

University of Hawai'i
State of Hawai'i
Financial and Compliance Audit
June 30, 2014

University of Hawai'i
State of Hawai'i
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Year Ended June 30, 2014

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SECTION 1

COMPLIANCE REPORTS

**Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

To the Board of Regents
University of Hawai'i

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of the University of Hawai'i (the "University") as of and for the year ended June 30, 2014, and have issued our report thereon dated February 12, 2015. In that report, we indicated the extent of our reliance on the report of other auditors in the conduct of the audit.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the University's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

We also noted certain other matters that we will report to the Board of Regents and management of the University in our Internal Control and Business Issues Report.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests and the report of other auditors disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The image shows a handwritten signature in black ink that reads "Acuity LLP". The word "Acuity" is written in a cursive style, and "LLP" is written in a simpler, blocky font.

Honolulu, Hawaii
February 12, 2015

Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Board of Regents
University of Hawai'i

Report on Compliance for Each Major Federal Program

We have audited the University of Hawai'i's (the "University") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2014. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The University's consolidated financial statements include the operations of the Research Corporation of the University of Hawai'i (the "Research Corporation"), which received \$1,056,921 in federal awards which are not included in the attached schedule of expenditures of federal awards. The Research Corporation is a separate component unit of the University and its compliance with such terms and conditions is separately audited and is therefore outside the scope of this report.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133, and which are described in the accompanying schedule of findings and questioned costs as Finding Nos. 2014-01 through 2014-05. Our opinion on each major federal program is not modified with respect to these matters. We also noted other matters that we will report to the Board of Regents and management of the University in our Internal Control and Business Issues Report.

The University's response to the noncompliance findings identified in our audit is described in Section 5 of this report. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The University's response to the internal control over compliance findings identified in our audit is described in Section 5 of this report. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the consolidated financial statements of the University, as of and for the year ended June 30, 2014, and the related notes to the consolidated financial statements, which collectively comprise the University's basic financial statements. We issued our report thereon dated February 12, 2015, which contained unmodified opinions on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards, prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America, is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards, as prepared on the cash basis of accounting, is fairly stated in all material respects in relation to the basic financial statements as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

The image shows a handwritten signature in black ink that reads "Accuity LLP". The word "Accuity" is written in a cursive, flowing script, while "LLP" is written in a simpler, more upright font.

Honolulu, Hawai'i
February 12, 2015

SECTION 2

**SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS**

University of Hawai‘i
State of Hawai‘i
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

	CFDA No.	Pass-Through Identifier	Expenditures
MAJOR PROGRAM – RESEARCH AND DEVELOPMENT			
U.S Department of Agriculture			
Agricultural Research Service			
Agricultural Research – Basic and Applied Research	10.001		\$ 2,037,634
Animal and Plant Health Inspection Service			
Plant and Animal Disease, Pest Control, and Animal Care	10.025		\$ 494,221
Wildlife Services	10.028		7,014
			<u>501,235</u>
Agricultural Marketing Service			
Federal-State Marketing Improvement Program	10.156		18,205
National Institute of Food and Agriculture			
Grants for Agricultural Research, Special Research Grants	10.200		309,428
Cooperative Forestry Research	10.202		263,391
Payments to Agricultural Experiment Stations Under the Hatch Act	10.203		1,996,326
Grants for Agricultural Research – Competitive Research Grants	10.206		1
Animal Health and Disease Research	10.207		1,358
Biotechnology Risk Assessment Research	10.219		31,988
Alaska Native Serving and Native Hawaiian			
Serving Institutions Education Grants	10.228		13,269
Organic Agriculture Research and Extension Initiative	10.307		1
Agriculture and Food Research Initiative	10.310		6,809,751
Biomass Research and Development Initiative			
Competitive Grants Program	10.312		789,688
Cooperative Extension Service	10.500		2,470,757
			<u>12,685,958</u>
Forest Service			
Forestry Research	10.652		8,739
Urban and Community Forestry Program	10.675		277
Other	10.		683,564
			<u>692,580</u>
Natural Resources Conservation Service			
Soil Survey	10.903		48,091
Environmental Quality Incentives Program	10.912		5,373
			<u>53,464</u>
Passed Through From			
State of Hawaii Dept. of Agriculture	10.025		149,767
State of Hawaii Dept. of Agriculture	10.170		12,713
State of Hawaii Dept. of Land and Natural Resources	10.093		21,739
State of Hawaii Dept. of Land and Natural Resources	10.664		11,400
State of Hawaii Dept. of Land and Natural Resources	10.675		34,492
State of Hawaii Dept. of Land and Natural Resources	10.678		144,886
State of Hawaii Dept. of Land and Natural Resources	10.680		473,735
State of Hawaii Dept. of Land and Natural Resources	10.914		24,999
State of Hawaii Dept. of Land and Natural Resources	10.	C32847	3,201
University of California – Davis	10.200		73,876
University of California – Davis	10.304		41,090
University of Maryland	10.303		46,599
Oceanic Institute	10.200		236,610
Ohio State University	10.309		124,283
Oregon State University	10.320		46,372
State University of Rutgers	10.025		366
Tri-Isle Resource Conservation & Development Council	10.	10-DG-11052021-232	2,902
Utah State University	10.215		320,469
			<u>1,769,499</u>
			<u>17,758,575</u>
U.S. Department of Commerce			
National Oceanic and Atmospheric Administration			
Integrated Ocean Observing System	11.012		2,621,446
Sea Grant Support	11.417		1,601,850
Financial Assistance for National Centers for Coastal Ocean Science	11.426		74,263
Undersea Research	11.430		837,554
Climate and Atmospheric Research	11.431		457,555
NOAA Cooperative Institutes	11.432		12,565,397
Unallied Industry Projects	11.452		534,252
Unallied Management Projects	11.454		211,996
Coastal Services Center	11.473		178,165
Center for Sponsored Coastal Ocean Research – Coastal Ocean Program	11.478		204,392
Coral Reef Conservation Program	11.482		98,242
Other	11.		676,367
			<u>20,061,479</u>
National Institute of Standards and Technology			
Measurement and Engineering Research and Standards	11.609		77,408

University of Hawai‘i
State of Hawai‘i
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

	CFDA No.	Pass-Through Identifier	Expenditures
Passed Through From			
State of Hawaii Dept. of Business, Economic Development and Tourism	11.419		12,357
ARRA – State of Hawaii Dept. of Commerce and Consumer Affairs	11.558		742,885
State of Hawaii Dept. of Defense	11.467		311,513
State of Hawaii Dept. of Land and Natural Resources	11.419		15,018
State of Hawaii Dept. of Land and Natural Resources	11.482		218,219
Research Corporation of the University of Hawaii	11.429		41,834
Research Corporation of the University of Hawaii	11.	various	59,606
East West Center	11.431		99,015
University of Guam	11.	various	20,671
University of Maryland	11.012		193,893
National Marine Sanctuary Foundation	11.	30-27-3-1-E-HAW	699
The Nature Conservancy	11.463		14,698
The Nature Conservancy	11.482		32,830
University Corp for Atmospheric Research	11.431		18,586
University Corp for Atmospheric Research	11.467		44,086
			<u>1,825,910</u>
			21,964,797
U.S. Department of Defense			
Air Force			
Air Force Defense Research Sciences Program	12.800		2,950,140
Other	12.		<u>9,953,680</u>
			12,903,820
Army			
Basic and Applied Scientific Research	12.300		1,408,654
Military Medical Research and Development	12.420		332,344
Basic Scientific Research	12.431		101,875
Basic, Applied and Advanced Research in Science and Engineering	12.630		37,115
Other	12.		<u>8,880,659</u>
			10,760,647
Navy			
Basic and Applied Scientific Research	12.300		14,703,547
Navy Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance	12.335		35,208
Other	12.		<u>46,316</u>
			14,785,071
Deputy Under Secretary Defense	12.		7,515,137
National Geospatial Intelligence Agency	12.		441,533
National Security Agency			
Mathematical Sciences Grants Program	12.901		11,334
Washington Headquarters Services	12.		420,190
Pacific Command	12.		90,965
Passed Through From			
State of Hawaii Dept. of Land and Natural Resources	12.630		81
Alaska Department of Fish and Game	12.	COOP-09-143	10,225
University of Alaska – Fairbanks	12.	UAF 09-0025/ FP901003	297,130
Archinoetics, LLC	12.	1065-001	24,408
The Boeing Company	12.	PC 794406	32,659
University of California – San Diego	12.	PO 10306151-005	20,806
CH2M Hill Inc A/P	12.110		19,494
Concurrent Technologies Corporation	12.	various	130,955
Fibertek Inc	12.	HDTRA1-813022	178,473
University of Central Florida	12.420		174,896
The Geneva Foundation	12.420		4,264
GSI Pacific Inc	12.	P.O. 1032000-04	19,693
HDR Environmental, Operations and Construction Inc	12.	various	(81,225)
Ho'okipaipai LLC	12.	-----	96,421
Kalino LLC	12.	-----	12,031
Makai Ocean Engineering Inc	12.	-----	31,253
Oceanit Laboratories Inc	12.420		11,172
Oceanit Laboratories Inc	12.800		14,718
Pacific Health Research & Education Institute	12.420		31,891
Pacific Health Research & Education Institute	12.	various	19,685
Qinetiq North America, Inc	12.	various	57,729
Select Engineering Services	12.	SESTARDEC-000100	48,218
Texas A&M University	12.300		11,750
Trex Enterprises Corporation	12.	58985	3,514
Trex Hawaii LLC	12.	17224-4	15
UT-Battelle LLC	12.	4000121475	603,549
Woods Hole Oceanographic Institute	12.300		7,086
Woods Hole Oceanographic Institute	12.	A100660	53,323
Wyle Laboratories, Inc	12.	WR0091FY11	122,053
			<u>1,956,267</u>
			48,884,964

University of Hawai‘i
State of Hawai‘i
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

	CFDA No.	Pass-Through Identifier	Expenditures
U.S Department of Housing and Urban Development			
Passed Through From			
State of Hawaii Dept. of Human Services	14.235		41,160
U.S Department of the Interior			
Bureau of Land Management			
Fish, Wildlife and Plant Conservation Resource Management	15.231		644
Fish and Wildlife Service			
Fish and Wildlife Management Assistance	15.608		22,110
Research Grants (Generic)	15.650		130,205
Undesirable/Noxious Plant Species	15.652		147,187
Migratory Bird Monitoring, Assessment and Conservation	15.655		53,113
Endangered Species Conservation – Recovery Implementation Funds	15.657		963,847
Fish and Wildlife Coordination and Assistance Programs	15.664		93,064
Cooperative Landscape Conservation	15.669		470,111
U.S. Geological Survey			
Assistance to State Water Resources Research Institutes	15.805		150,521
U.S. Geological Survey – Research and Data Collection	15.808		1,496,297
National Climate Change and Wildlife Science Center	15.820		1,139,870
Other	15.		7,770
National Park Service			
Preservation of Japanese American Confinement Sites	15.933		10,374
Natural Resource Stewardship	15.944		8,411
Cooperative Research and Training Programs –			
Resources of the National Park System	15.945		211,574
Cultural Resources Management	15.946		15,013
National Park Service Conservation, Protection, Outreach and Education	15.954		7,759
Other	15.		664,531
Passed Through From			
State of Hawaii Dept. of Land and Natural Resources	15.605		776,328
State of Hawaii Dept. of Land and Natural Resources	15.608		6,378
State of Hawaii Dept. of Land and Natural Resources	15.611		114,964
State of Hawaii Dept. of Land and Natural Resources	15.614		11,386
State of Hawaii Dept. of Land and Natural Resources	15.615		1,209,649
State of Hawaii Dept. of Land and Natural Resources	15.634		541,142
State of Hawaii Dept. of Land and Natural Resources	15.643		505
State of Hawaii Dept. of Land and Natural Resources	15.657		57,232
State of Hawaii Dept. of Land and Natural Resources	15.944		13,738
State of Hawaii Dept. of Land and Natural Resources	15.	various	150,000
America View	15.815		12,655
Government of American Samoa	15.634		54,353
			2,948,330
			8,540,731
U.S. Department of Justice			
Office of Juvenile Justice and Delinquency Prevention			
Reduction and Prevention of Children's Exposure to Violence	16.730		244,341
Passed Through From			
State of Hawaii Dept. of Attorney General	16.550		18,274
State of Hawaii Dept. of Human Services	16.540		86,915
Rand Corporation	16.730		13,821
			119,010
			363,351
U.S. Department of State			
	19.		69,354
U.S. Department of Transportation			
Federal Aviation Administration			
Air Transportation Centers of Excellence	20.109		7,800
Passed Through From			
State of Hawaii Dept. of Land and Natural Resources	20.219		54,035
State of Hawaii Dept. of Land and Natural Resources	20.	C42161	9,561
State of Hawaii Dept. of Transportation	20.205		217,131
State of Hawaii Dept. of Transportation	20.	various	753,791
University of Alaska – Fairbanks	20.	UAF 13-0095 FP32434	11,226
Oregon State University	20.761		3,693
			1,049,437
			1,057,237

**University of Hawai‘i
State of Hawai‘i
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014**

	CFDA No.	Pass-Through Identifier	Expenditures
National Aeronautics and Space Administration			
Goddard			
Science	43.001		11,746,829
Space Operations	43.007		879
Education	43.008		123,181
Other	43.		1,517,626
Ames	43.		1,198,812
John H. Glenn Research Center	43.001		116
Johnson Space Center	43.001		183,804
Passed Through From			
American Museum of Natural History	43.001		6,290
University of Arizona	43.	various	41,104
Arizona State University	43.	various	73,987
Association of Universities for Research in Astronomy, Inc.	43.	47991	50,000
University of California – Berkeley	43.001		87,288
University of California – Davis	43.001		85,144
University of California – Los Angeles	43.	0995-S-NB083, AMDT 5	109,351
University of California – San Diego	43.222	PO #10306128-004	144,704
University of Colorado – Denver	43.001		31,032
Cornell University	43.003		172,793
Jet Propulsion Lab	43.001		105,085
Jet Propulsion Lab	43.	various	136,752
Malin Space Science Systems, Inc.	43.001		119,224
Montclair State University	43.001		50,565
University of Pittsburgh	43.001		13,782
SETI Institute	43.001		47,180
Sierra Lobo Inc	43.	SLI-0711-004	696
Smithsonian Astrophysical Observatory	43.001		344,191
Smithsonian Astrophysical Observatory	43.	SV2-82001	393
Southwest Research Institute	43.001		1,718
Southwest Research Institute	43.	PO E62488J	38,890
Space Telescope Science Institute	43.001		1,442
Space Telescope Science Institute	43.	various	400,534
Universities Space Research Association	43.	002235-03	2,352
University of Washington	43.001		9,359
			<u>2,073,856</u>
			16,845,103
National Science Foundation			
Engineering Grants	47.041		1,626,193
Mathematical and Physical Sciences	47.049		4,336,466
Geosciences	47.050		17,208,065
Computer and Information Science and Engineering	47.070		1,105,827
Biological Sciences	47.074		6,647,021
Social, Behavioral and Economic Sciences	47.075		415,413
Education and Human Resources	47.076		5,265,842
Polar Programs	47.078		235,155
Office of International and Integrative Activities	47.079		75,560
Office of Cyberinfrastructure	47.080		43,003
Office of Experimental Program to Stimulate Competitive Research	47.081		3,993,835
ARRA – Trans-NSF Recovery Act Research Support	47.082		2,381,758
Passed Through From			
ARRA – Assn. of Universities for Research in Astronomy, Inc.	47.082		1,493,685
Bishop Museum	47.074		4,317
University of California – San Diego	47.050		154,878
California Institute of Technology	47.050		23,066
California State University – Northridge	47.074		21,213
Columbia University	47.050		242,534
Consortium for Ocean Leadership	47.050		8,417
Consortium for Ocean Leadership	47.	various	106,396
Faraday Technology Inc	47.	CHECK #3410	46,908
Finger Lakes Community College	47.076		4,370
University of Central Florida	47.041		6,063
University of Central Florida	47.076		6,653
University of Georgia	47.074		230,399
Georgia State University	47.076		20,393
Harvard University	47.	PO SB584681/70000431685	24,490
ARRA – University of Illinois	47.082		17,455
Indiana University	47.049		38,660
Lorain County Community College	47.076		33,489
University of Massachusetts – Amherst	47.075		2,950

University of Hawai‘i
State of Hawai‘i
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

	CFDA No.	Pass-Through Identifier	Expenditures	
Monterey Bay Aquarium Research	47.050		10,521	
City University of New York	47.049		2,756	
North Carolina State University	47.050		1,554	
Open Source Project Network	47.050		6,084	
Oregon State University	47.079		11,331	
University of Oregon	47.050		21,237	
Pacific Resources for Education & Learning	47.076		97,245	
Princeton University	47.050		70,107	
Rice University	47.050		21,885	
State University of Rutgers	47.075		17,586	
State University of Rutgers	47.	-----	26,407	
South Dakota School of Mines & Technology	47.041		9,841	
University of Southern California	47.050		320,129	
Tennessee Technological University	47.076		8,654	
Utah State University	47.081		12,996	
University of Washington	47.050		50,000	
			<u>50,000</u>	<u>3,174,669</u>
				46,508,807
U.S. Department of Veterans Affairs	64.			174,116
Environmental Protection Agency				
Office of Research and Development				
Science To Achieve Results Research Program	66.509		131,765	
Science to Achieve Results Fellowship Program	66.514		13	131,778
Office of Chemical Safety and Pollution Prevention				
Research, Development, Monitoring, Public Education, Training, Demonstrations and Studies	66.716			49,804
Office of Water				
Regional Wetland Program Development Grants	66.461			33,380
Passed Through From				
State of Hawaii Dept. of Health	66.419		156,163	
State of Hawaii Dept. of Health	66.460		47,113	
State of Hawaii Dept. of Health	66.817		13,321	
State of Hawaii Dept. of Health	66.	various	51,766	
University of Illinois	66.509		15,193	283,556
			<u>15,193</u>	<u>498,518</u>
U.S. Department of Energy				
Office of Science Financial Assistance Program	81.049			2,563,219
Conservation Research and Development	81.086			1,009,685
Renewable Energy Research and Development	81.087			2,904,604
ARRA – Electricity Delivery and Energy Reliability, Research, Development and Analysis	81.122			1,812,726
Passed Through From				
ARRA – State of Hawaii Dept. of Business, Economic Development and Tourism	81.	PO 00025592	246	
State of Hawaii Dept. of Business, Economic Development and Tourism	81.	various	294,991	
ARRA – Argonne National Lab	81.	9F-32161	7,696	
Argonne National Lab	81.	PO# 3B-30161	2,400	
ARRA – Arizona Geological Survey	81.	HI-EE0002850	99,974	
Battelle Energy Alliance LLC	81.	85590	8,008	
Battelle Pacific Northwest National Laboratory	81.	181723	60,713	
Battelle Memorial Institute	81.	207867	617,726	
Brookhaven National Lab	81.	various	39,566	
University of California – Berkeley	81.	various	28,475	
Carnegie Institution of Washington	81.112		47,591	
Cornell University	81.087		345,464	
University of Kansas	81.049		30,829	
Lawrence Livermore National Laboratory	81.	B600251	25,338	
University of Minnesota	81.122		20,346	
MVSystems Inc.	81.	DE-FG36-07GO17105,A000	85,030	
National Renewable Energy Lab	81.	AGB-1-11433-01	5,034	
South Dakota State University	81.079		18,817	
University Corp for Atmospheric Research	81.087		2,445	
Yale University	81.089		68,268	1,808,957
			<u>68,268</u>	<u>10,099,191</u>

