



Financial Statements and Report of Independent
Certified Public Accountants

Chaminade University of Honolulu

June 30, 2008 and 2007

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Report of Independent Certified Public Accountants

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The Board of Regents
Chaminade University of Honolulu

We have audited the accompanying balance sheets of Chaminade University of Honolulu (the University) as of June 30, 2008 and 2007, 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 as established by the American Institute of Certified Public Accountants. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, 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 Chaminade University of Honolulu as of June 30, 2008 and 2007, and the changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Grant Thornton LLP".

Honolulu, Hawaii
November 17, 2008

Chaminade University of Honolulu

BALANCE SHEETS

June 30,

ASSETS	2008	2007
Cash and cash equivalents (note A3)	\$ 548,081	\$ 331,259
Restricted cash equivalents (notes A4 and I2)	947,044	1,342,921
Receivables (notes A8 and A9):		
Student loans (less allowance for doubtful accounts of \$120,711 in 2008 and \$94,463 in 2007)	648,717	587,453
Student and other (less allowance for doubtful accounts of \$753,000 in 2008 and \$430,000 in 2007)	1,075,622	1,094,364
Pledges (note D)	7,521,772	4,153,585
Grants	389,481	502,914
Total receivables	9,635,592	6,338,316
Inventories (note A5)	614,005	642,824
Short-term investments (notes A6 and E)	2,468,818	5,817,729
Other assets, at cost (notes A10 and I2)	851,429	866,152
Buildings, improvements, and equipment, net (notes A7, A12, F and H)	35,795,582	27,172,599
Interest in net assets of Chaminade University Educational Foundation (notes J, N and O)	1,328,487	1,481,100
Long-term investments (notes A6 and E)	7,677,361	8,386,701
TOTAL ASSETS	\$ 59,866,399	\$ 52,379,601
LIABILITIES AND NET ASSETS		
Bank overdraft	\$ 551,489	\$ 355,896
Accounts payable and accrued expenses (notes P and Q)	2,362,555	2,148,385
Accrued payroll	1,079,815	1,112,988
Deposits held in custody for others	499,183	499,762
Advance tuitions and other deferred revenues	1,686,640	1,299,884
Refundable U.S. government student loans	632,042	622,521
Capital lease obligation (note H)	185,876	210,322
Line of credit and long-term debt (notes A11 and I1)	13,130,392	12,374,435
Total liabilities	20,127,992	18,624,193
Commitments and contingencies (notes G, I, Q, R and S)	-	-
Net assets		
Unrestricted		
Undesignated	20,609,528	14,552,813
Designated as "quasi-endowment"	101,907	113,129
Temporarily restricted (note J)	12,315,358	12,616,377
Permanently restricted (note K)	6,711,614	6,473,089
Total net assets	39,738,407	33,755,408
TOTAL LIABILITIES AND NET ASSETS	\$ 59,866,399	\$ 52,379,601

The accompanying notes are an integral part of these statements.

