792,489	13,112,489
	<u>\$ 9,325,000</u>	<u>\$ 6,943,884</u>	<u>\$ 16,268,884</u>

Chaminade University of Honolulu

Notes to Financial Statements
June 30, 2011 and 2010

7. Long Term Debt (continued)

b. Notes Payable

Notes payable as of June 30, 2011 and 2010 consist of the following:

	<u>2011</u>	<u>2010</u>
Line of credit agreement with a bank; interest at the bank's prime rate (4.375% at June 30, 2011); expires in January 2012; secured by accounts receivable, inventory, equipment and general intangibles	\$ 2,500,000	\$ 5,600,000
Note payable to a bank, interest at prime plus 0.5% (4.875% at June 30, 2011); payable in monthly interest only payments, plus annual principal payments of \$714,285; due in July 2015; secured by an assignment of the payments due for a pledge receivable	3,161,802	3,725,476
Unsecured note payable to Marianist Center of Hawaii in semiannual installments, including interest at 3.0%; due in October 2014	98,790	138,790
Unsecured note payable to Marianist Center of Hawaii in semiannual installments, including interest at 3.0%; due in October 2012	<u>18,000</u>	<u>43,000</u>
	<u>\$ 5,778,592</u>	<u>\$ 9,507,266</u>

Future maturities of the University's notes payable as of June 30, 2011 are as follows:

Years ending June 30,	
2012	\$ 3,272,285
2013	754,285
2014	733,075
2015	<u>1,018,947</u>
	<u>\$ 5,778,592</u>

Interest expense on notes payable amounted to \$87,218 and \$117,563, net of amounts capitalized of \$150,611 and \$189,761, for the years ended June 30, 2011 and 2010, respectively.

Chaminade University of Honolulu

Notes to Financial Statements
June 30, 2011 and 2010

8. Endowments

The University's endowment funds consist of the following at June 30, 2011 and 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2011:				
Donor-restricted funds	\$ (32,878)	\$ 1,879,709	\$ 7,624,877	\$ 9,471,708
Board-designated funds	104,244	-	-	104,244
	<u>\$ 71,366</u>	<u>\$ 1,879,709</u>	<u>\$ 7,624,877</u>	<u>\$ 9,575,952</u>
2010:				
Donor-restricted funds	\$ (126,353)	\$ 1,046,740	\$ 7,431,514	\$ 8,351,901
Board-designated funds	91,242	-	-	91,242
	<u>\$ (35,111)</u>	<u>\$ 1,046,740</u>	<u>\$ 7,431,514</u>	<u>\$ 8,443,143</u>

During the years ended June 30, 2011 and 2010, the University had the following endowment-related activities:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
2011:				
Beginning of year	\$ (35,111)	\$ 1,046,740	\$ 7,431,514	\$ 8,443,143
Investment return:				
Investment gains	1,907	168,328	-	170,235
Net appreciation	106,390	997,151	-	1,103,541
Total investment return	108,297	1,165,479	-	1,273,776
Contributions	-	-	193,363	193,363
Appropriations for expenditures	(1,820)	(332,510)	-	(334,330)
	<u>\$ 71,366</u>	<u>\$ 1,879,709</u>	<u>\$ 7,624,877</u>	<u>\$ 9,575,952</u>

Chaminade University of Honolulu

Notes to Financial Statements
June 30, 2011 and 2010

8. Endowments (continued)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
2010:				
Beginning of year	\$ 88,462	\$ 501,725	\$ 6,888,001	\$ 7,478,188
Investment return:				
Investment gains	2,358	205,110	-	207,468
Net (depreciation) appreciation	<u>(121,261)</u>	<u>521,410</u>	<u>-</u>	<u>400,149</u>
Total investment return	(118,903)	726,520	-	607,617
Contributions	-	-	543,513	543,513
Appropriations for expenditures	<u>(4,670)</u>	<u>(181,505)</u>	<u>-</u>	<u>(186,175)</u>
	<u>\$ (35,111)</u>	<u>\$ 1,046,740</u>	<u>\$ 7,431,514</u>	<u>\$ 8,443,143</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$32,878 and \$126,353 as of June 30, 2011 and 2010, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board.

Chaminade University of Honolulu

Notes to Financial Statements
June 30, 2011 and 2010

9. Temporarily Restricted Net Assets

Information relating to restrictions released during the years ended June 30, 2011 and 2010 and the remaining balance of temporarily restricted net assets as of June 30, 2011 and 2010 is as follows:

	2011		2010	
	Restriction Released	Available Balance	Restriction Released	Available Balance (as restated)
Purpose of restriction:				
Building improvements and equipment acquisitions	\$ 3,230,838	\$ 3,951,260	\$ 4,033,936	\$ 5,973,618
Financial aid, scholarships and awards	411,198	1,987,374	638,869	2,320,923
Interest in net assets of Chaminade University Educational Foundation	-	898,492	-	741,342
Instructional support and other	1,417,354	1,806,777	1,073,170	1,268,249
	<u>\$ 5,059,390</u>	<u>\$ 8,643,903</u>	<u>\$ 5,745,975</u>	<u>\$ 10,304,132</u>

10. Permanently Restricted Net Assets

Permanently restricted net assets consisted of the following as of June 30, 2011 and 2010:

	2011	2010 (as restated)
Financial aid, scholarships, and awards	\$ 7,624,877	\$ 7,431,514
Interest in net assets of Chaminade University Educational Foundation	334,388	304,883
	<u>\$ 7,959,265</u>	<u>\$ 7,736,397</u>

Chaminade University of Honolulu

Notes to Financial Statements
June 30, 2011 and 2010

11. Commitments and Contingencies

a. Operating Leases

The University is committed under operating lease agreements for real property used for student housing. The leases provide that the University pay for real property tax assessments, insurance, general excise taxes, and certain maintenance and operating expenses applicable to the leased premises. One of the leases contains an option to purchase the real property at a price equal to the amount paid by the lessor for the demised premises, plus an annual increase of 3.5%. Rent expense for the years ended June 30, 2011 and 2010 amounted to approximately \$393,000 and \$346,000, respectively.