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	CFDA No.	Pass-Through Identifier	Expenditures	
U.S. Department of Education				
Institute of Education Sciences				
Education Research, Development and Dissemination	84.305			197,231
Office of Special Education and Rehabilitative Services				
Special Education – Educational Technology Media, and Materials for Individuals with Disabilities	84.327			353,817
Passed Through From				
State of Hawaii Dept. of Human Services	84.	-----	355,910	
Mid-Continent Research for Education & Learning	84.305		8,694	
Pacific Resources for Education & Learning	84.283		230,534	595,138
				<u>1,146,186</u>
U.S. Department of Health and Human Services				
National Institutes of Health				
Human Genome Research	93.172		311,049	
Research and Training in Complementary and Alternative Medicine	93.213		20,213	
Mental Health Research Grants	93.242		453,735	
Drug Abuse and Addiction Research Programs	93.279		2,391,071	
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286		345,895	
Minority Health and Health Disparities Research	93.307		4,359,492	
Trans-NIH Research Support	93.310		70,975	
National Center for Research Resources	93.389		4,543,292	
Cancer Cause and Prevention Research	93.393		10,372,317	
Cancer Detection and Diagnosis Research	93.394		29	
Cancer Treatment Research	93.395		1,572,051	
Cancer Biology Research	93.396		145,345	
Cancer Centers Support Grants	93.397		2,287,738	
Cancer Research Manpower	93.398		326,650	
ARRA – Trans-NIH Recovery Act Research Support	93.701		265,083	
Cardiovascular Diseases Research	93.837		1,299,512	
Arthritis, Musculoskeletal and Skin Diseases Research	93.846		208,001	
Diabetes, Digestive and Kidney Diseases Extramural Research	93.847		486,713	
Kidney Diseases, Urology and Hematology Research	93.849		14	
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		906,299	
Allergy, Immunology and Transplantation Research	93.855		1,694,908	
Biomedical Research and Research Training	93.859		7,566,159	
Child Health and Human Development Extramural Research	93.865		842,639	
Aging Research	93.866		430,875	
Others	93.		1,446,146	42,346,201
Centers for Disease Control and Prevention				
Environmental Public Health and Emergency Response	93.070		103,756	
Centers for Disease Control and Prevention – Investigations and Technical Assistance	93.283		36,452	140,208
Administration for Community Living				
Special Programs for the Aging – Title IV – and Title II – Discretionary Projects	93.048			117,173
Health Resources and Services Administration				
Telehealth Programs	93.211			326,438
Office of the Secretary				
Teenage Pregnancy Prevention Program	93.297			911,536
Agency for Healthcare Research and Quality				
Research on Healthcare Costs, Quality and Outcomes	93.226			429,957
Centers for Medicare and Medicaid Services				
Health Care Innovation Awards	93.610			3,965,511
Passed Through From				
State of Hawaii Office of the Governor	93.624		36,300	
State of Hawaii Dept. of Health	93.048		9	
State of Hawaii Dept. of Health	93.243		117,649	
State of Hawaii Dept. of Health	93.283		126,080	
State of Hawaii Dept. of Health	93.590		223,423	
State of Hawaii Dept. of Health	93.959		431,240	
State of Hawaii Dept. of Health	93.	various	70,940	
State of Hawaii Dept. of Human Services	93.667		66,747	
State of Hawaii Dept. of Human Services	93.779		206,282	
Beth Israel Deaconess Med Ctr	93.213		47,302	
ARRA – Commonwealth of No. Mariana Islands	93.719		36,247	
Commonwealth of No. Mariana Islands	93.778		104,361	
Commonwealth of No. Mariana Islands	93.912		375,238	
Commonwealth of No. Mariana Islands	93.	CNMI-CHC-2012-001	736,008	

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	CFDA No.	Pass-Through Identifier	Expenditures
University of Alabama – Birmingham	93.847		28,927
University of California – Davis	93.103		85,981
University of California – Davis	93.262		56,550
University of California – Davis	93.397		116,835
University of California – Irvine	93.855		241,248
University of California – Los Angeles	93.279		333,557
ARRA – University of California – San Diego	93.701		134,060
University of California – San Francisco	93.145		277,958
University of California – San Francisco	93.853		108,667
University of California – San Francisco	93.855		177,859
Cancer Prevention Institute of California	93.393		8,288
Chaminade University	93.307		206,804
Children’s Hospital of Philadelphia	93.	-----	277
Coalition for a Drug-Free Hawaii	93.276		66,899
University of Colorado – Denver	93.865		205,977
Dartmouth College	93.273		6,714
Dartmouth College	93.393		172,457
Charles R. Drew University	93.307		522,876
Charles R. Drew University	93.389		87,165
The Emmes Corporation	93.395		(1,109)
The Forsyth Institute	93.121		16,883
Georgia State University	93.077		1,421
University of Guam	93.397		84,686
ARRA – Hawaii Health Information Exchange	93.718		23,397
ARRA – Hawaii Health Information Exchange	93.719		26,425
Hawaii Pacific University	93.279		34,453
Health Research Inc.	93.393		38,992
Fred Hutchinson Cancer Research Center	93.393		85,940
Johns Hopkins University	93.393		3,215
Johns Hopkins University	93.865		223,196
Johns Hopkins University	93.	37975 / PO # 2001771197	21,714
Klein Buendel, Inc.	93.393		141,928
Loma Linda University	93.393		9,612
University of Maryland	93.113		80,715
University of Miami	93.361		265,103
University of Minnesota	93.393		369,087
University of Nevada – Las Vegas	93.859		46,007
University of New Mexico	93.859		32,057
University of North Carolina – Chapel Hill	93.113		120,025
University of North Carolina – Chapel Hill	93.865		100,847
University of North Carolina – Greensboro	93.273		4,101
Northeastern University	93.279		117,522
NSABP Foundation Inc.	93.395		105,400
NSABP Foundation Inc.	93.	PFED22-HAW-01	1,083
ARRA – Pacific Ecommerce Development Corporation	93.719		30,746
Pacific Health Research & Education Institute	93.847		10,472
Papa Ola Lokahi	93.	various	323,856
University of Pittsburgh	93.838		777
Queen’s Hospital Medical Center	93.394		232,987
ARRA – Queen’s Hospital Medical Center	93.715		9,758
Riverside Research Institute	93.286		8,494
Riverside Research Institute	93.394		72,818
SAIC – Frederick Inc	93.	13XS125	7,069
Seattle Institute for Biomedical and Clinical Research	93.847		186,815
University of Southern California	93.172		183,534
Southwest Oncology Group	93.399		14,321
Southwest Oncology Group	93.	-----	2,500
Stanford University	93.393		142,424
University of Texas	93.393		(49,905)
University of Texas Southwestern Med Ctr	93.837		90,000
University of Texas Southwestern Med Ctr	93.853		1,266
Tulane University of Louisiana	93.865		22,544
Vanderbilt University	93.837		185,486
Virginia Polytechnic Institute & State University	93.394		36,101
University of Washington	93.855		32,926
University of Wisconsin – Madison	93.866		6,673
World Health Organization	93.393		58,875
Yale University	93.395		4,624
Yale University	93.853		15,376
			<u>9,000,162</u>
			57,237,186

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	CFDA No.	Pass-Through Identifier	Expenditures	
U.S. Department of Homeland Security				
Centers for Homeland Security	97.061			1,379,360
Homeland Security Research, Development, Testing, Evaluation, and Demonstration of Technologies Related to Nuclear Threat Detection Passed Through From	97.077			599,267
County of Hawaii	97.	C.002545	(1,580)	
Northern Arizona University	97.	MGN3EUS-02	14,273	12,693
				<u>1,991,320</u>
U.S. Agency for International Development				
USAID Foreign Assistance for Programs Overseas Passed Through From	98.001			1,084,955
Arizona State University	98.001		12,949	
Nathan Associates Inc.	98.001		128,253	
Nathan Associates Inc.	98.	H901-000-PDC-004	(47,693)	
Virginia Polytechnic Inst & St Univ	98.001		259,100	352,609
				<u>1,437,564</u>
Other				
Smithsonian Institution	99.	09-S DD-400-0000184717		11,183
Total Research and Development				234,629,343
MAJOR PROGRAM – STUDENT FINANCIAL ASSISTANCE				
U.S. Department of Education				
Office of Student Financial Assistance Programs				
Federal Supplemental Educational Opportunity Grants	84.007		1,412,756	
Federal Work-Study Program	84.033		1,546,202	
Federal Perkins Loan Program	84.038		2,628,369	
Federal Pell Grant Program	84.063		67,271,598	
Federal Direct Student Loans	84.268		151,729,955	224,588,880
Teacher Education Assistance for College and Higher Education Grants	84.379			47,351
Total Student Financial Assistance				224,636,231
MAJOR PROGRAM – TITLE III HIGHER EDUCATION – INSTITUTIONAL AID				
U.S. Department of Education				
Office of Postsecondary Education				
Higher Education – Institutional Aid	84.031			11,389,939
Total Title III Higher Education – Institutional Aid				11,389,939
MAJOR PROGRAM – TRIO CLUSTER				
U.S. Department of Education				
Office of Postsecondary Education				
TRIO – Student Support Services	84.042		1,813,258	
TRIO – Talent Search	84.044		617,699	
TRIO – Upward Bound	84.047		1,766,949	
TRIO – Educational Opportunity Centers	84.066		462,203	
TRIO – McNair Post-Baccalaureate Achievement	84.217		127,538	4,787,647
Total TRIO Cluster				4,787,647
MAJOR PROGRAM – TITLE VII NATIVE HAWAIIAN EDUCATION				
U.S. Department of Education				
Office of Elementary and Secondary Education				
Native Hawaiian Education	84.362			11,121,790
Passed Through From				
ISIS Hawaii	84.362		10,762	
Living Life Source Foundation	84.362		73,574	84,336
Total Title VII Native Hawaiian Education				11,206,126

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	CFDA No.	Pass-Through Identifier	Expenditures
MAJOR PROGRAM – BROADBAND TECHNOLOGY OPPORTUNITIES PROGRAM			
U.S. Department of Commerce			
National Telecommunications and Information Administration			
ARRA – Broadband Technology Opportunities Program	11.557		9,769,432
Total Broadband Technology Opportunities Program			9,769,432
MAJOR PROGRAM – HOMELAND SECURITY TRAINING			
U.S. Department of Homeland Security			
State and Local Homeland Security National Training Program	97.005		5,123,172
Total State and Local Homeland Security National Training Program			5,123,172
MAJOR PROGRAM – GEAR UP PROGRAM			
U.S. Department of Education			
Office of Postsecondary Education			
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334		3,443,498
Total Gear Up Program			3,443,498
MAJOR PROGRAM – C3T PROGRAM			
U.S. Department of Labor			
Employment Training Administration			
Trade Adjustment Assistance Community College and Career Training Grants	17.282		12,745,743
Total C3T Program			12,745,743
OTHER FEDERAL ASSISTANCE			
U.S. Department of Agriculture			
Agricultural Research Service			
Agricultural Research – Basic and Applied Research	10.001		26,304
Animal and Plant Health Inspection Service			
Plant and Animal Disease, Pest Control and Animal Care	10.025		143,102
National Institute of Food and Agriculture			
Higher Education – Graduate Fellowships Grant Program	10.210		20,697
Secondary and Two-Year Postsecondary Agriculture Education Challenge Grants	10.226		39,960
Alaska Native Serving and Native Hawaiian Serving Institutions Education Grants	10.228		1,311,424
Integrated Programs	10.303		156,339
Agriculture and Food Research Initiative	10.310		34,748
Cooperative Extension Service	10.500		201,293
Departmental Management			
Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers	10.443		217,229
Risk Management Agency			
Crop Insurance Education in Targeted States	10.458		215,138
Commodity Partnerships for Small Agricultural Risk Management Education Sessions	10.459		46,757
Forest Service			
Forestry Research	10.652		51,259
Forest Stewardship Program	10.678		25,002
Rural Business – Cooperative Service			
Rural Business Opportunity Grants	10.773		10,000
Passed Through From			
State of Hawaii Dept. of Agriculture	10.170		20,665
State of Hawaii Dept. of Education	10.558		117,796
State of Hawaii Dept. of Human Services	10.551		208,700
State of Hawaii Dept. of Land and Natural Resources	10.611		39,646
State of Hawaii Dept. of Land and Natural Resources	10.614		19,974
State of Hawaii Dept. of Land and Natural Resources	10.675		6,131
University of Arizona	10.303		19,366
University of California – Davis	10.303		19,456
Kansas State University	10.500		72,913
Purdue University	10.500		80,537
Utah State University	10.500		7,106
University of Wyoming	10.500		11,527
			623,817
			3,123,069

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	CFDA No.	Pass-Through Identifier	Expenditures	
U.S. Department of Commerce				
Economic Development Administration				
Economic Development – Support for Planning Organizations	11.302		7,666	
Economic Development – Technical Assistance	11.303		<u>180,554</u>	188,220
National Oceanic and Atmospheric Administration				
Sea Grant Support	11.417		1,566,550	
NOAA Cooperative Institutes	11.432		15,754	
Unallied Industry Projects	11.452		8,605	
Unallied Management Projects	11.454		6,709	
Congressionally Identified Awards and Projects	11.469		42,053	
Coastal Services Center	11.473		272,992	
Other	11.		<u>215,650</u>	2,128,313
Minority Business Development Agency				
MBDA Business Center	11.805			277,989
Passed Through From				
State of Hawaii Dept. of Defense	11.467		46,022	
State of Hawaii Dept. of Land and Natural Resources	11.419		39,264	
State of Hawaii Dept. of Land and Natural Resources	11.463		21,104	
State of Hawaii Dept. of Land and Natural Resources	11.482		181,771	
Alu Like, Inc.	11.452		18,327	
American Samoa Government	11.432		98,729	
High Technology Development Corp	11.611		32,084	
National Marine Sanctuary Foundation	11.	Check No. 14700	<u>2,170</u>	439,471
				<u>3,033,993</u>
U.S. Department of Defense				
Army	12.			392,755
Navy				
Basic and Applied Scientific Research	12.300		37,660	
Other	12.		<u>172,540</u>	210,200
National Security Agency				
Language Grant Program	12.900			160,460
Pacific Command	12.			208,970
Defense Logistics Agency	12.			18,279
Passed Through From				
Chaminade University	12.300		10,954	
Institute of International Education	12.550		54,212	
Institute of International Education	12.	various	<u>931,715</u>	996,881
				<u>1,987,545</u>
U.S. Department of Housing & Urban Development				
Office of Policy Development and Research				
Alaska Native/Native Hawaiian Institutions Assisting Communities	14.515			2,159,696
Passed Through From				
State of Hawaii Dept. of Labor and Industrial Relations	14.	-----		<u>312</u>
				<u>2,160,008</u>
U.S. Department of the Interior				
Fish and Wildlife Service				
Partners for Fish and Wildlife	15.631		64,205	
Service Training and Technical Assistance (Generic Training)	15.649		23,056	
Undesirable/Noxious Plant Species	15.652		2,715	
Endangered Species Conservation – Recovery Implementation Funds	15.657		8,231	
Endangered Species – Candidate Conservation Action Funds	15.660		40,686	
Fish and Wildlife Coordination and Assistance Programs	15.664		68,100	
Other	15.		<u>2,909</u>	209,902
U.S. Geological Survey				
Assistance to State Water Resources Research Institutes	15.805		50	
Other	15.		<u>13,838</u>	13,888
Office of Insular Affairs				
Economic, Social, and Political Development of the Territories	15.875			121,756
National Park Service				
Cooperative Research and Training Programs –				
Resources of the National Park System	15.945		5,888	
Other	15.		<u>39,025</u>	44,913
Bureau of Ocean Energy Management	15.			8,775

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	CFDA No.	Pass-Through Identifier	Expenditures	
Passed Through From				
State of Hawaii Dept. of Land and Natural Resources	15.615		133,881	
State of Hawaii Dept. of Land and Natural Resources	15.663		67,542	
State of Hawaii Dept. of Land and Natural Resources	15.	C31038	22,181	
Malama Kahalawai Inc	15.657		32,085	
University of Washington	15.	CK A250580	<u>3,240</u>	<u>258,929</u>
				658,163
U.S. Department of Justice				
Bureau of Justice Assistance				
Capital Case Litigation	16.746			67,973
Passed Through From				
State of Hawaii Dept. of Education	16.	CO-10327, MOA D12-126	2,783	
State of Hawaii Dept. of Health	16.727		154,161	
State of Hawaii Dept. of Human Services	16.540		<u>17,605</u>	<u>174,549</u>
				242,522
U.S. Department of Labor				
Employment Training Administration				
WIA Pilots, Demonstrations and Research Projects	17.261		1,891,358	
Community Based Job Training Grants	17.269		<u>15,533</u>	1,906,891
Passed Through From				
State of Hawaii Dept. of Labor and Industrial Relations	17.207		558,152	
City & County of Honolulu	17.275		23,239	
County of Maui	17.259		<u>326,679</u>	<u>908,070</u>
				2,814,961
U.S. Department of State				
Passed Through From				
East West Center	19.	various	383,689	
Kirkwood Community College	19.009		<u>478</u>	384,167
U.S. Department of Transportation				
Passed Through From				
State of Hawaii Dept. of Land and Natural Resources	20.219		77,349	
State of Hawaii Dept. of Transportation	20.600		<u>271,097</u>	348,446
National Aeronautics and Space Administration				
Goddard				
Science	43.001		2,789,466	
Education	43.008		195,094	
Other	43.		<u>56,174</u>	3,040,734
Passed Through From				
California Institute of Technology	43.001		25,237	
New Mexico State University	43.009		4,920	
Space Telescope Science Institute	43.	various	<u>49,033</u>	<u>79,190</u>
				3,119,924
National Endowment for the Arts and Humanities				
National Endowment for the Arts				
Promotion of the Arts – Grants to Organizations and Individuals	45.024			9,996
National Endowment for the Humanities				
Promotion of the Humanities – Division of Preservation and Access	45.149			140,818
Institute of Museum and Library Services				
Museums for America	45.301			65,484
Passed Through From				
Hawaii State Foundation on Culture & Arts	45.025		25,693	
Alu Like, Inc.	45.311		13,493	
Association of American College and Universities	45.162		6,822	
Hawaii Council for the Humanities	45.129		8,559	
WESTAF	45.025		<u>2,250</u>	<u>56,817</u>
				273,115

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	CFDA No.	Pass-Through Identifier	Expenditures	
National Science Foundation				
Mathematical and Physical Sciences	47.049			1,009,269
Geosciences	47.050			534,728
Computer and Information Science and Engineering	47.070			365,815
Biological Sciences	47.074			145,920
Office of International and Integrative Activities	47.079			13,497
Office of Cyberinfrastructure	47.080			834,551
Passed Through From				
Clemson University	47.070		1,367	
University of Notre Dame	47.049		952	
State University of Rutgers	47.041		35,678	
University of Southern California	47.050		66,437	
			<u>66,437</u>	<u>104,434</u>
				3,008,214
Small Business Administration				
Small Business Development Centers	59.037			872,824
U.S. Department of Veterans Affairs				
	64.			274,243
Environmental Protection Agency				
Office of Research and Development				
Greater Research Opportunities Fellowships for Undergraduate				
Environmental Study	66.513		9,340	
Science to Achieve Results Fellowship Program	66.514		20,984	
Office of Chemical Safety and Pollution Prevention				
Research, Development, Monitoring, Public Education,				
Training, Demonstrations and Studies	66.716			21,495
				<u>51,819</u>
U.S. Department of Energy				
Conservation Research and Development	81.086			121,180
ARRA – Electricity Delivery and Energy Reliability,				
Research, Development and Analysis	81.122			1,109,613
Passed Through From				
Battelle Memorial Institute	81.	227204	9,122	
California Community Colleges	81.087		3,622	
Electricore, Inc.	81.087		272	
			<u>9,122</u>	<u>13,016</u>
				1,243,809
U.S. Department of Education				
Office of Postsecondary Education				
National Resource Centers Program for Foreign Language and Areas				
Studies or Foreign Language and International Studies Program and				
Foreign Language and Area Studies Fellowship Program	84.015		1,168,512	
International Research and Studies	84.017		35,428	
Overseas Programs – Group Projects Abroad	84.021		50,774	
Fund for the Improvement of Postsecondary Education	84.116		249,334	
Javits Fellowships	84.170		8,667	
Centers for International Business Education	84.220		192,879	
Language Resource Centers	84.229		183,370	
Child Care Access Means Parents in School	84.335		142,579	
College Access Challenge Grant Program	84.378		1,447,964	
Strengthening Minority – Serving Institutions	84.382		448,621	
Transition Programs for Students with Intellectual				
Disabilities into Higher Education	84.407		502,204	
Office of Vocational and Adult Education				
Career and Technical Education – Basic Grants to States	84.048			2,908,602
Office of Special Education and Rehabilitative Services				
Rehabilitation Long-Term Training	84.129		200,533	
Special Education – Personnel Development to Improve				
Services and Results for Children with Disabilities	84.325		1,053,154	
Special Education – Technical Assistance and Dissemination				
to Improve Services and Results for Children with Disabilities	84.326		373,370	
Office of Bilingual Education and Minority Languages Affairs				
Bilingual Education – Professional Development	84.195			26,375