Chaminade University of Honolulu

STATEMENTS OF ACTIVITIES

Year ended June 30,

	2008				2007			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, gains, and other support:								
Tuition and fees	\$26,420,844	\$ -	\$ -	\$26,420,844	\$ 25,838,166	\$ -	\$ -	\$ 25,838,166
Less tuition discounts and scholarships	(6,067,406)	-	-	(6,067,406)	(6,070,649)	-	-	(6,070,649)
Net tuition and fees	20,353,438	-	-	20,353,438	19,767,517	-	-	19,767,517
Private gifts and grants (notes D and O)	1,820,767	10,367,309	238,525	12,426,601	1,568,637	3,690,876	188,474	5,447,987
Auxiliary enterprises	4,235,996	-	-	4,235,996	4,146,884	-	-	4,146,884
Federal grants and contracts	2,238,020	-	-	2,238,020	2,412,253	-	-	2,412,253
Net realized and unrealized gains on investments	(4,422)	(795,605)	-	(800,027)	32,456	802,076	-	834,532
Investment income	64,746	491,276	-	556,022	140,171	550,848	-	691,019
Change in interest in net assets of Chaminade University								
Educational Foundation (notes J, N and O)	-	(152,613)	-	(152,613)	-	75,100	-	75,100
Other	206,533	-	-	206,533	203,932	-	-	203,932
Net assets released from restrictions (note J):								
Satisfaction of program restrictions	1,406,741	(1,406,741)	-	-	645,106	(645,106)	-	-
Satisfaction of equipment acquisition restrictions	8,804,645	(8,804,645)	-	-	4,169,698	(4,169,698)	-	-
Total revenues, gains, and other support	39,126,464	(301,019)	238,525	39,063,970	33,086,654	304,096	188,474	33,579,224
Expenses:								
Program expenses:								
Instructional	11,140,206	-	-	11,140,206	10,604,336	-	-	10,604,336
Academic support	7,173,228	-	-	7,173,228	5,953,798	-	-	5,953,798
Institutional support	5,545,362	-	-	5,545,362	5,079,761	-	-	5,079,761
Student services	3,210,524	-	-	3,210,524	3,283,526	-	-	3,283,526
Program expenses	27,069,320	-	-	27,069,320	24,921,421	-	-	24,921,421
Fund-raising	1,010,631	-	-	1,010,631	1,169,949	-	-	1,169,949
Auxiliary expenses	4,910,638	-	-	4,910,638	4,674,483	-	-	4,674,483
Total expenses	32,990,589	-	-	32,990,589	30,765,853	-	-	30,765,853
CHANGE IN NET ASSETS	6,135,875	(301,019)	238,525	6,073,381	2,320,801	304,096	188,474	2,813,371
Net assets at beginning of year, previously reported	14,665,942	12,616,377	6,473,089	33,755,408	12,785,284	12,312,281	6,284,615	31,382,180
Cumulative effect on prior years (to June 30, 2007) of adopting EITF 06-2 (note B)	(90,382)	-	-	(90,382)	-	-	-	-
Restatement (note C)	-	-	-	-	(440,143)	-	-	(440,143)
Net assets at beginning of year, restated	14,575,560	12,616,377	6,473,089	33,665,026	12,345,141	12,312,281	6,284,615	30,942,037
Net assets at end of year	<u>\$20,711,435</u>	<u>\$12,315,358</u>	<u>\$6,711,614</u>	<u>\$39,738,407</u>	<u>\$ 14,665,942</u>	<u>\$12,616,377</u>	<u>\$ 6,473,089</u>	<u>\$ 33,755,408</u>

The accompanying notes are an integral part of these statements.

Chaminade University of Honolulu
STATEMENTS OF CASH FLOWS
Year ended June 30,

	2008	2007
Cash flows from operating activities:		
Change in net assets	\$ 6,073,381	\$ 2,813,371
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,506,167	2,042,433
Provision for doubtful accounts	339,530	326,246
Decrease (increase) in interest in net assets of Chaminade University Educational Foundation	152,613	(75,100)
Net realized and unrealized losses (gains) on investments	800,027	(834,532)
Decrease (increase) in assets:		
Student loans receivable	(89,381)	(68,986)
Student and other receivables	(292,671)	(382,791)
Pledges receivable	(3,368,187)	794,232
Grants receivable	113,433	118,363
Inventories	28,819	50,685
Other assets	14,723	(106,683)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	123,788	117,824
Accrued payroll	(33,173)	48,001
Deposits held in custody for others	(579)	(21,850)
Advance tuitions and other deferred revenues	386,756	(95,995)
Refundable U.S. government student loans	9,521	6,851
Contributions restricted for long-term investment	(1,181,350)	(861,257)
Net cash provided by operating activities	5,583,417	3,870,812
Cash flows from investing activities:		
Purchase of investments	(11,960,589)	(5,547,135)
Proceeds from sale of investments	15,218,813	4,681,931
Purchases of land, building improvements, and equipment	(11,129,150)	(7,226,445)
Net cash used in investing activities	(7,870,926)	(8,091,649)
Cash flows from financing activities:		
Decrease in restricted cash equivalents	395,877	845,123
Increase in bank overdrafts	195,593	355,896
Payments of bond issue costs	-	(66,672)
Payments on notes payable	(76,000)	(75,000)
Drawings on lines of credit	6,700,000	4,800,000
Repayments of lines of credit	(5,750,000)	(2,750,000)
Repayments of from serial bonds	(118,043)	(216,201)
Payment on capital lease	(24,446)	(6,678)
Proceeds from contributions and investment income restricted for:		
Investment in endowment	238,525	188,474
Investment in plant	942,825	672,783
Net cash provided by financing activities	2,504,331	3,747,725
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	216,822	(473,112)
Cash and cash equivalents at beginning of year	331,259	804,371
Cash and cash equivalents at end of year	\$ 548,081	\$ 331,259
Supplemental disclosure of cash flow information:		
<u>Cash paid during the year for:</u>		
Interest	\$ 558,653	\$ 417,095
<u>Noncash investing and financing activities:</u>		

During the year ended June 30, 2007, the University acquired office equipment under a capital lease obligation of \$217,000.