Future minimum lease payments under non-cancelable operating leases as of June 30, 2011 are as follows:

Years ending June 30,	
2012	\$ 338,477
2013	357,184
2014	161,658
2015	12,800
	<hr/>
	\$ 870,119

b. Capital Leases

The University acquired office equipment under a capital lease, which expires in March 2012. For financial reporting purposes, minimum lease rentals relating to the equipment have been capitalized using the University's incremental borrowing rate at the inception of the lease. Amortization of the capitalized cost of the leased equipment included in depreciation and amortization expense for the years ended June 30, 2011 and 2010 amounted to \$43,400.

The following is a schedule of leased property under the capital lease as of June 30, 2011 and 2010:

	2011	2010
Office equipment	\$ 217,000	\$ 217,000
Less accumulated amortization	(188,067)	(144,667)
	<hr/>	<hr/>
	\$ 28,933	\$ 72,333

Chaminade University of Honolulu

Notes to Financial Statements
June 30, 2011 and 2010

11. Commitments and Contingencies (continued)

b. Capital Leases (continued)

Future minimum lease payments under the capital lease and related interest expense as of June 30, 2011 is as follows:

Minimum lease payments for June 30, 2012	\$ 55,872
Less: amount representing interest	<u>(5,747)</u>
Present value of net minimum lease payments	<u><u>\$ 50,125</u></u>

c. Construction in Progress

The University is committed under construction contracts of approximately \$2,269,108 and \$2,374,000 at June 30, 2011 and 2010, respectively.

d. Litigation

The University is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the University's financial position, results of operations, or liquidity.

12. Employee Benefit Plans

a. Defined Contribution Plan

The University sponsors a contributory, defined contribution retirement plan for eligible career faculty and administrative employees. Plan contributions are based upon a percentage of each participant's total earnings and are funded on a current basis. Contributions to the plan, net of any forfeitures, were approximately \$544,000 and \$531,000 for the years ended June 30, 2011 and 2010, respectively.

b. Voluntary Early Retirement Benefit

The University's early retirement program was terminated effective June 30, 2010. Instructional expenses for the year ended June 30, 2010 includes a gain of \$373,245 related to the termination of the program.

Chaminade University of Honolulu

Notes to Financial Statements
June 30, 2011 and 2010

12. Employee Benefit Plans (continued)

c. Sabbatical Leave

The University allows certain eligible faculty members to take sabbatical leaves. A faculty member electing a single sabbatical semester is compensated for that semester at 100% of their base salary. Compensation is 50% of the faculty member's salary for a full-year sabbatical leave. The faculty member continues to receive all employee benefits, salary increases and promotions while on sabbatical leave. The University reserves the right to limit the number of sabbaticals taken to two in a given year. Accrued payroll includes nil and \$50,800 for estimated sabbatical leave benefits earned through June 30, 2011 and 2010, respectively.

13. Transactions with Affiliated Entities

a. Marianist Center of Hawaii

The land and certain buildings from which the University operates belong to the Marianist Center of Hawaii. In March 2006, the properties were leased to the University under a conditional lease agreement for a term of 50 years. The lease requires annual rent of \$1 and all taxes, assessments, and other charges applicable to the leased premises. The University has the option to extend the term of the lease for one additional 50-year period. For the years ended June 30, 2011 and 2010, the estimated fair value of the lease rent for the land and buildings has been determined by a real estate appraiser to be approximately \$1,432,000 and \$1,297,000, respectively, and is included in unrestricted private gifts and grants and in various expenditure classifications in the accompanying statements of activities.

b. Chaminade University Educational Foundation

The Chaminade University Educational Foundation (the Foundation), a charitable trust, was created exclusively to encourage, promote, and assist in the financing of the objectives and purpose of the University. Trustees are appointed by majority vote of the remaining trustees. The Foundation has received a determination from taxing authorities that its stated purpose is tax exempt as described in the Internal Revenue Code. The Foundation's board of trustees has sole discretion as to the timing and amounts of contributions of its net assets to the University.

During the years ended June 30, 2011 and 2010, the University received temporarily restricted contributions from the Foundation of \$2,000 and \$112,250, respectively.

Chaminade University of Honolulu

Notes to Financial Statements
June 30, 2011 and 2010

13. Transactions with Affiliated Entities (continued)

c. Contributions

Pledges receivable as of June 30, 2011 and 2010 include amounts from members of the Board totaling approximately \$1,700,500 and \$1,742,000, respectively. Private gifts and grants for the years ended June 30, 2011 and 2010 include amounts contributed by members of the Board totaling approximately \$227,000 and \$1,110,000, respectively.

14. Charitable Remainder Trust

The University became the beneficiary of a charitable remainder trust in 2011 under which the donor is to receive during her lifetime, certain amounts based on a specified percentage of the fair value of the trust's assets each year. Upon the death of the donor, the assets of the trust will be distributed to the University. The receivable from the trust is recorded at the present value of the estimated net future benefits to be received when the trust's assets are distributed using a discount rate of 2.8%. The receivable balance amounted to \$30,875 at June 30, 2011.