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	CFDA No.	Pass-Through Identifier	Expenditures	
Office of Elementary and Secondary Education				
Early Reading First	84.359		444,199	
English Language Acquisition State Grants	84.365		394,835	
Improving Teacher Quality State Grants	84.367		291,643	1,130,677
Passed Through From				
State of Hawaii Dept. of Education	84.287		19,752	
State of Hawaii Dept. of Education	84.366		52,386	
State of Hawaii Dept. of Education	84.372		1,474,212	
ARRA – State of Hawaii Dept. of Education	84.388		48,354	
ARRA – State of Hawaii Dept. of Education	84.390		29,940	
State of Hawaii Dept. of Education	84.	CO-10237 MOA D11-175	10,787	
State of Hawaii Dept. of Human Services	84.126		205,351	
Alu Like, Inc.	84.259		840,569	
Government of American Samoa	84.027		5,155	
Government of American Samoa	84.	various	1,553,463	
Bishop Museum	84.	-----	20,348	
University of Illinois	84.	-----	3,500	
National Writing Project Corp.	84.367		30,369	
National Writing Project Corp.	84.928		1,128	
Waianae Coast Comprehensive Health Center	84.259		28,250	4,323,564
				14,446,607
U.S. Institute of Peace				
Annual Grant Competition	91.001		52,242	
Public Education for Peacebuilding Awards Program	91.004		1,375	53,617
U.S. Department of Health and Human Services				
Health Resources and Services Administration				
Area Health Education Centers Point of Service				
Maintenance and Enhancement Awards	93.107		872,096	
Maternal and Child Health Federal Consolidated Programs	93.110		550,412	
Emergency Medical Services for Children	93.127		229,410	
Centers of Excellence	93.157		425,253	
Advanced Nursing Education Grant Program	93.247		288,630	
Geriatric Academic Career Awards	93.250		74,785	
Universal Newborn Hearing Screening	93.251		565,170	
Advanced Education Nursing Traineeships	93.358		245,890	
Affordable Care Act – National Health Service Corps	93.547		208,102	
Mental and Behavioral Health Education and Training Grants	93.732		69,957	
Specially Selected Health Projects	93.888		6,688	
PPHF – 2012 Geriatric Education Centers	93.969		420,704	3,957,097
Centers for Disease Control and Prevention				
Centers for Disease Control and Prevention –				
Investigations and Technical Assistance	93.283		806,617	
The Patient Protection and Affordable Care Act of 2010	93.541		23,728	830,345
National Institutes of Health				
Drug Abuse and Addiction Research Programs	93.279		170,458	
National Center for Research Resources	93.389		78,096	
Cancer Research Manpower	93.398		129,900	
Cardiovascular Diseases Research	93.837		41,012	
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847		254,115	
Biomedical Research and Research Training	93.859		73,528	
International Research and Research Training	93.989		245,537	992,646
Administration for Children and Families				
Promote the Survival and Continuing Vitality of				
Native American Languages	93.587			28,770
Administration for Community Living				
University Centers for Excellence in Developmental Disabilities				
Education, Research and Service	93.632			1,155,133
Substance Abuse and Mental Health Services Administration				
Substance Abuse and Mental Health Services –				
Projects of Regional and National Significance	93.243			665,706
Office of the Secretary				
ARRA – Health Information Technology – Beacon Communities	93.727			1,995,399
Agency for Healthcare Research and Quality				
Research on Healthcare Costs, Quality and Outcomes	93.226			4,204

University of Hawai‘i
State of Hawai‘i
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

	CFDA No.	Pass-Through Identifier	Expenditures
Passed Through From			
State of Hawaii Dept. of Education	93.	CO-10266 MOA D11-140	20,867
State of Hawaii Dept. of Health	93.136		55
State of Hawaii Dept. of Health	93.217		152,480
State of Hawaii Dept. of Health	93.241		4,272
State of Hawaii Dept. of Health	93.243		346,972
State of Hawaii Dept. of Health	93.283		26,493
State of Hawaii Dept. of Health	93.913		10,402
State of Hawaii Dept. of Health	93.958		200,000
State of Hawaii Dept. of Health	93.959		376,045
State of Hawaii Dept. of Health	93.991		19,442
State of Hawaii Dept. of Human Services	93.536		1,330,905
State of Hawaii Dept. of Human Services	93.558		165,079
State of Hawaii Dept. of Human Services	93.575		1,342,265
State of Hawaii Dept. of Human Services	93.658		473,567
City & County of Honolulu	93.052		204,059
Republic of the Marshall Islands	93.283		52,832
Republic of the Marshall Islands	93.	-----	8,984
Government of American Samoa	93.283		7,272
Government of American Samoa	93.569		10,575
Government of American Samoa	93.778		862
Asian & Pacific Islander American Health Forum	93.738		246,952
Association of Maternal and Child Health Programs	93.283		4,000
Association of University Centers on Disabilities	93.524		95
Bay Clinic, Inc.	93.912		15,606
University of California – Berkeley	93.516		27,882
Center for Public Service Communications	93.	2012-03	1,500
Children’s Hospital Boston	93.865		17,210
Commonwealth of the Northern Mariana Islands	93.185		23,673
ARRA – Commonwealth of the Northern Mariana Islands	93.719		26,917
Commonwealth of the Northern Mariana Islands	93.778		27,123
Commonwealth of the Northern Mariana Islands	93.912		14,152
Government of Guam	93.185		19,546
Government of Guam	93.778		44,028
Government of Guam	93.912		50,055
Hawaii Pacific University	93.279		1,999
Edith Kanaka’ole Foundation	93.612		95,632
ARRA – Los Rios Community College District	93.721		116,697
University of Massachusetts – Boston	93.632		38,826
Federated States of Micronesia	93.	various	105,127
Na Kamalei – KEEP	93.	-----	19,136
University of Nevada – Las Vegas	93.859		3,601
Pacific Island Health Officers	93.507		57,822
Republic of Palau	93.283		31,984
Papa Ola Lokahi	93.397		58,361
University of Tennessee	93.103		64,671
University Clinical, Education & Research Associates	93.917		45,072
University of Hawaii Foundation	93.375		240,109
Waianae Coast Comprehensive Health Center	93.178		20,751
University of Washington	93.989		72,831
			<u>6,244,786</u>
			15,874,086
Corporation for National and Community Service			
State Commissions	94.003		224,087
Learn and Serve America – Higher Education	94.005		143,861
AmeriCorps	94.006		1,692,741
Training and Technical Assistance	94.009		368
Passed Through From			
Oregon Campus Compact	94.007		380
			<u>380</u>
			2,061,437
U.S. Department of Homeland Security			
Passed Through From			
State of Hawaii Dept. of Land and Natural Resources	97.023		6,060

**University of Hawai‘i
State of Hawai‘i
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014**

	CFDA No.	Pass-Through Identifier	Expenditures	
Agency for International Development				
USAID Foreign Assistance for Programs Overseas	98.001			71,690
Passed Through From				
American Council on Education	98.012		303,408	
Iowa State University	98.	404-21-7713	20,599	
Oregon State University	98.	RD011G-F	5,780	
University of Rhode Island	98.	040405/0000583	8,925	338,712
				410,402
Other				
Peace Corps	99.		17,634	
Vietnam Education Foundation	99.		70,613	88,247
				56,537,278
Total Other Federal Assistance				56,537,278
Total Expenditures of Federal Awards				\$ 574,268,409

University of Hawai‘i
State of Hawai‘i
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the University and is presented on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements.

2. Loans Outstanding

The University had the following loans outstanding as of June 30, 2014, which are not presented in the schedule of expenditures of federal awards.

	CFDA No.	Loans Outstanding
Major Program – Student Financial Assistance		
Federal Perkins Loan	84.038	\$ 19,031,641
Nurse Faculty Loan Program	93.264	6,325
Health Professionals Student Loan	93.342	15,478
Nursing Student Loan	93.364	25,602
		<u>\$ 19,079,046</u>

During the year ended June 30, 2014, the University distributed \$2,628,369 and \$151,729,955 in student loans through the U.S. Department of Education Federal Perkins Loan and Direct Loan programs, respectively. These distributions and related funding sources are presented in the schedule of expenditures of federal awards, however, are not included as expenses and revenues in the University’s consolidated financial statements.

University of Hawai‘i
State of Hawai‘i
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

3. Subrecipients

Of the federal expenditures presented in the schedule, the University provided federal awards to subrecipients, as follows:

PROGRAM TITLE	CFDA No.	Amount Provided to Subrecipients
U.S. Department of Agriculture		
National Institute of Food and Agriculture		
Grants for Agricultural Research – Special Research Grants	10.200	\$ 58,967
Biotechnology Risk Assessment Research	10.219	26,149
Agriculture and Food Research Initiative	10.310	2,260,783
Biomass Research and Development Initiative		
Competitive Grants Program	10.312	552,649
Sun Grant Program	10.320	11,464
Departmental Management		
Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers	10.443	28,404
Rural Business – Cooperative Service		
Rural Business Opportunity Grants	10.773	10,000
U.S. Department of Commerce		
National Oceanic and Atmospheric Administration (“NOAA”)		
Integrated Ocean Observing System	11.012	14,415
Sea Grant Support	11.417	89,007
Undersea Research	11.430	11,295
Climate and Atmospheric Research	11.431	34,621
NOAA Cooperative Institutes	11.432	24,086
Center for Sponsored Coastal Ocean Research – Coastal Ocean Program	11.478	125,280
U.S. Department of Defense		
Air Force		
Air Force Defense Research Sciences Program	12.800	150,000
Other	12.	1,448,096
Army	12.	917,886
Navy		
Basic and Applied Scientific Research	12.300	3,875,451
U.S. Department of Housing & Urban Development		
Office of Policy Development and Research		
Alaska Native/Native Hawaiian Institutions Assisting Communities	14.515	1,287,860

University of Hawai‘i
State of Hawai‘i
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

PROGRAM TITLE	CFDA No.	Amount Provided to Subrecipients
U.S. Department of Interior		
U.S. Geological Survey		
U.S. Geological Survey – Research and Data Collection	15.808	178,223
National Climate Change and Wildlife Science Center	15.820	104,121
U.S. Department of Justice		
Office of Juvenile Justice and Delinquency Prevention		
Reduction and Prevention of Children’s Exposure to Violence	16.730	131,030
U.S. Department of Transportation		
	20.	37,572
National Aeronautics and Space Administration		
Goddard		
Science	43.001	150,152
Other	43.	19,906
National Science Foundation		
Engineering Grants	47.041	63,488
Mathematical and Physical Sciences	47.049	703,037
Geosciences	47.050	217,462
Biological Sciences	47.074	1,674,911
Social, Behavioral and Economic Sciences	47.075	390
Education and Human Resources	47.076	187,968
Office of Cyberinfrastructure	47.080	359,429
Office of Experimental Program to Stimulate Competitive Research	47.081	219,876
ARRA – Trans-NSF Recovery Act Research Support	47.082	527,155
U.S. Department of Energy		
Conservation Research and Development	81.086	139,137
Renewable Energy Research and Development	81.087	882,148
ARRA – Electricity Delivery and Energy Reliability, Research, Development and Analysis	81.122	1,102,724
U.S. Department of Education		
Office of Postsecondary Education		
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	436,231
College Access Challenge Grant Program	84.378	158,717
Office of Special Education and Rehabilitative Services		
Special Education – Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326	9,130
Office of Elementary and Secondary Education		
Native Hawaiian Education	84.362	2,501,080

**University of Hawai‘i
State of Hawai‘i
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014**

PROGRAM TITLE	CFDA No.	Amount Provided to Subrecipients
U.S. Department of Health and Human Services		
National Institutes of Health		
Environmental Health	93.113	45,431
Human Genome Research	93.172	145,571
Mental Health Research Grants	93.242	18,115
Drug Abuse and Addiction Research Programs	93.279	518,802
Minority Health and Health Disparities Research	93.307	456,990
National Center for Research Resources	93.389	126,875
Cancer Cause and Prevention Research	93.393	4,690,726
Cancer Treatment Research	93.395	64,835
Cancer Centers Support Grants	93.397	64,810
ARRA – Trans-NIH Recovery Act Research Support	93.701	2,259
Cardiovascular Diseases Research	93.837	19,379
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	472,273
Allergy, Immunology and Transplantation Research	93.855	38,667
Biomedical Research and Research Training	93.859	1,003,930
International Research and Research Training	93.989	47,086
Health Resources and Services Administration		
Area Health Education Centers Point of Service Maintenance and Enhancement Awards	93.107	653,265
Maternal and Child Health Federal Consolidated Programs	93.110	55,121
Emergency Medical Services for Children	93.127	51,328
Affordable Care Act Public Health Training Centers Program	93.516	5,000
Mental and Behavioral Health Education and Training Grants	93.732	22,198
Centers for Disease Control and Prevention		
Centers for Disease Control and Prevention – Investigations and Technical Assistance	93.283	262,362
Administration for Children and Families		
Child Care and Development Block Grant	93.575	267,712
Administration for Community Living		
University Centers for Excellence in Developmental Disabilities Education, Research and Service	93.632	420,978
Office of the Secretary		
Teenage Pregnancy Prevention Program	93.297	319,717
Agency for Healthcare Research and Quality		
Research on Healthcare Costs, Quality and Outcomes	93.226	154,075

**University of Hawai‘i
State of Hawai‘i
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014**

PROGRAM TITLE	CFDA No.	Amount Provided to Subrecipients
Corporation for National and Community Service		
Learn and Serve America – Higher Education	94.005	69,354
AmeriCorps	94.006	1,692,741
U.S. Department of Homeland Security		
State and Local Homeland Security National Training Program	97.005	2,764,352
Centers for Homeland Security	97.061	855,583
Agency for International Development		
USAID Foreign Assistance for Programs Overseas	98.001	81,714
USAID Development Partnerships for University Cooperation and Development	98.012	70,004
		\$ 36,191,553

SECTION 3

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

University of Hawai‘i²
State of Hawai‘i
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	No
Type of auditors’ report issued on compliance for major programs	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)?	Yes

Identification of Major Programs¹

CFDA Number	Federal Program or Cluster
Various	Research and Development Cluster
Various	Student Financial Assistance Cluster – Grants, Scholarships and Loans
Various	TRIO Cluster
11.557	Broadband Technology Opportunities Program
17.282	Trade Adjustment Assistance Community College and Career Training
84.031	Title III Higher Education – Institutional Aid
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs
84.362	Title VII Native Hawaiian Education
97.005	State and Local Homeland Security National Training Program

Dollar threshold used to distinguish between Type A and Type B programs	\$3,000,000
Auditee qualified as low-risk auditee?	No

¹ Refer to Section 2 of this report for detailed information on each contract and grant comprising the University’s major programs.

² The University’s federal entity identification number is 99-6000354.

University of Hawai'i
State of Hawai'i
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Section II – Financial Statement Findings

There were no findings related to the consolidated financial statements. However, we noted other matters involving compliance and internal control over financial reporting that we will be reporting to the Board of Regents and management of the University in a separate letter.

**University of Hawai'i
 State of Hawai'i
 Schedule of Findings and Questioned Costs
 Student Financial Assistance Cluster
 University of Hawaii West Oahu
 Year Ended June 30, 2014**

Section III – Federal Award Findings and Questioned Costs

**Questioned
 Costs**

\$1,361

Finding No. 2014-01: Financial Aid Administration – Control Deficiency

Federal Agency: U.S. Department of Education

CFDA Number and Title: 84.063 – Federal Pell Grant

Finding and Cause

During our audit, we noted the following:

- For one out of fifteen students tested, the institution used the incorrect student Title IV aid information, specifically the amount of aid that could have been disbursed to calculate the portion of Title IV aid to be returned. This resulted in a post withdrawal disbursement to the student of \$24 being calculated, when in fact, \$1,361 in aid should have been returned to the Title IV program.
- For one out of ten students tested, the institution could not provide evidence that applicant information was verified for the student who was selected for verification by the central processor.

Criteria

Title 34, Section 668.22(a)(1) through (a)(5) of the CFR requires the institution to determine the amount of Title IV aid earned by the student as of the student's withdrawal date when a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance.

Additionally, Title 34, Section 668.173(b) of the CFR requires the institutional portion of unearned aid to be returned to the appropriate Title IV, HEA program or FFEL lender no later than 45 days after the date of the institution's determination that the student withdrew.

Title 34, Section 668.24(a) and Section 668.24(c)(vi) states that "The records that an institution must maintain in order to comply with the provisions of this section include but are not limited to – Reports and forms used by the institution in its participation in a Title IV, HEA program, and any records needed to verify data that appear in those reports and forms."

Effect

In accordance with 34 CFR 668.84, the Secretary may impose a fine on the institution if the institution fails to comply with the requirements applicable to Title IV of the Higher Education Act.

**University of Hawai'i
State of Hawai'i
Schedule of Findings and Questioned Costs
Student Financial Assistance Cluster
University of Hawaii West Oahu
Year Ended June 30, 2014**

Recommendation

We recommend that the institution:

- Remit the institutional portion of unearned aid to the appropriate Title IV program within the required 45-day time period in accordance with federal regulations.
- Scan Verification Forms and file them electronically to prevent the misplacement of forms.

**University of Hawai'i
State of Hawai'i
Schedule of Findings and Questioned Costs
Student Financial Assistance Cluster
Honolulu Community College
Year Ended June 30, 2014**

**Questioned
Costs**

\$ –

Finding No. 2014-02: Financial Aid Administration – Control Deficiency

Federal Agency: U.S. Department of Education

CFDA Number and Title: 84.033 – Federal Work Study
84.268 – Federal Direct Student Loans

Finding and Cause

During our audit, we noted the following:

- For five out of fifteen students tested, the institution failed to provide exit counseling within a timely manner.
- The institution failed to meet the community service and literacy tutor earmarking requirements of the Federal Work Study (“FWS”) program.

Criteria

Title 34, Section 685.304 of the CFR states that a school must ensure that exit counseling is conducted with each Direct Subsidized Loan or Director Unsubsidized Loan borrower and graduate or professional student Direct PLUS Loan borrower shortly before the student borrower ceases at least half-time study at the school. If a borrower withdraws from the institution without the institution’s prior knowledge or fails to complete an exit counseling session as required, the institution must ensure that exit counseling is provided through either interactive electronic means or by mailing counseling materials to the borrower at the borrower’s last known address within 30 days after learning that the borrower has withdrawn from the institution or failed to complete exit counseling as required.

Title 34 Section 675.18(g)(1)(i)(3) and (4) states that an institution must use at least seven percent of the sum of its initial and supplemental FWS allocations for an award year to compensate students employed in community service activities. In meeting this community service requirement, an institution must include at least one (i) reading tutoring project that employs one or more FWS students as reading tutors for children who are preschool age or are in elementary school; or (ii) Family literacy project that employs one or more FWS students in family literacy activities.

Effect

In accordance with 34 CFR 668.84, the Secretary of Education may levy fines and/or penalties on the institution or suspend future participation in federal student financial assistance programs for failure to comply with the requirements applicable to Title IV of the Higher Education Act.