The accompanying notes are an integral part of these statements.

Chaminade University of Honolulu
NOTES TO FINANCIAL STATEMENTS

June 30, 2008 and 2007

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Organization

Chaminade University of Honolulu (the University) is a private, coeducational 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.

2. Financial Statement Presentation

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.

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. 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. If restrictions are met in the same reporting period in which the assets are received, net assets are classified to unrestricted net assets.

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.

3. Cash and Cash Equivalents

For purposes of the statements of cash flows, the University considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. Deposits in excess of federally-insured limits amounted to \$1,535,000 and \$1,492,000 at June 30, 2008 and 2007, respectively.

Chaminade University of Honolulu

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2008 and 2007

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

4. 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 (see note I2).

5. Inventories

Inventories include textbooks, supplies, and apparel and are valued at the lower of cost (first-in, first-out method) or market.

6. Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value in the balance sheets 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.

7. Buildings, Improvements, and Equipment

Buildings, improvements, and equipment are capitalized at cost, if purchased, or at fair market value at the date of donation. Assets contributed for which the fair market value is not determinable at the date of donation are recorded as support and revenues when such values are determined.

Depreciation of capital assets is calculated on the straight-line basis over the estimated useful lives of the assets. The estimated useful lives of capital assets 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.

Chaminade University of Honolulu

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2008 and 2007

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

8. 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. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. 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.

The University reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. 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 statements of activities as net assets released from restrictions.

9. Student Receivables

Student accounts receivable are stated at amounts due from students, net of an allowance for doubtful accounts. Accounts outstanding longer than the contractual payment terms are considered past due. The School determines its allowance by considering a number of factors, including the length of time accounts receivable are past due, the School's previous loss history, the student's current ability to pay its obligation to the School, and the condition of the general economy and the industry as a whole. The School 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, 2008 and 2007, allowance for doubtful accounts of \$873,711 and \$524,463, respectively, was recorded. Bad debt expense amounted to \$339,530 and \$326,246 for the fiscal years ended June 30, 2008 and 2007, respectively.

10. Bond Issue Cost

Cost of issuing bonds are deferred and amortized to expense using straight-line method, which approximates the effective interest method, over the term of the debt.

11. Unamortized Debt Premium

Debt premium is amortized ratably over the term of the related debt using the effective interest method, and the unamortized balance is reflected as an offset against the related long-term liabilities in the statement of financial position..

12. Impairment of Long-Lived Assets

The University accounts for long-lived assets in accordance with the provisions of Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (Statement No. 144). In accordance with Statement No. 144, long-lived assets, such as buildings, improvements, and

Chaminade University of Honolulu

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2008 and 2007

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

12. Impairment of Long-Lived Assets (continued)

equipment and purchased intangibles subject to amortization, 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 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. Assets to be disposed of would be separately presented in the balance sheets and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheets.

13. Advertising Costs

Advertising costs are expensed as incurred and approximated \$296,000 and \$349,000 for the years ended June 30, 2008 and 2007, respectively.

14. Income Taxes

On July 1, 2007, the University adopted the provisions of FASB Interpretation No. (“FIN”) 48, *“Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109”* FIN 48 established a recognition threshold and measurement attributes for income tax positions recognized in the University’s financial statements in accordance with SFAS No. 109, *“Accounting for Income Taxes.”* In evaluating a tax position for recognition, FIN 48 requires that the University judgmentally evaluate 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.

On July 1, 2007, the University also adopted the provisions of FSP No. FIN 48-1, “Definition of Settlement in FASB Interpretation No. 48,” which provides guidance on how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing a liability for previously unrecognized tax benefits in the statement of condition. The adoption of FIN 48 did not impact the University’s financial position or statements of activities.