**University of Hawai'i
State of Hawai'i
Schedule of Findings and Questioned Costs
Student Financial Assistance Cluster
Honolulu Community College
Year Ended June 30, 2014**

Recommendation

We recommend that the institution:

- Provide exit counseling to borrowers in a timely manner.
- Ensure earmarking requirements are met. The institution could request for a waiver of earmarking requirements by submitting a request to the Department of Education electronically via the eCampus-Based website by April 27, 2015.

**University of Hawai'i
State of Hawai'i
Schedule of Findings and Questioned Costs
Student Financial Assistance Cluster
Kapiolani Community College
Year Ended June 30, 2014**

**Questioned
Costs**

\$ –

Finding No. 2014-03: Federal Direct Student Loans Exit Interview – Control Deficiency

Federal Agency: U.S. Department of Education

CFDA Number and Title: 84.268 – Federal Direct Student Loans

Finding and Cause

For five out of fifteen students tested, the institution failed to provide exit counseling within a timely manner.

Criteria

Title 34, Section 685.304 of the CFR states that a school must ensure that exit counseling is conducted with each Direct Subsidized Loan or Director Unsubsidized Loan borrower and graduate or professional student Direct PLUS Loan borrower shortly before the student borrower ceases at least half-time study at the school. If a borrower withdraws from the institution without the institution's prior knowledge or fails to complete an exit counseling session as required, the institution must ensure that exit counseling is provided through either interactive electronic means or by mailing counseling materials to the borrower at the borrower's last known address within 30 days after learning that the borrower has withdrawn from the institution or failed to complete exit counseling as required.

Effect

In accordance with 34 CFR 668.84, the Secretary may impose a fine on the institution if the institution fails to comply with the requirements applicable to Title IV of the Higher Education Act.

Recommendation

We recommend that the provide exit counseling to borrowers in a timely manner.

**University of Hawai'i
 State of Hawai'i
 Schedule of Findings and Questioned Costs
 Student Financial Assistance Cluster
 Kauai Community College
 Year Ended June 30, 2014**

**Questioned
 Costs**

\$447

Finding No. 2014-04: Financial Aid Administration – Control Deficiency

Federal Agency: U.S. Department of Education

CFDA Number and Title: 84.033 – Federal Work Study
 84.063 – Federal Pell Grant
 84.268 – Federal Direct Student Loans

Finding and Cause

During our audit, we noted the following:

- For one out of ten students tested, the institution failed to award Pell aid based on the student's eligibility, which resulted in an over award of \$447.
- For one out of fifteen students tested, the institution used the incorrect student Title IV aid information, specifically the amount of aid that could have been disbursed to calculate the portion of Title IV aid to be returned. This resulted in a post withdrawal disbursement to the student being calculated, when in fact, aid should have been returned to the Title IV program.
- For two out of fifteen students tested, the institution failed to remit the institutional portion of unearned Title IV Funds to the Title IV program or the FDL lender within 45 days after the institution determined that the students withdrew.
- For eight out of fifteen students tested, the institution failed to provide exit counseling within a timely manner. For seven of the eight students, the institution claims that exit counseling was provided, however, could not provide evidence of such.
- The institution failed to meet the community service and literacy tutor earmarking requirements of the Federal Work Study ("FWS") program.

Criteria

Title 34, Section 690.63(b) requires the institution to recalculate the student's Pell Grant payment based on enrollment status of each term if changes are made subsequent to determination of the annual award.

Title 34, Section 668.22(a)(1) through (a)(5) of the CFR requires the institution to determine the amount of Title IV aid earned by the student as of the student's withdrawal date when a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance.

**University of Hawai'i
State of Hawai'i
Schedule of Findings and Questioned Costs
Student Financial Assistance Cluster
Kauai Community College
Year Ended June 30, 2014**

Additionally, Title 34, Section 668.173(b) of the CFR requires the institutional portion of unearned aid to be returned to the appropriate Title IV, HEA program or FFEL lender no later than 45 days after the date of the institution's determination that the student withdrew.

Title 34, Section 685.304 of the CFR states that a school must ensure that exit counseling is conducted with each Direct Subsidized Loan or Director Unsubsidized Loan borrower and graduate or professional student Direct PLUS Loan borrower shortly before the student borrower ceases at least half-time study at the school. If a borrower withdraws from the institution without the institution's prior knowledge or fails to complete an exit counseling session as required, the institution must ensure that exit counseling is provided through either interactive electronic means or by mailing counseling materials to the borrower at the borrower's last known address within 30 days after learning that the borrower has withdrawn from the institution or failed to complete exit counseling as required.

Title 34 Section 675.18(g)(1)(i)(3) and (4) states that an institution must use at least seven percent of the sum of its initial and supplemental FWS allocations for an award year to compensate students employed in community service activities. In meeting this community service requirement, an institution must include at least one (i) reading tutoring project that employs one or more FWS students as reading tutors for children who are preschool age or are in elementary school; or (ii) Family literacy project that employs one or more FWS students in family literacy activities.

Effect

In accordance with 34 CFR 668.84, the Secretary of Education may levy fines and/or penalties on the institution or suspend future participation in federal student financial assistance programs for failure to comply with the requirements applicable to Title IV of the Higher Education Act.

Recommendation

We recommend that the institution:

- Ensure that aid awarded is updated and in line with enrollment status of each semester when changes are made after Title IV aid is packaged.
- Remit the institutional portion of unearned aid to the appropriate Title IV program within the required 45-day time period in accordance with federal regulations.
- Provide exit counseling to borrowers in a timely manner.
- Ensure earmarking requirements are met. The institution could request for a waiver of earmarking requirements by submitting a request to the Department of Education electronically via the eCampus-Based website by April 27, 2015.

**University of Hawai'i
State of Hawai'i
Schedule of Findings and Questioned Costs
Student Financial Assistance Cluster
Windward Community College
Year Ended June 30, 2014**

**Questioned
Costs**

\$ –

Finding No. 2014-05: Federal Direct Student Loans Exit Interview and Enrollment Reporting – Control Deficiency

Federal Agency: U.S. Department of Education

CFDA Number and Title: 84.268 – Federal Direct Student Loans

Finding and Cause

During our audit, we noted the following:

- For three out of fifteen students tested, the institution failed to provide exit counseling within a timely manner.
- For two out of fifteen students tested, failed to update student enrollment status in the National Student Loan Data System (“NSLDS”) within a timely manner.

Criteria

Title 34, Section 685.304 of the CFR states that a school must ensure that exit counseling is conducted with each Direct Subsidized Loan or Direct Unsubsidized Loan borrower and graduate or professional student Direct PLUS Loan borrower shortly before the student borrower ceases at least half-time study at the school. If a borrower withdraws from the institution without the institution’s prior knowledge or fails to complete an exit counseling session as required, the institution must ensure that exit counseling is provided through either interactive electronic means or by mailing counseling materials to the borrower at the borrower’s last known address within 30 days after learning that the borrower has withdrawn from the institution or failed to complete exit counseling as required.

Title 34, Section 685.304 of the CFR states that unless the institution expects to submit its next student status confirmation report to the Secretary within the next 60 days, it must notify the Secretary within 30 days if it discovers that a Direct Subsidized, Direct Unsubsidized, or Direct PLUS Loan has been made to or on behalf of a student who had enrolled at that school but has ceased to be enrolled on at least a halftime basis.

Effect

In accordance with 34 CFR 668.84, the Secretary of Education may levy fines and/or penalties on the institution or suspend future participation in federal student financial assistance programs for failure to comply with the requirements applicable to Title IV of the Higher Education Act.

Recommendation

We recommend that the institution provide exit counseling to borrowers and update NSLDS in a timely manner.

SECTION 4

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding numbers relate to the sequence reported in the respective years.

University of Hawai'i
State of Hawai'i
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2014

Finding No.	Description	Classification	Status		Current Year Finding No.
			Resolved	Unresolved	
2013-01	Unrecorded Liabilities	Significant deficiency ("SD")	*		
2013-02	Indirect Cost Calculation	Control deficiency ("CD")	X		
2013-03	Return of Title IV Funds	CD		X	2014-01
2013-04	Federal Direct Student Loans Exit Interview	CD	X		
2013-05	Return of Title IV Funds	CD	X		
2013-06	Return of Title IV Funds	SD	X		

* Refer to Comment No. 14-01, in the University's Internal Control and Business Issues Report.

SECTION 5
CORRECTIVE ACTION PLAN (UNAUDITED)



UNIVERSITY *of* HAWAI'I®

SYSTEM

**INSTITUTIONAL CORRECTIVE ACTION RESPONSES FOR
THE A-133 FINDINGS AND QUESTIONED COSTS**

FISCAL YEAR ENDED JUNE 30, 2014

**Corrective Action Plan Related to the Schedule of Findings and Questioned Costs
Student Financial Assistance Cluster
University of Hawai'i West O'ahu
Year Ended June 30, 2014**

Finding No. 2014-01: **Financial Aid Administration - Control Deficiency**

Federal Agency: U.S. Department of Education

CFDA Number and Title: 84.063 – Federal Pell Grant

Questioned Costs: \$1,361

Responsible Individuals: Lester Ishimoto, Financial Aid Director, University of Hawai'i West O'ahu

- **Date Action Taken:** July 3, 2014

In the past, using the U.S. Department of Education's R2T4 web based application was subject to errors because data needed to be read from one source and entered manually into another. Beginning with the 2013-14 academic year, the University of Hawai'i West O'ahu Financial Aid Office (UHWOFAO) began using the Banner system in which data on the SFAWDRL form is electronically verified and used for calculation of amounts to be returned on the RPATIVC form. Because this was a new process, the UHWO Financial Aid Director was not aware that a loan left in "offered" status would be included as a Post Withdrawal Disbursement in the calculation. As soon as this was identified, the R2T4 was recalculated and funds were immediately returned to the Federal Government. The affected student was also notified of the revised financial obligation. Furthermore procedures for using the SFAWDRL/RPATIVC process through Banner were revised to include a review of the award screen for any Direct Loans that were left in "offered" status or loans that were accepted but not processed because of outstanding requirements, to ensure that the status was changed to "cancelled" prior to performing the calculation. If the calculation in "simulation" mode showed amounts in the Post Withdrawal Disbursement block, the award screen would be examined first to see if that was actually the case and then corrected or noted prior to performing the RPATIVC process in "calculate-save" mode.

- **Date Action Taken:** May 1, 2014

During the 2014-15 academic year, UHWOFAO converted to a document imaging system. Planning began in March 2014 and when the new system went online in August 2014 all paper documents submitted to UHWOFAO were scanned, indexed and loaded to the students' electronic folder. Documents were tracked and logged through Banner. One of the main advantages of this system is that documents received by UHWOFAO would be subject to fewer misfilings in a different student folder. In addition, the original forms could be tracked since it would be physically archived until the end of the year.

UHWOFAO has requested and received the missing applicant information documents from the student.

**Corrective Action Plan Related to the Schedule of Findings and Questioned Costs
Student Financial Assistance Cluster
Honolulu Community College
Year Ended June 30, 2014**

Finding No. 2014-02: **Financial Aid Administration - Control Deficiency**

Federal Agency: U.S. Department of Education

CFDA Number and Title: 84.033 – Federal Work Study
84-268 – Federal Direct Student Loans

Questioned Costs: none

Responsible Individuals: Jannine Oyama, Financial Aid Administrator, Honolulu Community College
Gregg Yoshimura, Systemwide Financial Aid Specialist, University of Hawai'i
Josephine Stenberg, Registrar, Honolulu Community College
Carol Kagimoto, Job Placement Coordinator, Honolulu Community College

• **Date Action Taken:** November 2014

In general, students who completely withdraw must complete a Complete Withdrawal form and the form must be reviewed by the Honolulu Community College Financial Aid Office (HonCCFAO). Once the form is reviewed, an HonCCFAO staff initials the bottom of the form and the form is returned to the student to take to the HonCC Records Office to have their courses dropped. If the student received financial aid and/or loans in prior years, a copy of the form is kept by the HonCCFAO and forwarded to the Financial Aid Administrator to process return to Title IV calculations and/or notify the student of exit requirements via email.

There are also situations beyond the students' control that students may be completely withdrawn after the withdrawal deadlines or requesting for tuition refund after the tuition refund deadlines and must complete an Exception Request form. In these cases, the Registrar will review the Exception Request forms within 5 working days and work with the Financial Aid Administrator within 10 working days from the date of the form to determine a decision. In absence of the Registrar, the Assistant Registrar will be responsible. If Exception Requests are submitted to an HonCC Administrator, they will also follow the procedures listed above. These procedures were implemented in November 2014.

There are also some courses which have implemented an "attendance policy" to ensure that students successfully complete the course. If students do not meet the "attendance policy," instructors are to notify the Registrar, Assistant Registrar, the Financial Aid Administrator and their department head via email with the name of the student, student ID number, CRN and/or course name, and last date of attendance. The Registrar works directly with the instructor and notifies the Financial Aid Administrator if the Financial Aid Administrator is not listed in the email. This procedure was implemented in November 2014.

For students who decide not to attend the following term or withdraw to less than half-time status via the MyUH portal, the UH Systemwide Financial Aid Specialist created a report generated by Banner Central to notify the HonCC Financial Aid Administrator and/or Financial Aid Officer who processes loans to review and notify students of the exit requirements via email. The report is generated every two weeks and was fully implemented in November 2014.

**Corrective Action Plan Related to the Schedule of Findings and Questioned Costs
Student Financial Assistance Cluster
Honolulu Community College
Year Ended June 30, 2014**

Finding No. 2014-02: Financial Aid Administration - Control Deficiency (continued)

- **Date Action Taken:** September 2014

The HonCC Financial Aid Administrator reviews the list of students who were awarded Federal Work Study (FWS) during the first week of instruction and works with HonCC Job Placement Coordinator to see if students are currently placed in a student employment position. If students were employed at HonCC but not using FWS funds or if students were not employed at HonCC, letters were mailed to students informing them that they must be placed in a student employment position within 3 weeks or their funds would be cancelled and re-allocated. A list of the FWS students is sent to the Job Placement Coordinator and she works with students to find placement in a community service-based student position; which includes America Reads.

After the deadline, FWS funds were cancelled for students who were not placed in a FWS position and the Financial Aid Administrator offered FWS funds to students who asked to be placed on a waitlist. The list is again shared with the Job Placement Coordinator and she works with the students on the list to find placement in a community service-based student position; which includes America Reads.

If there are funds still not awarded, the Financial Aid Administrator and Job Placement Coordinator will review students who are currently in a community service-based student position and determine if the student is eligible for Federal Work Study and work with the supervisors of those positions and the students to see if they would like to utilize the FWS funds.

HonCC intends to meet the earmarking requirements. If the requirements are not met, then we will request a waiver from the U.S. Department of Education.

**Corrective Action Plan Related to the Schedule of Findings and Questioned Costs
Student Financial Assistance Cluster
Kapi'olani Community College
Year Ended June 30, 2014**

Finding No. 2014-03: **Federal Direct Student Loans Exit Interview - Control Deficiency**

Federal Agency: U.S. Department of Education

CFDA Number and Title: 84-268 – Federal Direct Student Loans

Questioned Costs: none

Responsible Individual: Jennifer Bradley, Financial Aid Administrator, Kapi'olani Community College

Date Action Taken: September 2014 & on-going

Kapi'olani Community College (KapCC) started working with the UH system office in late summer 2014 to identify inconsistencies with the report that is generated to identify students who need to be exited. It was acknowledged that there were a large number of students who were required to be exited and we are developing a process to notify students more timely. Once the process is finalized the program/parameters will be 'saved' and potentially run by the UH system office, and review of the KapCC Financial Aid Office, on a regular basis. This will reduce human error and by running it on a 'regular basis' will reduce, if not eliminate, ill-timing.

The goal to complete the review and process is the end of Fall 2014.

**Corrective Action Plan Related to the Schedule of Findings and Questioned Costs
Student Financial Assistance Cluster
Kaua'i Community College
Year Ended June 30, 2014**

Finding No. 2014-04: **Federal Aid Administration - Control Deficiency**

Federal Agency: U.S. Department of Education

CFDA Number and Title: 84.033 – Federal Work Study
84.063 – Federal Pell Grant
84-268 – Federal Direct Student Loans

Questioned Costs: \$447

Responsible Individual: Jeff Anderson, Financial Aid Administrator, Kaua'i Community College

- **Date Action Taken:** October 27, 2014

The student in question originally enrolled for full time enrollment for Spring 2014 semester and Distance Education (Distant Ed) classes were included. The Pell award was manually adjusted for the previous semester (Fall 2013). As noted, Pell award amounts should automatically adjust when students' enrollment level change prior to census date, except when Pell amounts are previously adjusted manually. This manual adjustment was made to the student's account.

Also, the RSRNRL process is run at the institution's census date, in order to lock student enrollment levels in ROAENRL. It's been discovered that this process doesn't lock enrollment levels for students that have Distance Ed classes (consortium box checked in ROAENRL). Therefore the process to lock enrollment levels for these students are performed manually. Due to the manual process, this student was erroneously excluded from the list.

Corrective Action Plan will be two fold. First Kauai CC will research and find out if Distance Ed students can be included in the RSRENRL process, thus automating the process. Secondly, and in the meantime, a Quality Assurance check will be established for this process, in order to identify any other students that might have been missed on the list during the initial review. This will ensure that at least two separate individuals will have reviewed the list of students and will minimize any chance of repeat findings.

- **Date Action Taken:** October 27, 2014

Reports are run regularly to find the population of students who have withdrawn (officially and unofficially). From these reports, the last date of attendance is logged in Banner (SFAWDRL screen). This LDA is used in the R2T4 calculation which is performed in the RPATIVC screen.

At the time the calculation was initially performed, the training for this process for the Financial Aid Director was very limited, and as such, he wasn't familiar with all the fields on the RPATIVC screen and what they meant.

When loans are cancelled, as in this case, the loan should be cancelled in RPAAWRD screen as well as RPALORG screen. RPATIVC includes any loan amounts present on the RPALORG screen, whether or not the loan has been cancelled in RPAAWRD. The student included in this finding, had their loan cancelled in RPAAWRD screen, but the loan remained in RPALORG, therefore the loan was still

taken into account for the calculation. Because of the reviewer's limited knowledge/training of the R2T4 process, he was unable to identify an inconsistency in the RPATIVC output information.

As a result of this audit finding being identified, further training has been done, for R2T4 process, and all other processes as well. Financial Aid Director is much more knowledgeable about this process and can identify inconsistencies now, and is able to fix them before finalizing any calculations.

Student #1:

Per comments in student's file, date of determination of student's death was on March 17, 2014. Federal requirements state that the return of funds calculation must be done, and funds should be returned within 45 days of the date when the institution becomes aware of the withdrawal. In this case, 45 days from the date of determination fell on May 1, 2014.

There were multiple calculations performed due to issues with identifying the student's last date of attendance. Initial calculations were performed well within the 45 day requirement. However, the actual and final last date of attendance was determined, and a subsequent R2T4 calculation was performed on May 2, 2014 missing the requirement by one day.

Student #2:

This student was a Fall 2013 withdrawal. With the high turnover of Financial Aid professionals at Kaua'i Community College (KauCC) during this period, the new Financial Aid Director commenced employment around this time. As previously noted, training was sporadic, and as such, the new director was not trained on the reporting for this process, nor the deadlines. Reports were not run to identify this student until the Spring 2014 semester. Calculations were performed for this student's file, but outside the 45 day timeline. Further training has since been given to the KauCC Financial Aid Office (KauaiCC FAO) on this topic as well as other topics and as a result, employees are more knowledgeable of this process, along with the reporting requirements. Reporting is now run weekly to identify the official withdrawals and at the end of each semester to identify the unofficial withdrawals.

- **Date Action Taken:** October 27, 2014

The process for exit counseling during the 2013-14 award year was to manually create exit interview letters utilizing a mail merge process and to physically send out letters in the mail. There was high turnover in the Financial Aid Office at this time, which included the Financial Aid Director position so training on the Exit Interview process was limited. Employees that remained in the office during this time period were also not aware of the federally mandated guidelines for this process. This explains the lack of supporting documentation to dispute these findings.

The 2013-14 Award Year is the last time this process will be handled manually. Starting with the 2014-15 Award Year, the Exit Interview Process will become more centralized. Banner Central will provide a list to our campus twice a month and our campus will review the list to determine if a student has indeed withdrawn, graduated or dropped below half time enrollment. Once this list is confirmed, Banner Central will electronically generate and send Exit notices to the students UH account, thus satisfying this requirement.

- KauCC was able to find note taker positions for all our FWS students, which satisfies Federal Work Study requirements 1 of 2, as noted in 34 CFR 675318(g)(1)(i)(3) and (4) on page 6-55 in the 2013-14 FSA Handbook. KauCC was unable to satisfy requirement 2 of 2 due to not being able to find a student(s) to participate as a reading tutor for children in a reading tutoring project. KauCC had participated in the FWS program prior to the 2013-14 Award Year and had encountered the same challenges with satisfying requirement 2 of 2.

**Corrective Action Plan Related to the Schedule of Findings and Questioned Costs
Student Financial Assistance Cluster
Kaua'i Community College
Year Ended June 30, 2014**

Finding No. 2014-04: Federal Aid Administration - Control Deficiency (continued)

As mentioned in the 2013-14 FSA Handbook on page 6-56, schools can apply for waivers when submitting their FISAP report, in order to address these challenges schools may face. Despite encountering these challenges prior to the 2013-14 Award Year, no waiver was requested by the previous Financial Aid Director when submitting the application for 2013-14 FWS funds (FISAP).

The current Financial Aid Director became aware of this issue after the FISAP was submitted without the waiver request, and as such, opted to not participate in the FWS program for the 2014-15 award year.

**Corrective Action Plan Related to the Schedule of Findings and Questioned Costs
Student Financial Assistance Cluster
Windward Community College
Year Ended June 30, 2014**

Finding No. 2014-05: **Federal Direct Student Loans Exit Interview and Enrollment Reporting –
Control Deficiency**

Federal Agency: U.S. Department of Education

CFDA Number and Title: 84-268 – Federal Direct Student Loans

Questioned Costs: none

Responsible Individual: Hettie Scofield, Financial Aid Specialist, UH System Office

Date Action Taken: Spring 2015

Starting in the Spring of the 2014-15 award year, the Exit Interview Process will become more centralized. The Central Financial Aid Office will provide a list to our campus twice monthly and our campus will review this list to determine if a student has indeed withdrawn/graduated/dropped below half time enrollment. Once this list is confirmed, the Central Financial Aid Office will send Exit notices to the students' UH account. NSLDS records will then be updated for the exited students.

SECTION 6

CONSOLIDATED FINANCIAL STATEMENTS

University of Hawai'i
State of Hawai'i
Index
June 30, 2014 and 2013

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Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the University of Hawai'i (the "University"), a component unit of the State of Hawai'i, as of and for the years ended June 30, 2014 and 2013, and the related notes to the consolidated financial statements, which collectively comprise the University's basic financial statements as listed in the accompanying index.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of the University of Hawai'i Foundation (the "Foundation"), which represent 13.0 percent and 11.0 percent, respectively, of the total assets and deferred outflows of resources and 1.0 percent and 1.0 percent, respectively, of the total operating revenues of the University as of and for the years ended June 30, 2014 and 2013. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the Foundation as of and for the years ended June 30, 2014 and 2013, are based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University of Hawai'i, as of June 30, 2014 and 2013, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules of funding progress be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2015, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended June 30, 2014. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The logo for Accuity LLP is written in a black, cursive script. The word "Accuity" is written in a larger, flowing font, and "LLP" is written in a smaller, simpler font to the right of "Accuity".

Honolulu, Hawai'i
February 12, 2015

University of Hawai'i
State of Hawai'i
Management's Discussion and Analysis (Unaudited)
June 30, 2014 and 2013

Introduction

The following discussion and analysis provides an overview of the consolidated financial position and activities of the University of Hawai'i (the "University") for the years ended June 30, 2014 and 2013, with selected information for the year ended June 30, 2012. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

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

The University is Hawai'i's sole public higher education system and is governed by a Board of Regents consisting of fifteen members appointed by the Governor of the State of Hawai'i. The University system is comprised of ten campuses with approximately 60,000 students and 10,000 faculty and staff. The University provides a broad range of 385 degree (baccalaureate to post-doctoral level) programs, through a framework of sixteen colleges and nine professional schools. Through its seven community colleges on O'ahu, Hawai'i, Maui and Kaua'i, the University offers more than 279 certificate and associate degree programs and in certain areas, baccalaureate degrees. In addition to organized research institutes and administrative service and distance learning centers, the University system houses more than a hundred centers with a research, instruction or public service purpose. The University is also engaged in instructional research and service activities at hundreds of Hawai'i schools, hospitals and community sites, and carries out these activities across the Pacific Islands and in foreign countries.

University of Hawai'i

State of Hawai'i

Management's Discussion and Analysis (Unaudited)

June 30, 2014 and 2013

Using the Financial Statements

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

- **Statements of Net Position** – The Consolidated Statements of Net Position present information on the University's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the University's financial condition is improving or deteriorating. Net position increases when revenues exceed expenses, or when assets increase without a corresponding increase in liabilities. This is an indication of improving financial condition. However, when expenses exceed revenues, or when liabilities increase without a corresponding increase in assets, there is an indication of deteriorating financial condition.
- **Statements of Revenues, Expenses and Changes in Net Position** – The Consolidated Statements of Revenues, Expenses and Changes in Net Position present the University's revenues and expenses and illustrate how current year activities improve or weaken the University's financial condition. Changes in net position are reported when the underlying event occurs (accrual basis of accounting), which may be different from actual cash flows. The Consolidated Statements of Revenues, Expenses and Changes in Net Position also distinguish operating from non-operating revenues and expenses. Tuition and fees revenue and student housing fees revenue are reported net of scholarships and fellowships, including tuition and fee waivers applied to student accounts. Sales and services revenue is primarily comprised of bookstores, student and faculty housing, food services, parking and athletics. It is anticipated that the University will consistently report an operating loss since certain significant revenue sources relied upon for core operational needs, including state appropriations, private gifts and investment income, are considered non-operating revenues.
- **Statements of Cash Flows** – The Consolidated Statements of Cash Flows distinguishes between cash inflows and outflows from operating activities, non-capital financing activities, capital and related financing activities, and investing activities.
- **Notes to Consolidated Financial Statements** – The notes provide additional information that is essential to a full understanding of the information presented in the consolidated financial statements.

Related Entities

The University maintains close relationships with two other entities, considered to be component units, whose financial information is blended into the University's accompanying consolidated financial statements. The University of Hawai'i Foundation (the "Foundation") is a not-for-profit organization established to solicit and manage funds for the benefit of the University. The Research Corporation of the University of Hawai'i (the "Research Corporation") provides administrative support services for research and training programs of the University. Both of the University's component units prepare stand-alone financial statements with footnotes, which are audited by independent auditors. Summarized information of the individual components of the University's consolidated financial position, results of operations and cash flows for the years ended June 30, 2014 and 2013 is presented in Note 18 to the consolidated financial statements.

University of Hawai'i
State of Hawai'i
Management's Discussion and Analysis (Unaudited)
June 30, 2014 and 2013

Financial Position

The Consolidated Statements of Net Position present the financial position of the University at the end of the fiscal year and display all assets and liabilities of the University. Assets and liabilities are presented using fair and current values, respectively. Two notable exceptions are receivables and capital assets, which are stated at historical cost less an allowance for doubtful accounts and accumulated depreciation, respectively. The difference between assets and liabilities is net position, representing a measurement of the current financial condition of the University. The University's assets, liabilities and net position at June 30, 2014, 2013 and 2012 are summarized as follows (in thousands):

	2014	Percentage of Total Assets and Deferred Outflows	2013	Percentage of Total Assets and Deferred Outflows	2012	Percentage of Total Assets and Deferred Outflows	FY 14 vs 13 Change	FY 13 vs 12 Change
Current assets								
Cash and operating investments	\$ 342,353	10%	\$ 377,545	11%	\$ 448,346	13%	\$ (35,192)	\$ (70,801)
Receivables, net	108,463	3%	112,384	3%	95,112	3%	(3,921)	17,272
Other current assets	23,597	1%	36,301	1%	23,107	1%	(12,704)	13,194
Total current assets	474,413	14%	526,230	15%	566,565	17%	(51,817)	(40,335)
Noncurrent assets								
Endowment and other investments	499,460	14%	468,120	14%	526,663	16%	31,340	(58,543)
Capital assets, net	2,071,850	60%	2,027,120	60%	1,826,937	54%	44,730	200,183
Other noncurrent assets	418,903	12%	379,184	11%	443,259	13%	39,719	(64,075)
Total assets	3,464,626	100%	3,400,654	100%	3,363,424	100%	63,972	37,230
Deferred outflows of resources								
Deferred loss on refunding	5,576	0%	5,883	0%	6,180	0%	(307)	(297)
Total deferred outflows of resources	5,576	0%	5,883	0%	6,180	0%	(307)	(297)
Total assets and deferred outflows of resources	3,470,202	100%	3,406,537	100%	3,369,604	100%	63,665	36,933
Current liabilities								
	263,583	8%	269,754	8%	290,210	8%	(6,171)	(20,456)
Noncurrent liabilities								
Long-term debt	578,585	17%	593,930	17%	608,670	18%	(15,345)	(14,740)
Other noncurrent liabilities	666,508	19%	605,956	18%	499,530	14%	60,552	106,426
Total liabilities	1,508,676	43%	1,469,640	43%	1,398,410	42%	39,036	71,230
Net position								
Net investment in capital assets	1,519,669	44%	1,482,274	44%	1,336,377	41%	37,395	145,897
Restricted								
Nonexpendable	218,133	6%	207,338	6%	191,532	6%	10,795	15,806
Expendable	598,070	17%	530,130	16%	574,344	17%	67,940	(44,214)
Unrestricted	(374,346)	-11%	(282,845)	-8%	(131,059)	-4%	(91,501)	(151,786)
Total net position	\$ 1,961,526	57%	\$ 1,936,897	57%	\$ 1,971,194	60%	\$ 24,629	\$ (34,297)

Current Assets and Liabilities

Working capital is a good measure of both the University's efficiency and financial health. Positive working capital means that the University has current assets in excess of current liabilities and is able to pay off short-term obligations. A working capital deficit would mean that the University is unable to meet its short-term obligations with existing current assets.

At June 30, 2014, 2013 and 2012, working capital amounted to \$210.8 million, \$256.5 million and \$276.4 million, respectively. The University is working toward maintaining a prudent level of working capital to fund operations, including pre-funding its approximately \$420 million in extramural grants which are on a cost reimbursement basis and to provide for uncertainties such as possible cuts to federal programs and the fiscal economic situation in the United States ("US") and Asia. Based on the \$1,550 million of operating expenses (excluding depreciation) for the fiscal year ended June 30, 2014, the working capital at year end represents approximately 55 days of operating funds.

University of Hawai'i

State of Hawai'i

Management's Discussion and Analysis (Unaudited)

June 30, 2014 and 2013

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

- Current assets consist primarily of cash and cash equivalents, operating investments and net receivables. Total current assets were \$474.4 million, \$526.2 million and \$566.6 million at June 30, 2014, 2013 and 2012, respectively. Total current assets decreased by \$51.8 million, or 9.8% percent, at June 30, 2014 compared to June 30, 2013, primarily due to a \$35.2 million decrease in cash and operating investments. Operating investments decreased by \$20.8 million primarily due to a \$21.0 million decrease in time certificates of deposits ("TCDs"), which were used to fund construction, repairs and maintenance and payroll in the current year. Total current assets decreased by \$40.3 million, or 7.1 percent, at June 30, 2013 compared to June 30, 2012, primarily due to decreases in operating investments offset by increases in cash and cash equivalents and accounts receivable. Operating investments decreased by \$93.9 million primarily due to a decrease of \$68 million in time certificates of deposit ("TCDs"), which were used to fund construction, repairs and maintenance and payroll. Increases in accounts receivable of \$18.5 million were primarily due to timing of collections of Federal accounts receivable.
- Current liabilities consist primarily of accounts payable, accrued payroll and fringe benefits, advances from sponsors and deferred revenue. Current liabilities also include amounts due to the State of Hawai'i, the current portion of long-term liabilities and other current liabilities. Total current liabilities were \$263.6 million, \$269.8 million and \$290.2 million at June 30, 2014, 2013 and 2012, respectively. Total current liabilities decreased by \$6.2 million, or 2.3 percent, at June 30, 2014 compared to June 30, 2013, and by \$20.5 million, or 7.1 percent, at June 30, 2013 compared to June 30, 2012, primarily due to decreases in accounts payable.

Endowment and Other Investments

The University's endowment and other investments, including endowments held with the Foundation, increased by \$31.3 million to \$499.5 million at June 30, 2014 and decreased by \$58.5 million to \$468.1 million at June 30, 2013. Endowments and other investments held with the Foundation amounted to \$365.8 million at June 30, 2014 and \$311.8 million at June 30, 2013. The fiscal year 2014 increase was primarily due to an increase in the fair value of investments.

In fiscal year 2012, the University's auction rate securities portfolio decreased by \$22.9 million due to redemptions at par value, in accordance and under the terms of the agreement with Citigroup Global Markets Inc. In July 2012, the University fully liquidated the remaining \$25.5 million auction rate securities portfolio, at par.

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

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

The University's spending rate policy is to limit the immediate impact that significant changes in the fair value of the endowment portfolio have on annual distributions. The spending rate policy provides for an annual distribution, ranging between three percent and five percent of the five-year moving average of the endowment portfolio's fair value. In fiscal years 2014 and 2013, the University instituted a 4.5 percent distribution rate on restricted and unrestricted endowments. The total restricted and unrestricted distributions available to the University amounted to \$2.4 million and \$2.3 million in fiscal years 2014 and 2013.

Capital and Debt Activities

The University's capital assets are separated into seven categories: land, buildings, infrastructure, land improvements, equipment, library materials, and construction in progress. At June 30, 2014, 2013 and 2012, total capital assets, net of accumulated depreciation amounted to \$2.1 billion, \$2.0 billion and \$1.8 billion, respectively, which represented 60 percent, 60 percent and 54 percent, respectively, of the University's total assets. Capital asset additions totaled \$186.5 million, \$313.7 million and \$416.8 million in fiscal years 2014, 2013 and 2012, respectively, while depreciable capital asset disposals, net of accumulated depreciation, amounted to \$32.3 million, \$6.8 million and \$15.6 million, respectively. The decrease of the additions was due to the completion of many strategic capital projects. In fiscal year 2014, the University transferred \$19 million capital asset to the State and Federal governments.

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

Significant capital projects completed during fiscal years 2014, 2013 and 2012 or in progress as of June 30, 2014, 2013 and 2012 included:

- **University of Hawai'i at West O'ahu** ("UH-West O'ahu") - The new \$177 million UH-West O'ahu Kapolei campus opened to over 2,000 students on August 20, 2012. The current campus consists of approximately 220,000 square feet of building floor area, which includes a state-of-the-art high-tech classroom building, laboratory building, campus center, library and resource center, and maintenance and mechanical plant building. The architectural design of the new campus incorporates the latest trends in environmental sustainability and achieved LEED gold certification. The construction of the entire campus and adjacent business and retail community will span several decades. When completed, UH-West O'ahu will accommodate 7,600 students and 1,000 faculty and staff.
- **University of Hawai'i Cancer Center** – Construction of the 156,000 square foot building for the University of Hawai'i Cancer Center was completed in September 2012. The \$120 million center that is part of the University of Hawai'i at Mānoa, is adjacent to the UH Mānoa John A Burns School of Medicine in Kaka'ako. Under a partnership agreement with The Queen's Medical Center, Hawai'i Pacific Health, and Kuakini Health Systems, the center will lead research efforts, including clinical trials while the hospitals continue to deliver care to patients, making use of the latest research. The UH Cancer Center is one of 65 National Cancer Institute centers across the United States, a designation that brings grant funding needed to further research in epidemiology, natural products and cancer biology, and prevention and control of carcinogenesis.

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- **University of Hawai'i at Mānoa Center for Life Science Research and Teaching** – This \$55 million project includes the renovation of Edmondson Hall for the Biology department, Snyder Hall for the Microbiology department, and a new building with stairs and elevators that will be used by both Edmondson and Snyder. The renovation of Edmondson Hall was completed on July 10, 2013. Edmondson Hall's first two floors consist of biology laboratories, while floors three and four are for graduate and faculty research.
- **University of Hawai'i Information Technology Center** – The \$52.4 million Information Technology Center was completed on December 16, 2013. The building is six stories high with approximately 74,000 square feet of floor space and has received a LEED silver certification. The Information Technology Center is equipped with an emergency situation room, meeting and training rooms, and houses the entire system-wide Information Technology department.
- **University of Hawai'i at Mānoa Campus Center Renovations and Expansion Project** – The \$46 million project was completed on April 11, 2014. It includes the addition of the two-story Warrior Recreation Center along with renovations to Campus Center and Hemenway Hall. The Warrior Recreation Center includes an indoor track, a fitness center, locker rooms, and a multi-purpose gymnasium. Renovations to Campus Center include the addition of Starbucks Coffee, an outdoor seating area, improvements to the central air conditioning system, and a new store-front for the University of Hawai'i Bookstore.
- **Community College Energy Conservation Project** – The \$40 million project taking place on the University of Hawai'i Community College campuses statewide is designed to reduce electricity and water consumption. The Community Colleges will also incorporate photovoltaic energy systems on each campus through new projects, such as 'Ike Le'a (UHMC), Hale Aloha (Hawai'i CC), and Hale La'akea (WCC). Other components of the project include solar water heaters, energy efficient HVAC and lighting systems, and electric car charging stations.
- **University of Hawai'i at Hilo's University Village** – Hale 'Alohonua, the first phase of the University of Hawai'i at Hilo's University Village project was completed on August 19, 2013. The \$33.8 million, 105,505 square foot residence hall is located across the main campus of the University of Hawai'i at Hilo's entrance on Kawili Street. The facility is made up of three, three-story walk-ups and a student life common area where the students will be able to cook, do their laundry, and study.
- **Hawai'i Community College Pālanui Campus** – The groundbreaking ceremony for the \$25 million Hawai'i Community College Pālanui Campus took place on May 28, 2013. The community of Pālanui, "A Place of Enlightenment", will consist of parks, a University Village Town Center, a University Inn, and placed in the middle will be the Hawai'i Community College Pālanui Campus. The first phase includes a 24,000 square foot structure with classrooms, science labs, library, and culinary arts kitchens, which will be powered by a large photovoltaic system.
- **Ka Haka 'Ula o Ke'elikelani College of Hawaiian Language** – Hale 'Olelo, the \$24.4 million College of Hawaiian Language facilities on the University of Hawai'i at Hilo campus was completed on January 11, 2014. The featured space for this 36,800 square foot educational facility is a 200-seat performing arts room with enhanced acoustics and includes a custom retractable lighting system (Haka) and a 36-foot high ceiling. Other notable spaces include a distance learning center designed to support remote classroom instruction and video conferences as well as a library and archives collection for extremely rare printed and audio records.