15. Fair Value of Financial Instruments

Statement of Financial Accounting Standards No. 107, Disclosures about Fair Value of Financial Instruments, requires disclosure of fair value information for most financial instruments, both on and off the balance sheet, if it is practicable to estimate. A financial instrument is defined as a contractual

Chaminade University of Honolulu

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2008 and 2007

NOTE A – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

15. Fair Value of Financial Instruments (continued)

obligation that ultimately ends with the delivery of cash or an ownership interest in an entity. Where possible, disclosures included in these notes regarding the fair value of financial instruments have been derived using external market sources. If no external market source exists for a financial instrument, fair value estimates are created using present value or other valuation techniques. These estimates are subjective in nature and involve uncertainties and matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the University's fair value estimates.

16. 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, and valuation allowances for receivables. Actual results could differ from those estimates.

17. Reclassifications

Certain reclassifications have been made to the 2007 classifications to conform to the 2008 presentation.

NOTE B – CHANGE IN ACCOUNTING PRINCIPLE

In June 2006, the Financial Accounting Standards Board ratified a consensus opinion reached by the Emerging Issues Task Force (EITF) on EITF Issue 06-2, "Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43." The guidance in EITF Issue 06-2 requires employers to recognize compensation associated with an employee's right to compensated absences under sabbatical or similar leave that does not require the employee to perform any duties for the benefit of the employer during the leave. The compensation associated with such benefit arrangements must be accrued over the requisite service period, provided the other conditions in paragraph 6 of Statement 43, *Accounting for Compensated Absences*, are met.

The University applied the consensus reached in EITF Issue 06-2 effective July 1, 2007 through a change in accounting principle through a cumulative effect adjustment to net assets. The adjustment to apply EITF 06-2 is included in net assets at the beginning of the year ended June 30, 2007.

NOTE C – RESTATEMENT

Net assets as of July 1, 2006 have been restated to reflect the correction of an understatement of the University's voluntary early retirement plan obligations of \$440,143. Changes in net assets for the year ended July 30, 2006 increased by \$46,438. Details of the early retirement plan are discussed in note P.

Chaminade University of Honolulu

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2008 and 2007

NOTE D – PLEDGES RECEIVABLE

Pledges receivable included the following contributions receivable at June 30, 2008 and 2007:

	2008	2007
Contributions to be received within 1 year	\$2,782,659	\$3,637,000
Contributions to be received in 1 to 5 years	4,265,000	78,000
Contributions to be received in more than 5 years	900,000	900,000
	7,947,659	4,615,000
Less discount to present value – rates range from 1.18% to 4.19%	(425,887)	(461,415)
	\$7,521,772	\$4,153,585

There was no allowance for uncollectible pledges receivable at June 30, 2008 and 2007.

NOTE E – INVESTMENTS

As of June 30, 2008 and 2007, investments are classified as short-term and long-term as follows:

	2008	2007
Short-term investments:		
Unrestricted – undesignated and temporarily restricted	\$ 2,468,818	\$ 5,817,729
Long-term investments:		
Temporarily restricted	1,192,769	2,121,462
Permanently restricted	6,382,685	6,152,110
Designated as “quasi-endowment” by the Board of Regents for long-term investment	101,907	113,129
Total long-term investments	7,677,361	8,386,701
Total investments	\$10,146,179	\$14,204,430

The fair values of investments held by the University at June 30, 2008 and 2007 follows:

	2008	2007
Cash and cash equivalents	\$ 3,601,292	\$ 7,228,731
Equity	4,645,126	5,095,876
Fixed income	758,132	698,648
U.S. government obligations	840,794	450,334
Corporate bonds	300,835	730,841
	\$10,146,179	\$14,204,430

Management fees amounted to \$75,580 and \$62,297 in 2008 and 2007, respectively.

Chaminade University of Honolulu

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2008 and 2007

NOTE F – BUILDINGS, IMPROVEMENTS, AND EQUIPMENT

A summary of buildings, improvements, and equipment at June 30, 2008 and 2007 follows:

	<u>2008</u>	<u>2007</u>
Land	\$ 1,308,600	\$ 1,308,600
Buildings and building improvements	42,009,457	26,831,500
Furniture, fixtures, and equipment	<u>12,368,284</u>	<u>11,904,497</u>
	55,686,341	40,044,597
Less accumulated depreciation	<u>(21,061,793)</u>	<u>(18,555,626)</u>
	34,624,548	21,488,971
Construction in progress	<u>1,171,034</u>	<u>5,683,628</u>
	<u>\$ 35,795,582</u>	<u>\$ 27,172,599</u>

Depreciation and amortization expense for 2008 and 2007 was \$2,506,167 and \$2,042,433, respectively.