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- **University of Hawai'i at Hilo Student Services** – The new \$22 million three-story, 35,000 square foot Student Services building was placed into service in May 2014. Students will now be able to attend to their financial, registration and counseling needs in one central location. The project included photovoltaic panels for the Library, College of Business Economics, Performing Arts Center, and the Student Services Buildings.
- **University of Hawai'i at Mānoa Gartley Hall Renovation** – The blessing for the recently renovated University of Hawai'i at Mānoa Gartley Hall took place on November 6, 2014. Gartley Hall is the second oldest building on the Mānoa campus and is home to the School of Social Work. The \$17.7 million renovation corrected structural issues in the building, preserved the historic features of the building, and installed photovoltaic panels for energy efficiency.
- **Leeward Community College Ka 'Imi 'Ike** – The dedication ceremony of the \$16.6 million Leeward Community College education building Ka 'Imi 'Ike (The Search for Knowledge) was held on August 22, 2014. The 24,000 square foot teacher education building includes classrooms, a lecture hall, offices, a resource center, and meeting spaces. Ka 'Imi 'Ike is energy efficient, utilizing large windows for natural sunlight, photovoltaic panels, and a hybrid air-conditioning unit.
- **Clarence T.C. Ching Athletics Complex** – The \$16 million Clarence T.C. Ching Athletics Complex was completed on August 31, 2014. The three-story facility includes grandstand seating for 2,500 people and offices and locker rooms for women's soccer, cross country, track and field, and sand volleyball. Adjacent to the grandstand seating is a sand volleyball court with bleacher style seating.

General obligation bonds have also been issued by the State of Hawai'i that included financing for University projects. These bonds are carried as liabilities of the State. In fiscal year 2014, 2013 and 2012, the State appropriated funds directly to the Department of Budget and Finance to pay for debt service on general obligation bonds issued for the University. As a result, the University itself received no appropriations and made no transfers for debt service on general obligation bonds for these fiscal years. In fiscal year 2014, 2013 and 2012, \$101.0 million, \$97.8 million and \$82.5 million was appropriated in each year, respectively.

The University also uses revenue bond financing for major capital projects. In February 2012, the University issued \$8.6 million in Series 2012A(R) revenue bonds to constructively retire \$9.0 million of the outstanding Series 2001B revenue bonds. The proceeds of the Series 2012A(R) revenue bonds were deposited into a trust account with an escrow agent to fully defease the outstanding principal of the Series 2001B bonds. The defeasance resulted in an accounting gain of \$0.9 million and an immaterial economic loss (difference between the present values of the debt service payments on the old and new debt).

In October 2010, the University issued \$292.7 million in Series 2010A-1 (\$111.3 million), 2010A-2 (\$27.4 million), 2010B-1 (\$127.5 million), and 2010B-2 (\$26.6 million) bonds (collectively, the "Series 2010 Bonds") for the purpose of financing the costs of certain University projects. The Series 2010A-1 and Series 2010B-1 bonds are designated as "Build America Bonds" under the provisions of the American Recovery and Reinvestment Act of 2009. These University projects include the construction and maintenance of the University's Cancer Center, renovations and additions to the Mānoa Campus Center, construction and equipment for an Information Technology Building, renovations to the Sinclair Library basement on the Mānoa campus, further development of the UH-West O'ahu Kapolei campus, various energy conservation/efficiency projects on the community college campuses on O'ahu, Kaua'i and Maui, land acquisition for the Leeward Community College Wai'anae Education Center, construction of the Kapi'olani Community College Culinary Institute of the Pacific, and renovation of the observatory for the Panoramic Survey Telescope & Rapid Response System 2 telescope. The Series 2010 revenue bonds was assigned municipal bond ratings of "A+", "Aa3", and "AA-" by Standard & Poor's, Moody's Investors Service and Fitch Ratings, respectively. The interest rates for the Series 2010 Bonds range

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from 2.50% – 6.03% (first interest payment due on April 1, 2011) and mature on October 1, 2030 and 2040.

At June 30, 2014, 2013 and 2012, revenue bonds payable amounted to \$593.9 million, \$608.7 million and \$622.9 million, respectively. Debt service in fiscal year 2014 amounted to \$45.2 million, consisting of \$14.7 million of principal and \$30.5 million of interest. Debt service in fiscal year 2013 amounted to \$45.2 million, consisting of \$14.2 million of principal and \$31.0 million of interest. Debt service in fiscal year 2012 amounted to \$45.1 million, consisting of \$13.8 million of principal and \$31.3 million of interest. Principal reductions during fiscal year 2014, 2013 and 2012 were in accordance with scheduled debt service payments.

In June 2002, the University issued \$150 million in Series 2002A revenue bonds to finance the construction of the new John A. Burns School of Medicine campus. In October 2006, the University issued \$133.8 million in Refunding Series 2006A bonds to refinance a portion of the University's outstanding Series 2002A revenue bonds. The bond offering was structured to match the timing of receipt of projected State of Hawai'i Tobacco Settlement funds. While all unrestricted revenues of the University, excluding those revenues pledged under the University Bond System, are pledged as collateral, the University anticipates that State of Hawai'i Tobacco Settlement funds will be the primary source of support for debt service payments on these revenue bonds. The University received State of Hawai'i Tobacco Settlement funds in the amount of \$9.9 million in fiscal years 2014, 2013 and 2012 to cover the debt service due.

On May 4, 2012, the University entered into a five-year, unsecured loan agreement ("Note") with Hawaii Regional Center LP III ("Lender") for a commitment amount not to exceed \$18,000, subject to certain limitations. The proceeds were used to facilitate and fund construction of the UH-West O'ahu campus located in Kapolei, Hawai'i.

The Note bears interest at the rate of 1.5% per annum, which is due and payable semi-annually to the Lender on January 1 and July 1 each year until the Note has been paid in full. Under the terms of the Note, repayment each fiscal year is limited and subject to specific appropriations by the State to make such payments. The Note matures on July 16, 2017, at which time the unpaid principal will be due. As of June 30, 2014, \$17,000 remains outstanding.

Net Position

Net position represents the residual interest in the University's assets after liabilities are deducted. At June 30, 2014, 2013 and 2012, total net position amounted to \$2 billion, \$1.9 billion and \$2 billion, respectively. Net position is reported in four major categories: net investment in capital assets, restricted nonexpendable, restricted expendable and unrestricted.

Net investment in capital assets, net of accumulated depreciation and the related outstanding debt used to finance the acquisition, construction or improvement of those assets, amounted to \$1.5 billion, \$1.5 billion and \$1.3 billion at June 30, 2014, 2013 and 2012, respectively. The \$37.4 million increase in fiscal year 2014, as compared to fiscal year 2013, was primarily attributable to \$186.5 million of capital asset additions, offset by \$109.5 million of depreciation expense, \$32.3 million in net disposals, and \$15.3 million decrease in related debt. The \$145.9 million increase in fiscal year 2013, as compared to fiscal year 2012, was primarily attributable to \$313.7 million of capital asset additions, offset by \$106.6 million of depreciation expense, \$6.8 million in net disposals, and \$14.7 million decrease in related debt.

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Restricted nonexpendable net position primarily represents the University's and Foundation's permanent endowment funds, which are required to be maintained in perpetuity, amounted to \$218.1 million, \$207.3 million and \$191.5 million at June 30, 2014, 2013 and 2012, respectively. The increases of \$10.8 million and \$15.8 million in fiscal years 2014 and 2013, respectively, were primarily attributable to new permanent endowment gifts received.

Restricted expendable net position is subject to externally imposed restrictions governing their use. Net position was restricted for the following purposes at June 30, 2014, 2013 and 2012 (in thousands):

	2014	2013	2012
Plant facilities	\$ 310,195	\$ 304,397	\$ 375,821
Donor-restricted activities	234,200	178,018	157,600
Loan activities	41,172	35,353	25,020
External sponsor activities	12,502	12,362	15,903
	<u>\$ 598,070</u>	<u>\$ 530,130</u>	<u>\$ 574,344</u>

In fiscal year 2014, the overall increase of \$67.9 million in restricted expendable net position was primarily attributable to an increase of approximately \$56.2 million in donor-restricted activities, which was a direct result of an increase in donations received through the Foundation. In fiscal year 2013, the overall decrease of \$44.2 million in restricted expendable net position was primarily attributable to a decrease of approximately \$71.4 million in plant facilities, which is a direct result of the decrease in unspent capital appropriations.

Net position that is not subject to externally imposed restrictions governing their use is classified as unrestricted for financial reporting purposes. At June 30, 2014, 2013 and 2012, unrestricted net position amounted to deficits of \$374.3 million, \$282.8 million and \$131.1 million, respectively. Although unrestricted net position is not subject to externally imposed restrictions, all of the University's unrestricted net position has been internally designated for various academic and research programs and initiatives, contractual commitments, and capital projects. In addition, unrestricted net position of \$46.7 million, \$36.0 million and \$31.1 million were designated for endowment activities at June 30, 2014, 2013 and 2012, respectively.

The reduction in unrestricted net position for the fiscal years ended June 30, 2014, 2013 and 2012 is primarily attributable to the University's required accounting and recognition for the University's allocated share of the State of Hawai'i actuarial determined total other post-employment benefits ("OPEB") liability. Similar to other state and local governments, the State of Hawai'i ("State") plan has been paid on a "pay as you go" basis, which resulted in the OPEB liability growing substantially each year. As a result, despite total assets of the University growing each year, unrestricted net position continues to decline due to recognition of the OPEB liability. The University's share of the OPEB liability as of June 30, 2014, 2013 and 2012 was \$579.2 million, \$514.4 million and \$413.5 million, respectively. Annual required OPEB contribution payments, on a "pay as you go" basis, towards this liability were paid directly by the State Department of Budget and Finance from its general fund appropriation and not out of the University's operating budget appropriation. The University makes contributions calculated as part of the State's total contribution requirements and are reimbursed to the State's General Fund as part of the fringe benefit rate on University employees' actual salaries.

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Results of Operations

The Consolidated Statements of Revenues, Expenses and Changes in Net Position are a presentation of the University's results of operations for the year. It indicates whether the financial condition of the University improved or deteriorated. For financial reporting purposes, certain significant revenues, including state appropriations, private gifts and investment income, which are relied upon and budgeted to support the University's core operations, are required to be reported as nonoperating revenues. The University's results of operations for the years ended June 30, 2014, 2013 and 2012, summarized to match revenues supporting core activities with expenses associated with core activities, are as follows (in thousands of dollars):

	2014		2013		2012		Increase (Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	FY 14 vs 13 Change	FY 13 vs 12 Change
Revenues								
Operating								
Tuition and fees	\$ 377,550	27.4%	\$ 362,175	27.8%	\$ 349,421	27.5%	\$ 15,375	\$ 12,754
Less: Scholarship allowances	(129,173)	-9.3%	(120,364)	-9.2%	(112,350)	-8.8%	(8,809)	(8,014)
Grants and contracts	427,056	30.8%	414,793	31.9%	409,974	32.3%	12,263	4,819
Sales and services	130,879	9.5%	133,211	10.2%	136,899	10.8%	(2,332)	(3,688)
Other revenue	2,935	0.2%	2,989	0.2%	3,107	0.3%	(54)	(118)
Total operating revenues	<u>809,247</u>	<u>58.7%</u>	<u>792,804</u>	<u>60.9%</u>	<u>787,051</u>	<u>62.1%</u>	<u>16,443</u>	<u>5,753</u>
Non-operating								
State appropriations	391,266	28.3%	374,280	28.7%	375,754	29.5%	16,986	(1,474)
Federal Pell grant	67,265	4.9%	67,826	5.2%	66,257	5.2%	(561)	1,569
Net investment income (expense)	51,520	3.7%	32,206	2.5%	1,272	0.1%	19,314	30,934
Private gifts	61,127	4.5%	35,206	2.7%	40,031	3.1%	25,921	(4,825)
Total non-operating revenues	<u>571,178</u>	<u>41.5%</u>	<u>509,518</u>	<u>39.1%</u>	<u>483,314</u>	<u>37.9%</u>	<u>61,660</u>	<u>26,204</u>
Total revenues supporting core activities	<u>1,380,425</u>	<u>100.0%</u>	<u>1,302,322</u>	<u>100.0%</u>	<u>1,270,365</u>	<u>100.0%</u>	<u>78,103</u>	<u>31,957</u>
Expenses								
Operating								
Compensation and benefits	1,070,419	71.0%	1,049,129	70.3%	1,027,243	70.9%	21,290	21,886
Supplies, services and cost of goods sold	238,687	15.8%	243,893	16.3%	235,678	16.3%	(5,206)	8,215
Telecom and utilities	79,860	5.3%	79,787	5.4%	80,852	5.6%	73	(1,065)
Scholarships and fellowships	50,835	3.4%	51,414	3.4%	51,760	3.6%	(579)	(346)
Other expense	110,597	7.3%	110,928	7.4%	117,922	8.1%	(331)	(6,994)
Total operating expenses	<u>1,550,398</u>	<u>102.8%</u>	<u>1,535,151</u>	<u>102.9%</u>	<u>1,513,455</u>	<u>104.5%</u>	<u>15,247</u>	<u>21,696</u>
Non-operating (revenues) expenses								
Transfers (from) to State, net	(183,460)	-12.2%	(172,757)	-11.6%	(179,495)	-12.4%	(10,703)	6,738
Transfers (from) to Federal – capital assets	4,156	0.3%	-	0.0%	-	0.0%	4,156	-
Interest expense	26,690	1.8%	23,452	1.6%	22,500	1.6%	3,238	952
Total non-operating (revenues) expenses	<u>(152,614)</u>	<u>-10.0%</u>	<u>(149,305)</u>	<u>-9.8%</u>	<u>(156,995)</u>	<u>-10.8%</u>	<u>(3,309)</u>	<u>7,690</u>
Expenses associated with core activities before depreciation	<u>1,397,784</u>	<u>-</u>	<u>1,385,846</u>	<u>-</u>	<u>1,356,460</u>	<u>-</u>	<u>11,938</u>	<u>29,386</u>
Income (loss) from core activities before depreciation	<u>(17,359)</u>	<u>-</u>	<u>(83,524)</u>	<u>-</u>	<u>(86,095)</u>	<u>-</u>	<u>66,165</u>	<u>2,571</u>
Depreciation	<u>109,458</u>	<u>7.4%</u>	<u>106,631</u>	<u>7.1%</u>	<u>91,933</u>	<u>6.3%</u>	<u>2,827</u>	<u>14,698</u>
Expenses associated with core activities including depreciation	<u>1,507,242</u>	<u>100.0%</u>	<u>1,492,477</u>	<u>100.1%</u>	<u>1,448,393</u>	<u>100.0%</u>	<u>14,765</u>	<u>44,084</u>
Loss from core activities	<u>(126,817)</u>	<u>-</u>	<u>(190,155)</u>	<u>-</u>	<u>(178,028)</u>	<u>-</u>	<u>\$ 63,338</u>	<u>\$ (12,127)</u>
Other nonoperating activity								
Capital gifts and grants	146,068		147,772		169,291			
Permanent endowment	9,502		14,670		8,754			
Other revenue (expenses) net	<u>(4,124)</u>		<u>(6,584)</u>		<u>(13,539)</u>			
Other nonoperating income, net	<u>151,446</u>		<u>155,858</u>		<u>164,506</u>			
Increase (decrease) in net position	<u>24,629</u>		<u>(34,297)</u>		<u>(13,522)</u>			
Net position								
Beginning of year	<u>1,936,897</u>		<u>1,971,194</u>		<u>1,984,716</u>			
End of year	<u>\$ 1,961,526</u>		<u>\$ 1,936,897</u>		<u>\$ 1,971,194</u>			

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Revenues Supporting Core Activities

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

Tuition and fees revenue, net of scholarship allowances, increased by \$6.6 million, or 2.7 percent, to \$248.4 million in fiscal year 2014, and increased by \$4.7 million, or 2.0 percent, to \$241.8 million in fiscal year 2013. Scholarship allowances amounted to \$129.2 million, \$120.4 million and \$112.4 million in fiscal years 2014, 2013 and 2012, respectively. For fiscal year 2014 and 2013, the increase in tuition and fees revenue and scholarship allowances are primarily attributable to increase in tuition and fee rate increases.

Revenues from federal, state and local grants and contracts and nongovernmental sponsored programs increased by \$12.3 million, or 3.0 percent to \$427.1 million in fiscal year 2014, and increased by \$4.8 million, or 1.2 percent to \$414.8 million in fiscal year 2013. The fiscal year 2014 net increase was attributable to a \$4.4 million increase in federal grants and contracts, a net increase of \$6.8 million in nongovernmental sponsored programs and a \$1.1 million increase in state and local grants. The fiscal year 2013 net increase was attributable to a \$0.8 million decrease in federal grants and contracts, a net decrease of \$2.0 million in nongovernmental sponsored programs and offset by a \$7.6 million increase in state and local grants.

Sales and services revenues, which are mainly comprised of bookstores, student and faculty housing, food services, parking and athletics, decreased by \$2.3 million, or 1.8 percent, to \$130.9 million in fiscal year 2014, and decreased by \$3.7 million, or 2.7 percent, to \$133.2 million in fiscal year 2013.

General state appropriations increased by \$17.0 million, or 5 percent, to \$391.3 million in fiscal year 2014 and decreased by \$1.5 million, or 0.4 percent, to \$374.3 million in fiscal year 2013. The decrease in fiscal year 2013 was mainly attributable to a decrease of \$8.8 million in the University's general funds from legislative appropriations and gubernational restrictions offset by a \$7.0 million reduction in executive restrictions.

The University's net investment income for fiscal year 2014, as compared to fiscal year 2013, increased by \$19.3 million, resulting in net investment income of \$51.5 million. The fiscal year 2014 increase was mainly due to the increase in realized gain of \$17.0 million. The University's net investment income for fiscal year 2013, as compared to fiscal year 2012, increased by \$30.9 million, resulting in net investment income of \$32.2 million. The fiscal year 2013 increase was mainly due to the change in unrealized gain of \$31.6 million.

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The components of net investment income for the years ended June 30, 2014, 2013 and 2012 were as follows (in thousands):

	2014	2013	2012	Increase (Decrease)	
				FY 14-13 Change	FY 13-12 Change
Interest and dividend income	\$ 7,621	\$ 9,011	\$ 9,408	\$ (1,390)	\$ (397)
Net realized gains (losses)	21,904	4,878	7,052	17,026	(2,174)
Net unrealized gains (losses)	22,826	19,102	(12,494)	3,724	31,596
Other, net	(831)	(785)	(2,694)	(46)	1,909
	<u>\$ 51,520</u>	<u>\$ 32,206</u>	<u>\$ 1,272</u>	<u>\$ 19,314</u>	<u>\$ 30,934</u>

Private gifts, most of which are restricted as to use, increased by \$25.9 million, or 74 percent, to \$61.1 million in fiscal year 2014 when compared to \$35.2 million in fiscal year 2013. The fiscal year 2014 increase was primarily attributable to an increase in unrealized gains. Private gifts, most of which are restricted as to use, decreased by \$4.8 million, or 12.0 percent, to \$35.2 million in fiscal year 2013 when compared to \$40.0 million in fiscal year 2012. The fiscal year 2013 decrease was primarily attributable to a decrease in unrealized gains. The University will continue to aggressively develop private revenue sources and cultivate the increasing trend in private gifts received.

Expenses Associated with Core Activities

The University is committed to recruiting and retaining outstanding faculty and staff, and providing compensation equivalent to peer institutions and nonacademic employers. Of the University's operating expenses, approximately 69.0 percent during fiscal year 2014, 68.3 percent during fiscal year 2013, and 67.9 percent during fiscal year 2012 were related to compensation and benefits.

Compensation and benefits increased by \$21.3 million, or 2.0 percent, to \$1,070.4 million in fiscal year 2014 as compared to fiscal year 2013, and increased by \$21.9 million, or 2.1 percent, to \$1,049.1 million in fiscal year 2013 as compared to fiscal year 2012.

This fiscal year 2014 increase was attributable to three factors: pay increases and an increase in the number of employees offset by a decrease of postretirement health and life insurance benefits during the year. The University recognized \$106.8 million, \$142.6 million and \$136.1 million related to postretirement health and life insurance benefits in fiscal year 2014, 2013 and 2012, respectively. The decrease was due to enacted Act 268, SLH 2013 during the 2013 legislative session. The Act requires the State and the University to establish a phased annual contribution schedule starting in fiscal year 2015 to fully fund the Annual Required Contribution as determined by an actuary within 30 years. As a result, the discount rate used to calculate the liability has changed from 4% to 7%, which resulted in a lower cost in fiscal year 2014.

Supplies, services and cost of goods sold expense includes service fees, printing and binding, advertising, dues and subscriptions, controlled property acquisitions, cost of goods sold for resale items and other miscellaneous operating costs. In fiscal year 2014, such expenses decreased by \$5.2 million, or 2.1 percent, to \$238.7 million as compared to fiscal year 2013. In fiscal year 2013, such expenses increased by \$8.2 million, or 3.5 percent, to \$243.9 million as compared to fiscal year 2012. The increase was primarily attributable to increases in other services and supplies and materials, offset by decreases in cost of goods sold for resale items and non-capital asset acquisitions.

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The University is committed to providing affordable yet quality education to its students. To accomplish this goal, student aid is provided in the form of scholarships and fellowships, including tuition and fee waivers applied to student accounts and reflected as reductions and allowances to student tuition and student housing revenues, and scholarship and fellowship payments (mostly academic and athletic) made directly to students. Total aid to students increased by \$8.2 million, or 4.8 percent, to \$180.0 million in fiscal year 2014 as compared to the prior fiscal year 2013. Total aid to students increased by \$7.7 million, or 4.7 percent, to \$171.8 million in fiscal year 2013 as compared to the prior fiscal year 2012. Increases are consistent and in line with increased enrollment and with scheduled tuition increases.

The University depreciates its capital assets over their estimated useful lives using the straight-line method. Depreciation expense increased by \$2.8 million, or 2.7 percent, to \$109.5 million during fiscal year 2014 as compared to fiscal year 2013, and increased by \$14.7 million, or 16.0 percent, to \$106.6 million during fiscal year 2013 as compared to fiscal year 2012. The increase in 2014 and 2013 was primarily attributable to building and equipment additions, and reclassifications from construction in progress.

Transfers from State amounted to \$183.5 million, \$172.8 million and \$179.5 million in fiscal year 2014, 2013 and 2012, respectively. Transfers from State were primarily for fringe benefit expenses and the University's Cancer Center cigarette stamp tax collections.

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

<u>Time Period</u>	<u>Cigarette Stamp Tax</u>
October 1, 2006 – September 30, 2007	1.0 cent per cigarette
October 1, 2007 – September 30, 2008	1.5 cents per cigarette
October 1, 2008 – thereafter	2.0 cents per cigarette

Other Nonoperating Activities

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

In fiscal year 2014, capital gifts and grants, including state capital appropriations and transfers, decreased by \$1.7 million, or 1.2 percent, to \$146.1 million compared to \$147.8 million in fiscal year 2013. The State of Hawai'i capital appropriations increased by \$13.8 million, or 10.8 percent to \$142.0 million. Other capital gifts and grants during fiscal year 2014 included federal capital grants of \$15.9 million and private capital gifts and grants of \$5.9 million.

In fiscal year 2013, capital gifts and grants, including state capital appropriations and transfers, decreased by \$21.5 million, or 12.7 percent, to \$147.8 million compared to \$169.3 million in fiscal year 2012. The State of Hawai'i capital appropriations decreased by \$9.2 million, or 6.7 percent to \$128.2 million. Other capital gifts and grants during fiscal year 2013 included federal capital grants of \$18.5 million and private capital gifts and grants of \$1.1 million.

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Cash Flows

The Consolidated Statements of Cash Flows presents the University's significant sources and uses of cash and cash equivalents, including restricted cash balances. The University's cash is comprised primarily of cash held with the state treasury, demand deposits, and time certificates of deposit with an original maturity of three months or less. A summary of the University's cash flows for the years ended June 30, 2014, 2013 and 2012 are as follows (in thousands):

	2014	2013	2012	FY 14 vs. 13 Change	FY 13 vs. 12 Change
Cash received from operations	\$ 799,092	\$ 778,370	\$ 787,231	\$ 20,722	\$ (8,861)
Cash payments for operations	<u>(1,314,062)</u>	<u>(1,331,830)</u>	<u>(1,218,760)</u>	<u>17,768</u>	<u>(113,070)</u>
Net cash used in operating activities	<u>(514,970)</u>	<u>(553,460)</u>	<u>(431,529)</u>	<u>38,490</u>	<u>(121,931)</u>
Net cash provided by noncapital financing activities	508,527	501,084	511,811	7,443	(10,727)
Net cash used in capital and related financing activities	(50,446)	(110,101)	(228,103)	59,655	118,002
Net cash provided by investing activities	<u>42,492</u>	<u>185,614</u>	<u>131,679</u>	<u>(143,122)</u>	<u>53,935</u>
Net (decrease) increase in cash	<u>(14,397)</u>	<u>23,137</u>	<u>(16,142)</u>	<u>(37,534)</u>	<u>39,279</u>
Cash					
Beginning of year	<u>78,704</u>	<u>55,567</u>	<u>71,709</u>	<u>23,137</u>	<u>(16,142)</u>
End of year	<u>\$ 64,307</u>	<u>\$ 78,704</u>	<u>\$ 55,567</u>	<u>\$ (14,397)</u>	<u>\$ 23,137</u>

The University's cash and cash equivalents decreased by \$14.4 million, or 18.3 percent, to \$64,307 million at June 30, 2014 from \$78.7 million at June 30, 2013. During fiscal year 2014, \$515.0 million in cash was used for operating activities, offset by \$508.5 million in cash provided by noncapital financing activities. The University's cash and cash equivalents increased by \$23.1 million, or 41.6 percent, to \$78.7 million at June 30, 2013 from \$55.6 million at June 30, 2012. During fiscal year 2013, \$553.5 million in cash was used for operating activities, offset by \$501.1 million in cash provided by noncapital financing activities.

Net cash used in capital and related financing activities amounted to \$50.4 million, \$110.1 million and 228.1 million in fiscal years 2014, 2013 and 2012, respectively.

The \$59.7 million decrease in cash used in capital and related financing activities in fiscal year 2014 as compared to fiscal year 2013 was primarily attributable to a decrease in capital asset purchased of \$120.6 million, offset by a decrease in capital appropriations of \$54.9 million and proceeds from notes payable. The \$118.0 million decrease in cash used in capital and related financing activities in fiscal year 2013 as compared to fiscal year 2012 was primarily attributable to an increase in capital appropriations of \$26.1 million and a decrease in capital asset purchases of \$88.5 million.

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Looking Forward

The University of Hawaii plays a vital role for the State of Hawaii as its sole provider of public higher education institution. Looking toward the future, the state economy continues to improve. The visitor and construction industries are growing, and the unemployment rate has declined to 4.2% in September 2014. While caution is being exercised in light of federal program cutbacks as well as realignment of research and development funding to improve health care and expanding coverage through the Affordable Care Act and international economic uncertainties, management believes that the University is positioned to maintain its financial condition and level of service to students, the research community, and the State of Hawai'i.

Enrollment and Tuition

System-wide enrollment decreased slightly with 57,052 students in fall 2014 as compared to 58,941 in the prior year, as the State's improving economy continues to provide employment opportunities. On October 26, 2011, the University's Board of Regents approved a new tuition increase schedule for Fall 2012 through Spring 2017 following its increase schedule for the previous six years. This new schedule continues to provide stability and predictability for the University and its students while preserving affordability and access as the sole provider of public higher education in the State of Hawai'i. The continued implementation of this schedule is under continuing review by the Board of Regents.

Extramural Funds

Funding profile uncertainties with sponsored agencies, federal sequestration and the realignment of research and development ("R&D") funding priorities have impacted the research community nationwide. Fiscal year 2014 extramural awards closed at \$392 million, which represents a four percent reduction from \$409 million in fiscal year 2013. However, the University made significant progress in diversifying the funding stream and received a \$40 million award from the Simons Foundation, the largest private foundation gift the University has received. In addition, the University launched its first proof of concept center, XLR8UH, to create new funding opportunities and position the University's research enterprise to further the State of Hawaii's economy.

Facilities and Infrastructure

The University has a strong commitment to its core facilities and infrastructure. In the past two years, the University completed a number of major and critical projects: a new campus at West O'ahu, an innovative Cancer Research Center, an Information Technology building that serves all 10 campuses, and new buildings at the Hilo campus, Maui College and Windward Community College. The State of Hawaii legislature continues its strong support to the University's capital improvements and provided general obligation bond appropriations for capital improvement projects for the 2013–2015 and 2011–2013 fiscal biennia of approximately \$347 million and \$276 million, respectively.

Fundraising

The University launched a seven-year \$500 million fundraising campaign and began its "quiet phase" on July 1, 2011. Since the launch of the campaign, the University has consistently exceeded its fundraising goals. In fiscal year 2014, the University raised \$98.6 million as compared to \$66.3 million in fiscal year 2013 and \$66.9 million in fiscal year 2012.

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State General Fund Appropriations

The Hawai'i Governor supported, and the State legislature appropriated, an increase of \$24.5 million in general funds for the University System Fiscal Year 2015 operating budget. These funds will be allocated throughout the campuses to fund faculty salary increases that were negotiated through collective bargaining. Future general fund appropriations are dependent upon quarterly State Council on Revenues projections and priorities yet to be articulated by the newly elected Governor and State legislature. The Board of Regents has been working closely with the University leadership in reviewing the Fiscal Year 2015 campus financial operating plans, to include campus operating reserves to ensure sufficient operating funds for Academic Year 2014–2015, and beyond.

New Campuses

UH-West O'ahu's new campus in Kapolei opened in the Fall of 2012. Headcount enrollment has increased in Fall 2014, 2013 and 2012 by 12.7%, 18.2% and 20.2%, respectively, over the previous year.

The University of Hawai'i and the Hawai'i Island community broke ground on the long anticipated Hawai'i Community College Pālanui campus in Kona on May 28, 2013. With the opening of UH-West O'ahu's Kapolei campus, West Hawai'i is the only major community without a permanent higher education facility. Pālanui will be the first permanent, physical University of Hawai'i campus in the area. The University continues to pursue its mission to make higher education accessible to all communities in the state.

University of Hawai'i 15 to Finish Campaign

UH's Hawai'i Graduation Initiative ("HGI") is focused on increasing the number of citizens with a college degree to support a highly skilled workforce and promote the economic vitality of the State.

As part of HGI, the *15 to Finish* initiative encourages students attending or planning to attend the University's 2- or 4-year campuses to take 15 credits per semester to graduate on time in four years for a baccalaureate degree or two years for an associate degree. Across the nation, the norm has been to take 12 credits per semester and one to three additional years to complete a degree. The University of Hawai'i was the first university system in the nation to put together a comprehensive strategy to encourage students to take 15 credits. Supported by research showing that students taking 15 credits are likely to perform as well better than students taking fewer than 15 credits, the communications campaign and changes in individual campus procedures have made a significant difference. The overall strategy has been endorsed by Complete College America and adopted by 15 other states.

Overall, the percentage of first-time freshmen taking 15 or more credits at the UH four-year campuses (UH Mānoa, UH Hilo and UH West O'ahu) has increased from 36.4% to 55.5% since the *15 to Finish* initiative began.

The percentage of first-time freshmen at the UH four-year campuses taking 30 or more credits in the academic year (including the spring semester and summer session) has increased from 44.1% to 59.9%: UH Mānoa: 47.2% to 67.7%; UH Hilo: 37.7% to 44.6%; UH West O'ahu: 15.0% to 32.6%. Taking 30 credits per academic year accomplishes the same objective as 15 credits in the fall and spring semesters.

The percentage of first-time freshmen at the UH Community Colleges taking 15 or more credits, although low compared to the UH four-year campuses, has nearly doubled, from 7.5% before the initiative began to 13.0% in fall 2014. The most remarkable change has occurred at Windward CC, where the percentage has increased from 3.7% to over 22%.

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At UH Mānoa, where the campus instituted a Premier Registration process that gives freshmen the option to register early with a pre-selected schedule of 15 credits, the most remarkable change has occurred. The percentage of first-time freshmen at UH Mānoa taking 15 or more credits increased in Fall 2014 to 63.2%. This figure compares to an average of 37.5% for the combined Fall 2009 to Fall 2011 cohorts, before the *15 to Finish* initiative began in fall 2012.

Hawai'i Innovation Initiative

The University of Hawai'i is working in partnership with community and business groups to build the state's research industry through the Hawai'i Innovation Initiative. The goal is to build a \$1 billion research enterprise in Hawai'i. The university, in partnership with the business community, plans to create innovation clusters that link fundamental scientific discovery with applied research and economic development. The university will also provide the training required for technological innovation and economic development to enable Hawai'i's citizens to lead and participate in this sector. The Hawai'i Innovation Initiative will focus on the following hubs: astronomy, ocean sciences, health sciences and wellness, data intensive sciences and engineering, agriculture, and sustainability sciences including energy.

Impact of the University on the State of Hawai'i's Economy

In fiscal year 2012, student spending; state and federal government-funded University spending for goods and services; out-of-state visitor spending; and University-related expenditures totaled \$2.32 billion, \$1.84 billion of which was spent locally. Together with additional indirect and induced benefits from these activities, the University had a total impact of \$3.61 billion on Hawai'i's economy.¹

Overall, the \$1.84 billion of local education related expenditures attributable to the University generated \$3.61 billion in local business sales, \$1.1 billion in employee earnings, \$194 million in state tax revenues, and nearly 30,000 jobs in Hawai'i in fiscal year 2012. This represented approximately 4.8% of total (non-farm) jobs, 3.6% of worker earnings, and 3.2% of total state tax revenues in the economy of Hawai'i.

The University represents about 4.0% of Hawai'i GDP (estimated). By comparison, in 2011, retail trade's contribution to Hawai'i GDP was 6.9%; construction, 5.6%; the health care industry, 6.7%; hotels and other accommodations and food services, 8.1%; utilities, 2.3%; and agriculture, 0.7%. The University of Hawai'i system is a major economic sector in Hawai'i, and due to the significant proportion of spending on research, is expected to play an even larger role as the Hawai'i Innovation Initiative progresses.

¹ **Source:** <http://www.uhero.hawaii.edu/assets/UHSystemImpactReport-Public.pdf>

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Consolidated Statements of Net Position
June 30, 2014 and 2013
(All dollars reported in thousands)

	2014	2013
Assets and Deferred Outflows of Resources		
Current assets		
Cash and cash equivalents	\$ 64,307	\$ 78,704
Operating investments	278,046	298,841
Due from State of Hawai'i	924	329
Accounts receivable, net	89,301	96,109
Current portion of notes and contributions receivable, net	17,788	15,266
Accrued interest receivable	450	680
Inventories	11,608	12,288
Prepaid expenses and other current assets	11,989	24,013
Total current assets	<u>474,413</u>	<u>526,230</u>
Noncurrent assets		
Due from State of Hawai'i	349,084	338,108
Endowment and other investments	499,460	468,120
Notes and contributions receivable, net	52,116	24,637
Capital assets, net	2,071,850	2,027,120
Other noncurrent assets	17,703	16,439
Total noncurrent assets	<u>2,990,213</u>	<u>2,874,424</u>
Total assets	<u>3,464,626</u>	<u>3,400,654</u>
Deferred outflows of resources		
Deferred loss on refunding	5,576	5,883
Total deferred outflows of resources	<u>5,576</u>	<u>5,883</u>
Total assets and deferred outflows of resources	<u>\$ 3,470,202</u>	<u>\$ 3,406,537</u>
Liabilities and Net Position		
Current liabilities		
Accounts payable	\$ 71,078	\$ 76,431
Accrued payroll and fringe benefits	57,496	54,835
Advances from sponsors	26,636	35,202
Unearned revenue	44,010	38,497
Due to State of Hawai'i	6,272	6,303
Current portion of long-term liabilities	49,186	47,369
Other current liabilities	8,905	11,117
Total current liabilities	<u>263,583</u>	<u>269,754</u>
Noncurrent liabilities		
Accrued vacation	44,341	43,550
Accrued workers' compensation	8,918	9,277
Other postemployment benefits	579,196	514,364
Due to State of Hawai'i	380	555
Revenue bonds payable	578,585	593,930
Premium on bonds payable	3,802	4,696
Note payable	17,000	16,500
Other noncurrent liabilities	12,871	17,014
Total noncurrent liabilities	<u>1,245,093</u>	<u>1,199,886</u>
Total liabilities	<u>1,508,676</u>	<u>1,469,640</u>
Commitments and contingencies		
Net position		
Net investment in capital assets	1,519,669	1,482,274
Restricted		
Nonexpendable	218,133	207,338
Expendable	598,070	530,130
Unrestricted	<u>(374,346)</u>	<u>(282,845)</u>
Total net position	<u>1,961,526</u>	<u>1,936,897</u>
Total liabilities and net position	<u>\$ 3,470,202</u>	<u>\$ 3,406,537</u>

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

University of Hawai'i
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Consolidated Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2014 and 2013
(All dollars reported in thousands)

	2014	2013
Operating revenues		
Student tuition and fees	\$ 377,550	\$ 362,175
Less: Scholarship allowances	129,173	120,364
Net student tuition and fees	<u>248,377</u>	<u>241,811</u>
Federal appropriations, grants and contracts	357,185	352,805
State and local grants and contracts	30,072	28,946
Nongovernmental sponsored programs	39,799	33,042
Sales and services of educational departments, other	32,943	39,074
Auxiliary enterprises		
Bookstores	23,638	25,097
Student housing (net of scholarship allowances of \$1,503 and \$1,996)	29,644	26,438
Other auxiliary enterprises revenues	44,654	42,602
Other operating revenues	2,935	2,989
Total operating revenues	<u>809,247</u>	<u>792,804</u>
Operating expenses		
Compensation and benefits	1,070,419	1,049,129
Supplies, services and cost of goods sold	238,687	243,893
Depreciation	109,458	106,631
Telephone and utilities	79,860	79,787
Scholarships and fellowships	50,835	51,414
Travel expenses	33,279	33,648
Repairs and maintenance	26,907	24,597
Rental expenses	13,043	14,096
Other operating expenses	37,368	38,587
Total operating expenses	<u>1,659,856</u>	<u>1,641,782</u>
Operating loss	<u>(850,609)</u>	<u>(848,978)</u>
Nonoperating revenues (expenses)		
State appropriations	391,266	374,280
Federal Pell grants	67,265	67,826
Private gifts	61,127	35,206
Net investment income	51,520	32,206
Interest expense	(26,690)	(23,452)
Net transfers from (to) State of Hawai'i for		
Fringe benefits	153,919	142,859
Tobacco settlement	2,644	2,736
Interest on Tobacco settlement	(5)	(10)
Hawaii Barrel Tax	201	2,776
School of Nursing	983	88
University of Hawai'i Cancer Center	7,893	6,657
Loss on disposal of capital assets	(4,486)	(6,845)
Other, net	362	261
Net nonoperating revenues before capital and endowment additions (deductions)	<u>705,999</u>	<u>634,588</u>
Capital – state appropriations	142,029	128,186
Capital – federal grants/subsidies	15,865	18,528
Capital – gifts and grants	5,901	1,126
Net transfers to State of Hawai'i for capital assets	(17,727)	(68)
Transfers from State of Hawai'i, Tobacco settlement	9,926	9,926
Transfers from State of Hawai'i, University of Hawai'i Cancer Center	7,899	7,725
Transfers to Federal – capital assets	(4,156)	-
Additions to permanent endowments	9,502	14,670
Total other revenues	<u>169,239</u>	<u>180,093</u>
Net nonoperating revenues	<u>875,238</u>	<u>814,681</u>
Change in net position	<u>24,629</u>	<u>(34,297)</u>
Net position		
Beginning of year (restated)	<u>1,936,897</u>	<u>1,971,194</u>
End of year	<u>\$ 1,961,526</u>	<u>\$ 1,936,897</u>

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

University of Hawai'i
State of Hawai'i
Consolidated Statements of Cash Flows
Years Ended June 30, 2014 and 2013
(All dollars reported in thousands)