NOTE G – 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. The lease agreement also contains options to extend the leases for an additional five years under the same terms. 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, 2008 and 2007 amounted to approximately \$343,302 and \$298,566, respectively.

Future minimum lease payments under noncancelable operating leases as of June 30, 2008 are as follows:

Year ending June 30,	
2009	\$110,400
2010	<u>18,400</u>
	<u>\$128,800</u>

NOTE H – CAPITAL LEASE OBLIGATION

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. The related assets and obligations have been recorded using the University's incremental borrowing rate at the inception of the lease. Amortization of the capitalized cost of the leased equipment was included in depreciation and amortization expense and amounted to \$43,400 and \$14,467 for the years ended June 30, 2008 and 2007, respectively.

Chaminade University of Honolulu

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2008 and 2007

NOTE H – CAPITAL LEASE OBLIGATION (continued)

The following is a schedule of leased property under the capital lease as of June 30, 2008 and 2007:

	2008	2007
Office equipment	\$217,000	\$217,000
Less accumulated amortization	57,867	14,467
	\$159,133	\$202,533

The following is a schedule by years of future minimum lease payments under the capital lease together with the present value of the net minimum lease payments as of June 30, 2008:

Year ending June 30,	
2009	\$ 83,808
2010	83,808
2011	83,808
2012	55,872
Total minimum lease payments	307,296
Amount representing interest	(121,420)
Present value of net minimum lease payments	\$ 185,876
Current portion	\$ 32,788
Noncurrent portion	153,088
	\$ 185,876

NOTE I – LINE OF CREDIT AND LONG-TERM DEBT

1. Notes Payable

Notes payable as of June 30, 2008 and 2007 consist of the following:

	2008	2007
Note payable to a bank under a line of credit agreement	\$3,000,000	\$2,050,000
Payable to Marianist Center of Hawaii in semiannual installments, including interest at 3.0%; principal due October 2014; unsecured	213,790	248,790
Payable to Marianist Center of Hawaii in semiannual installments, including interest at 3.0%; principal due October 2012; unsecured	92,000	115,000
Payable to Marianist Center of Hawaii in semiannual installments, including interest at 3.0%; principal due October 2009; unsecured	18,000	36,000
	\$3,323,790	\$2,449,790

Chaminade University of Honolulu
 NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2008 and 2007

NOTE I – LINE OF CREDIT AND LONG-TERM DEBT (continued)

1. Notes Payable (continued)

Notes payable will mature as of June 30 as follows:

2009	\$3,077,000
2010	65,000
2011	65,000
2012	58,000
2013	40,000
Thereafter	<u>18,790</u>
	<u><u>\$3,323,790</u></u>

The University has a \$5,000,000 line of credit with a Hawaii bank. Interest on amounts drawn under this line accrues at the bank’s prime rate. The line of credit expires in February 2009. Outstanding borrowings as of June 30, 2008 were \$3,000,000. Drawings on this line of credit were secured by accounts receivable, inventory and equipment.

2. Bonds Payable

Pursuant to the November 2002 election, the constitution of the State of Hawaii was amended to allow independent educational institutions the opportunity to issue tax-exempt State of Hawaii Special-Purpose Revenue Boards (SPRB) bonds for the purpose of capital improvements. 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 of SPRB, Series 2006 was completed in March 2006 for \$10,000,000 at a premium of \$140,846. 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 \$610,976 and \$633,193, which are included in other assets in the accompanying balance sheets at June 30, 2008 and 2007, respectively. The University’s obligation under the bond issuance and unamortized bond premium amounted to \$9,806,602 and \$9,924,645 at June 30, 2008 and 2007, respectively, which is included in long-term debt in the accompanying balance sheets.

Chaminade University of Honolulu

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2008 and 2007

NOTE I – LINE OF CREDIT AND LONG-TERM DEBT (continued)

2. Bonds Payable (continued)

Debt service requirements for the years following June 30, 2008 are as follows:

	Principal	Interest	Total
2009	\$ 110,000	\$ 459,659	\$ 569,659
2010	125,000	455,259	580,259
2011	135,000	450,259	585,259
2012	150,000	444,859	594,859
2013	175,000	438,859	613,859
Thereafter	9,000,000	6,060,166	15,060,166
	\$9,695,000	\$8,309,061	\$18,004,061

Total interest expense amounted to approximately \$460,819 and \$419,012 for the years ended June 30, 2008 and 2007, respectively, net of amounts capitalized of approximately \$116,000 and \$101,000, respectively.

NOTE J – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2008 and 2007 are available for the following purposes:

	2008	2007
Building improvements and equipment acquisitions	\$ 9,353,334	\$ 8,953,310
Time restriction – interest in net assets of Chaminade University		
Educational Foundation (note N)	1,027,487	1,180,100
Financial aid, scholarships, and awards	1,113,043	1,718,443
Other	821,494	764,524
	\$12,315,358	\$12,616,377

Net assets in the amount of \$10,211,387 and \$4,814,804 were released from donor restrictions during the years ended June 30, 2008 and 2007, respectively, by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by the donors as follows:

	2008	2007
Building improvements and equipment acquisitions	\$ 8,804,645	\$4,169,698
Financial aid, scholarships, and awards	290,092	232,123
Other	1,116,649	412,983
	\$10,211,386	\$4,814,804

Chaminade University of Honolulu

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2008 and 2007

NOTE K – PERMANENTLY RESTRICTED NET ASSETS

At June 30, 2008 and 2007, permanently restricted net assets consisted of the following:

	2008	2007
Financial aid, scholarships, and awards	\$6,382,685	\$6,152,110
Interest in net assets of Chaminade University Educational Foundation (note N)	328,929	320,979
	\$6,711,614	\$6,473,089

NOTE L – 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.

NOTE M – RETIREMENT 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 \$450,000 and \$445,000 for the years ended June 30, 2008 and 2007, respectively.

NOTE N – 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.

NOTE O – TRANSACTIONS WITH AFFILIATED ENTITIES

1. 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, 2008 and 2007, the estimated fair value of the lease rent for the land and buildings has been determined by a real estate appraiser to be approximately

Chaminade University of Honolulu

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2008 and 2007

NOTE O – TRANSACTIONS WITH AFFILIATED ENTITIES (continued)

1. Marianist Center of Hawaii (continued)

\$1,299,500 and \$1,274,000, respectively, and is included in private gifts and grants and in various expenditure classifications in the accompanying statements of activities.

2. Chaminade University Education Foundation

During the years ended June 30, 2008 and 2007, the University received temporarily restricted contributions from the Foundation of \$24,750 and \$55,000, respectively.

NOTE P– VOLUNTARY EARLY RETIREMENT PLAN

In September 1999, the University adopted a voluntary early retirement plan for its faculty personnel. Eligibility requirements include personnel with at least 15 years of full-time employment who have attained the age of 60 years on or before the stipulated retirement date. The benefits for eligible participants who chose to retire by May 15, 2000 were based on the most recent employment contract at the time of retirement and range from 100% to 120% of the nine-month contract base salary. The benefits for eligible participants who retire after May 15, 2000 are \$600 for each completed year of service over 15 years with an additional amount based on the participant's age at retirement date. The maximum payment under this plan is twice the faculty member's annual compensation during the year immediately preceding the termination of service. Applications for the plan must be received by November 5 of the same fiscal year of retirement date. In April 2008, the Board of Regents approved the decision to terminate the plan in 2010.

The plan's funding status, as measured on July 1 of each fiscal period, follows:

	2008	2007
Projected benefit obligation at year end	\$306,296	\$372,382
Fair value of plan assets at end of year	–	–
Funded status	\$306,296	\$372,382
Employer contributions	\$ 8,365	\$ 11,402
Benefits paid	8,365	11,402
Net periodic postretirement benefit cost	18,187	27,962

Amounts recognized in the balance sheets consist of:

	2008	2007
Accrued benefit cost included in accounts payable and accrued expenses		
Current	\$ 6,928	\$113,368
Non-current	299,368	259,014
Total	\$306,296	\$372,382

Chaminade University of Honolulu
 NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2008 and 2007

NOTE P- VOLUNTARY EARLY RETIREMENT PLAN (continued)

The University expects to contribute and make benefit payments of \$6,928 for the year ending June 30, 2009.

The following represent expected future benefits for the periods shown:

2009	\$ 6,928
2010	299,368

The following assumptions were used:

Termination of plan: June 30, 2010

Weighted average assumptions used to determine benefit obligation and net periodic benefit cost:

	2008	2007
Rate of compensation increase	3.5%	3.5%
Discount rate:		
Net periodic pension cost	6.5%	6.25%
Benefit obligation	6.25%	6.5%

Withdrawal from service:	<u>Age</u>	<u>Percent terminating</u>
	20	17.9%
	25	17.2%
	30	16.2%
	35	14.9%
	40	13.1%
	45	10.8%
	50	7.9%

Retirement ranges:	<u>Age</u>	<u>Retirement percentage</u>
	60-61	10%
	62-64	20%
	65-69	60%
	70+	100%

In September 2006, the Financial Accounting Standards Board issued Statement 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans: an amendment of FASB Statements No. 87, 88, 106, and 132(R)*. Statement 158 requires the University to recognize the funded status of its defined benefit postretirement plans in the University's balance sheet. The Statement does not change the accounting for the University's defined contribution plans.

Chaminade University of Honolulu

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2008 and 2007

NOTE P– VOLUNTARY EARLY RETIREMENT PLAN (continued)

The recognition and disclosure provisions of Statement 158 are effective for fiscal years ending after June 15, 2007, for entities without publicly traded equity securities that have defined benefit plans and is to be applied as of the end of the year of adoption. Retroactive application is not permitted. The University has adopted the recognition provisions of Statement 158 for the year ended June 30, 2007.

The incremental effect of applying FASB Statement No. 158 as of June 30, 2007 is as follows:

	Before application of FAS 158	Adjustments	After application of FAS 158
Liability for retirement plan benefits	\$ 456,703	\$(84,321)	\$ 372,382
Unrestricted net assets	14,581,621	84,321	14,665,942

NOTE Q – 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. The accrued projected benefit was \$51,786 and \$90,382, as of June 30, 2008 and 2007, respectively.

NOTE R – COMMITMENTS

The University was committed under construction contracts of approximately \$2,423,000 and \$7,406,000 at June 30, 2008 and 2007, respectively.

NOTE S – LEGAL PROCEEDINGS

The University is involved in various other 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.

NOTE T – ESTIMATED FAIR VALUE INFORMATION

1. Financial Assets

The carrying value of cash and cash equivalents, student and other receivable, pledge receivable and grant receivable are considered to approximate fair value. When possible, the fair value of investments is determined by reference to quoted market prices. When quoted market prices are not available, fair value is estimated by reference to market values for similar securities or by discounting cash flows at an

Chaminade University of Honolulu

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2008 and 2007

NOTE T – ESTIMATED FAIR VALUE INFORMATION (continued)

2. Financial Assets (continued)

appropriate risk rate taking into consideration the varying degrees of risk specific to each financial asset. Determination of the fair value of student loans receivable, which are primarily federally sponsored student loans with United States Government mandated interest rates and repayment terms subject to significant restrictions as to their transfer and disposition, could not be made without incurring excessive costs.

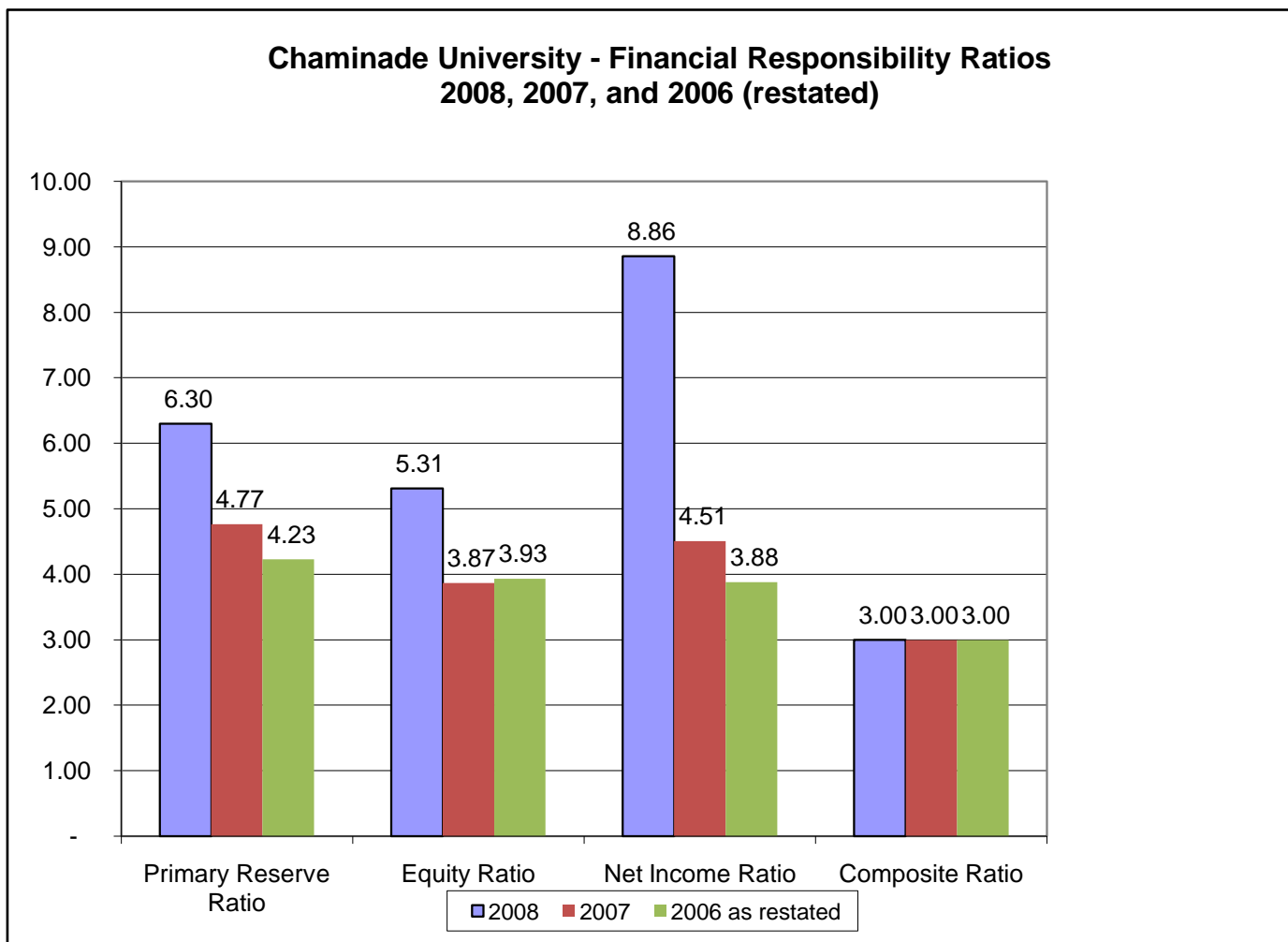
2. Financial Liabilities

The carrying value of accounts payable, other liabilities, refundable U.S. government student loans and a note payable under a line of credit are considered to approximate fair value. The determination of fair values of the University's notes payable to Marianist Center of Hawaii is not practicable since the notes are payable to a related party. The fair value of the University's bonds payable is based on the municipal yield curves based on the bonds Standard and Poor's rating as of the valuation date. The estimated fair values of the bonds payable were \$7,942,349 and \$9,926,166 at June 30, 2008 and 2007, respectively.

NOTE U – SUBSEQUENT EVENTS

Subsequent to year-end, the University's investment portfolio has incurred a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined.

In September 2008, the University received a \$5,000,000 pledge from a charitable foundation for the renovation of a building. In October 2008, the University received a \$4,000,000 federal grant to be received over two years for the renovation of its science lab and a \$2,500,000 federal grant to be received over five years for its nursing program.



Primary Reserve Ratio

$(\text{Expendable net assets} \div \text{Total expenses}) \times 10$

Produces a snapshot of financial strength and flexibility by indicating how long the university could operate using its expendable reserves without relying on additional net assets generated by operations.

Equity Ratio

$\text{Total net assets} \div \text{Total assets} \times 8$

Provides the creditors with some idea of the University's ability to withstand losses without impairing the interest of creditors.

Net Income Ratio

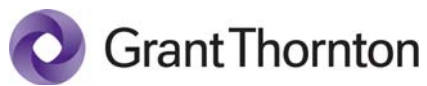
$((\text{Change in Unrestricted Net Assets} \div \text{Total Unrestricted Revenues}) \times 50) + 1$

Provides a rate of profit on each dollar received.

Composite Ratio

$(\text{Primary reserve ratio} + \text{equity ratio} + \text{net income ratio})$
Maximum score of 3

This scale reflects the probability a school will be able to continue operations and meet its obligations to students and the DOE. The range for composite scores is -1.0 to +3.0. The Composite Ratio must be at least 1.5 to be in compliance with the Federal financial responsibility requirements.



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