	2014	2013
Cash flows from operating activities		
Student tuition and fees	\$ 247,158	\$ 238,851
Grants and contracts	416,854	406,691
Other revenues	135,080	132,828
Payments to employees	(847,053)	(807,843)
Payments to suppliers and other	(416,174)	(472,573)
Payments for scholarships and fellowships	(50,835)	(51,414)
Net cash used in operating activities	<u>(514,970)</u>	<u>(553,460)</u>
Cash flows from noncapital financing activities		
State appropriations	390,671	374,390
Gifts and grants for other than capital purposes	106,180	114,413
Transfer from State of Hawai'i for		
Hawaii Barrel Tax	201	2,776
School of Nursing	983	88
Tobacco Settlement	2,644	2,736
University of Hawai'i Cancer Center	7,893	6,657
Transfers to State of Hawai'i for		
Interest on Tobacco Settlement	(5)	(10)
Other receipts (disbursements)	(40)	34
Net cash provided by noncapital financing activities	<u>508,527</u>	<u>501,084</u>
Cash flows from capital and related financing activities		
Capital appropriations	131,053	185,919
Capital gifts and grants	21,748	17,889
Proceeds from note payable	500	16,500
Purchases of capital assets	(182,112)	(302,717)
Proceeds from sale of capital assets	5,912	-
Principal paid on capital debt	(14,906)	(14,399)
Interest paid on capital debt	(30,466)	(30,944)
Transfer from State of Hawai'i, Tobacco settlement	9,926	9,926
Transfer from State of Hawai'i, University of Hawai'i Cancer Center	7,899	7,725
Net cash used in capital and related financing activities	<u>(50,446)</u>	<u>(110,101)</u>
Cash flows from investing activities		
Interest and dividends on investments, net	7,888	8,743
Proceeds from sales and maturities of investments	1,239,893	1,264,619
Purchase of investments	(1,205,289)	(1,087,748)
Net cash provided by investing activities	<u>42,492</u>	<u>185,614</u>
Net increase (decrease) in cash and cash equivalents	<u>(14,397)</u>	<u>23,137</u>
Cash and cash equivalents		
Beginning of year	78,704	55,567
End of year	<u>\$ 64,307</u>	<u>\$ 78,704</u>

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

University of Hawai'i
State of Hawai'i
Consolidated Statements of Cash Flows
Years Ended June 30, 2014 and 2013
(All dollars reported in thousands)

	2014	2013
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (850,609)	\$ (848,978)
Adjustments to reconcile operating loss to net cash used in operating activities		
On behalf payments by State for fringe benefits	153,919	142,859
Depreciation expense	109,458	106,631
Bad debt expense, net	2,651	4,025
Changes in operating assets and liabilities		
Accounts receivable	4,458	(19,550)
Notes and contributions receivable	497	726
Inventories	680	428
Prepaid expenses and other assets	10,097	(13,555)
Accounts payable	(6,063)	(31,690)
Accrued payroll and benefits	4,743	(2,705)
Accrued workers' compensation liability	(430)	(187)
Advances from sponsors	(8,566)	2,778
Other postemployment benefits	64,832	100,902
Other, net	(637)	4,856
Net cash used in operating activities	<u>\$ (514,970)</u>	<u>\$ (553,460)</u>
Supplemental information of noncash transactions		
Noncash contributions	\$ 1,437	\$ 10,263
Net transfers to State of Hawai'i for capital assets	(17,727)	(68)
Transfers to Federal for capital assets	(4,156)	-
Accounts payable for capital assets	29,963	29,254

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

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1. Organization and Summary of Significant Accounting Policies

Financial Reporting Entity

The accompanying consolidated financial statements of the University of Hawai'i (the "University") include the activities of the University of Hawai'i at Mānoa, University of Hawai'i at Hilo, University of Hawai'i at West O'ahu, University of Hawai'i at Maui College, University of Hawai'i Community Colleges and its component units. The University has defined its reporting entity in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, as amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*. The basic criterion for including a potential component unit within the reporting entity is financial accountability. Other criteria include fiscal dependency and the nature and significance of the relationship are such that exclusion would cause the financial statements of the University to be misleading. Accordingly, the financial information of the Research Corporation of the University of Hawai'i (the "Research Corporation") and the University of Hawai'i Foundation (the "Foundation") have been blended with the University's financial activity in the accompanying consolidated financial statements.

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

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

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

Basis of Presentation

The University follows the reporting model prescribed for special-purpose governments engaged only in business-type activities, as defined in GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, as amended. The consolidated financial statements of the University are presented using the economic resources measurement focus and the accrual basis of accounting.

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

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

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Cash, Cash Equivalents and Investments

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

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

Investments

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

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

Due from and Due to State

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

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

Perpetual Trusts

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

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Split Interest Agreements

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

Accounts Receivable

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

Contributions

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

Capital Assets

Capital assets are recorded at cost, or if donated, at an appraised value at the date of the gift. Depreciation of capital assets is provided for on a straight-line basis over the estimated useful lives (3 to 100 years) of the respective assets. The University's policy is to capitalize tangible, nonexpendable personal property having an estimated useful life of more than one year. Interest incurred on tax-exempt construction financing, net of investment income on any unspent financing proceeds, is capitalized as a cost of construction. When taxable debt is incurred specifically for a project, interest is capitalized on amounts expended on the project using the weighted-average cost of outstanding borrowings. The capitalization of interest ceases when the project is substantially complete or construction activity is suspended for more than a brief period. The University incurred interest cost of \$29,720 and \$30,311 for the years ended June 30, 2014 and 2013, respectively, of which capitalized interest as a cost of construction amounted to \$3,030 and \$6,758, respectively. The University does not capitalize works of art or historical treasures that are held for exhibition, education, research and public service. These collections are neither disposed of for financial gain nor encumbered. Accordingly, such collections are not recognized or capitalized for financial statement purposes. Maintenance and repairs, as well as minor replacements, renewals and betterments, are charged to operations. Major renewals, replacements and betterments are capitalized in the year incurred. Capital assets retired or otherwise disposed of are removed from the appropriate asset and related accumulated depreciation accounts. Gains and losses on disposals and the net book value of transfers of capital assets are reflected in operations.

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

Deferred Loss on Refunding

The University defers recognition of the loss on debt refunding related to issuance of its revenue bonds and amortizes these costs over the life of the bonds using the effective interest rate method.

Advances from Sponsors

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

Unearned Revenue

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

Other Postemployment Benefits

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

Revenue Bonds Payable

Revenue bonds payable include outstanding amounts due from the issuance of revenue bonds by the University.

Net Position

The University's net position is classified into the following four net position categories:

- **Net investment in capital assets:** This component of net position represents the University's total investment in capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those capital assets.
- **Restricted:**
 - Nonexpendable – Net position subject to externally imposed stipulations that they be maintained permanently by the University, which includes the University's permanent endowment funds.
 - Expendable – Net position that is restricted for specific purposes by sponsors, donors or law. Restrictions in these assets are released when the University complies with the stipulations required by the sponsor, donor or legislative act.

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

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

Net Position Restricted by Enabling Legislation

GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34*, requires that limitations on the use of net position imposed by enabling legislation be reported as restricted net position. GASB Statement No. 46 also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Restricted net position at June 30, 2014 and 2013 amounted to \$816,203 and \$737,468, respectively, of which \$320,398 and \$313,750 were restricted by enabling legislation for capital activity.

Operating and Nonoperating Activities

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

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

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

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

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

Scholarships and Fellowships

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

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State Appropriations

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

Management's Estimates

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

With respect to workers' compensation insurance, the University is self-insured for the first \$500 per occurrence and annual aggregate and obtains excess insurance of \$50,000 from a commercial insurance company. The University records a liability for risk financing and insurance related losses if it is determined that a loss has been incurred and the amount can be reasonably estimated. The University uses a third party actuary to estimate its workers' compensation liability. Changes in the liability are the result of claims payments made during the fiscal year, new claims filed and changes in the estimates of existing claims. Anticipated payments by the third party for the next fiscal year are considered current and payments thereafter are considered noncurrent. The liability represents the University's best estimate of workers' compensation liabilities based on available information. The University's estimated liability for workers' compensation claims is included in "Other Liabilities" in the accompanying Statements of Net Position (see Note 11).

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

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

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

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

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New Accounting Pronouncements

In 2014, the University adopted GASB Statement No.65, *Items Previously Reported as Assets and Liabilities*. This Statement provides financial reporting guidance for proper classification and recognition of previously reported assets and liabilities as deferred inflows or deferred outflows of resources. Management has adopted the new standard in the University's financial statements. Due to the adoption of GASB Statement No. 65, in fiscal year 2014, the 2013 financial statements were restated. The beginning net position as of July 1, 2013 was restated by approximately \$929 from \$1,972,123 to \$1,971,194.

The GASB issued Statement No. 66, *Technical Corrections – 2012*. The objective of this Statement is to enhance usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The requirements of this Statement are effective for reporting periods beginning after December 15, 2012. This Statement did not have a material effect on the University's financial statements.

The GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, issued in June 2012. This Statement revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2014. The University is currently evaluating this accounting pronouncement.

The GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The Statement amends and addresses an issue regarding application of the transition provisions of GASB Statement No. 68. The requirements of this Statement are effective for reporting periods beginning after June 15, 2014. The University is currently evaluating this accounting pronouncement.

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Reclassifications

Certain amounts in the 2013 consolidated financial statements have been reclassified to conform to the 2014 presentation. Such reclassifications, excluding implementation of GASB 65, had no impact on the 2013 change in net position as previously reported, however did impact operating loss and net nonoperating revenues.

	2013 As Previously Reported	Reclassifications	2013 Revised
Net position			
Net investment in capital assets	\$ 1,492,599	\$ (10,325)	\$ 1,482,274
Restricted – expendable	526,584	3,546	530,130
Unrestricted	(288,796)	5,951	(282,845)
Operating revenues			
Federal appropriations, grants and contracts	420,631	(67,826)	352,805
Sales and services of educational departments, other	54,105	(15,031)	39,074
Auxiliary enterprises			
Bookstores	26,812	(1,715)	25,097
Other auxiliary enterprises revenue	32,232	10,370	42,602
Total operating revenues	<u>867,006</u>	<u>(74,202)</u>	<u>792,804</u>
Operating expenses			
Compensation and benefits	1,049,129	105	1,049,234
Supplies, services and cost of goods sold	252,203	(8,310)	243,893
Telephone and utilities	79,796	(9)	79,787
Travel expenses	33,653	(5)	33,648
Repairs and maintenance	24,606	(9)	24,597
Rental expenses	14,310	(214)	14,096
Other operating expenses	36,416	2,171	38,587
Total operating expenses	<u>1,648,158</u>	<u>(6,376)</u>	<u>1,641,782</u>
Operating loss	(781,152)	(67,826)	(848,978)
Nonoperating revenues (expenses)			
Federal Pell grants	-	67,826	67,826
Interest expense	(23,553)	101	(23,452)
Net nonoperating revenues before capital and endowment additions (deductions)	566,661	67,927	634,588
Net nonoperating revenues	746,754	67,927	814,681
Cash flows from operating activities			
Net cash used in operating activities	(485,634)	(67,826)	(553,460)
Cash flows from noncapital financing activities			
Net cash provided by noncapital financing activities	433,258	67,826	501,084

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2. Cash and Investments

The carrying amounts of cash and cash equivalents and time certificates of deposit held outside of the State Treasury as of June 30, 2014 and 2013, classified as cash and cash equivalents and operating investments, were \$267,023 and \$302,424, with corresponding bank balances of \$285,460 and \$303,073, respectively. The portion of such bank balances covered by the Federal Deposit Insurance Corporation or by collateral held by the State Director of Finance in the name of the University totaled \$280,632 at June 30, 2014 and \$300,182 at June 30, 2013. Additional cash equivalent balances of \$2,180 at June 30, 2014 and \$7,478 at June 30, 2013 represent deposits with investment brokers covered by the Securities Investor Protection Corporation and additional insurance provided by the investment brokers.

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

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

As a result of market fluctuations, the fair market value of certain donor-restricted endowments was less than the historical cost of such funds by \$2,099 and \$5,066 at June 30, 2014 and 2013, respectively. These unrealized losses have been recorded as reductions in unrestricted net position. Future market gains will be used to restore this deficiency in unrestricted net position before any net appreciation above the historical cost value of such funds increases restricted expendable net position.

- **Endowment funds** are received from benefactors who, by the terms of their conveying instruments, have stipulated that the principal of their gifts may never be expended, and use of the income is generally restricted.
- **Quasi-endowment funds** are funds that have been transferred to the endowment funds by the Board. Use of the income is either restricted by the donor or unrestricted and designated by the Board.

The Hawai'i Uniform Prudent Management of Institutional Funds Act ("HUPMIFA"), established under Hawai'i Revised Statute §517E, was enacted by the State of Hawai'i on July 1, 2009. HUPMIFA requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result, the University classifies as restricted nonexpendable net position (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in restricted nonexpendable net position is classified as restricted expendable net position until those amounts are expended and distributed by the University in accordance with its Board-approved spending rate policy and in a manner consistent with the standard of prudence prescribed by HUPMIFA. In fiscal years 2014 and 2013, the University's spending rate policy provided for annual distributions ranging from four percent to five percent of the trailing five-year moving average of the endowment fair value.

Investment management fees incurred by the University during fiscal years 2014 and 2013 approximated \$1,500 in each year.

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At June 30, 2014 and 2013, the University's investments were comprised of the following:

	2014		2013	
	Fair Value	Cost	Fair Value	Cost
Money market funds	\$ 25,406	\$ 25,406	\$ 65,243	\$ 65,243
Fixed income securities	197,922	199,786	193,744	195,814
Equity securities	5,754	5,137	21,375	17,639
Mutual funds	159,894	149,981	111,965	107,339
Time certificates of deposit	203,014	203,014	224,011	224,011
Limited partnerships	72,645	42,392	49,639	32,104
Absolute return	26,914	22,349	19,833	16,593
Real estate	24,802	23,435	25,336	25,023
Other investments	61,155	48,525	55,815	48,540
Total investments	<u>777,506</u>	<u>720,025</u>	<u>766,961</u>	<u>732,306</u>
Less: Current portion	<u>278,046</u>	<u>277,865</u>	<u>298,841</u>	<u>292,552</u>
Total noncurrent investments	<u>\$ 499,460</u>	<u>\$ 442,160</u>	<u>\$ 468,120</u>	<u>\$ 439,754</u>

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Changes in the University's investments for the year ended June 30, 2014 were as follows:

	Fair Value	Cost Basis	Net Unrealized Gain (Loss)	Net Realized Gain (Loss)
University Endowment Pool				
End of year	\$ 66,217	\$ 64,643	\$ 1,574	
Beginning of year	60,234	54,269	5,965	
Net change	5,983	10,374	(4,391)	\$ 10,927
Foundation Endowment Pool				
End of year	264,174	210,514	53,660	
Beginning of year	225,141	195,464	29,677	
Net change	39,033	15,050	23,983	9,070
Associated Students of the University of Hawai'i				
End of year	8,251	7,561	690	
Beginning of year	7,126	6,479	647	
Net change	1,125	1,082	43	1,082
School of Medicine				
End of year	5,622	5,622	-	
Beginning of year	5,099	5,099	-	
Net change	523	523	-	(1)
University Bond System				
End of year	53,537	53,539	(2)	
Beginning of year	83,876	83,957	(81)	
Net change	(30,339)	(30,418)	79	(94)
Operating investments				
End of year	278,046	277,865	181	
Beginning of year	298,841	298,862	(21)	
Net change	(20,795)	(20,997)	202	4
Other				
End of year	101,659	100,281	1,378	
Beginning of year	86,644	88,176	(1,532)	
Net change	15,015	12,105	2,910	916
Total investments				
End of year	777,506	720,025	57,481	
Beginning of year	766,961	732,306	34,655	
Net change	\$ 10,545	\$ (12,281)	\$ 22,826	\$ 21,904

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Changes in the University's investments for the year ended June 30, 2013 were as follows:

	Fair Value	Cost Basis	Net Unrealized Gain (Loss)	Net Realized Gain (Loss)
University Endowment Pool				
End of year	\$ 60,234	\$ 54,269	\$ 5,965	
Beginning of year	<u>56,282</u>	<u>53,993</u>	<u>2,289</u>	
Net change	<u>3,952</u>	<u>276</u>	<u>3,676</u>	\$ 1,055
Foundation Endowment Pool				
End of year	225,141	195,464	29,677	
Beginning of year	<u>201,316</u>	<u>189,275</u>	<u>12,041</u>	
Net change	<u>23,825</u>	<u>6,189</u>	<u>17,636</u>	3,008
Associated Students of the University of Hawai'i				
End of year	7,126	6,479	647	
Beginning of year	<u>6,607</u>	<u>6,273</u>	<u>334</u>	
Net change	<u>519</u>	<u>206</u>	<u>313</u>	461
School of Medicine				
End of year	5,099	5,099	-	
Beginning of year	<u>9,087</u>	<u>9,084</u>	<u>3</u>	
Net change	<u>(3,988)</u>	<u>(3,985)</u>	<u>(3)</u>	(2)
University Bond System				
End of year	83,876	83,957	(81)	
Beginning of year	<u>171,290</u>	<u>171,405</u>	<u>(115)</u>	
Net change	<u>(87,414)</u>	<u>(87,448)</u>	<u>34</u>	(158)
Operating investments				
End of year	298,841	298,862	(21)	
Beginning of year	<u>367,279</u>	<u>366,904</u>	<u>375</u>	
Net change	<u>(68,438)</u>	<u>(68,042)</u>	<u>(396)</u>	47
Auction rate securities				
End of year	-	-	-	
Beginning of year	<u>25,500</u>	<u>25,500</u>	<u>-</u>	
Net change	<u>(25,500)</u>	<u>(25,500)</u>	<u>-</u>	-
Other				
End of year	86,644	88,176	(1,532)	
Beginning of year	<u>82,081</u>	<u>81,455</u>	<u>626</u>	
Net change	<u>4,563</u>	<u>6,721</u>	<u>(2,158)</u>	467
Total investments				
End of year	766,961	732,306	34,655	
Beginning of year	<u>919,442</u>	<u>903,889</u>	<u>15,553</u>	
Net change	<u>\$ (152,481)</u>	<u>\$ (171,583)</u>	<u>\$ 19,102</u>	<u>\$ 4,878</u>

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	2014	2013
Summary of net investment income		
Change in unrealized net gain	\$ 22,826	\$ 19,102
Net realized gain	21,904	4,878
	<u>44,730</u>	<u>23,980</u>
Interest and dividend income	7,621	9,011
Other	655	711
	<u>53,006</u>	<u>33,702</u>
Less: Management fees	1,486	1,496
	<u>\$ 51,520</u>	<u>\$ 32,206</u>

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

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

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

Investment Risk Factors

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

Concentration Risk

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

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Credit Risk

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

The composition of fixed income securities at June 30, 2014 and 2013, along with credit quality ratings, is summarized below:

	Fair Value	Credit Quality Rating					Not Rated
		U.S. Govt-Exempt	AAA	AA	A	BBB	
2014							
U.S. Treasury	\$ 76,926	\$ 76,926	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. government agencies	120,278	-	120,155	123	-	-	-
Corporate bonds	717	-	-	78	346	293	-
Mutual bond funds	106,418	-	-	-	-	-	106,418
Total fixed income securities	<u>\$ 304,339</u>	<u>\$ 76,926</u>	<u>\$ 120,155</u>	<u>\$ 201</u>	<u>\$ 346</u>	<u>\$ 293</u>	<u>\$ 106,418</u>

	Fair Value	Credit Quality Rating					Not Rated
		U.S. Govt-Exempt	AAA	AA	A	BBB	
2013							
U.S. Treasury	\$ 100,046	\$ 100,046	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. government agencies	81,473	-	80,891	308	274	-	-
Corporate bonds	12,225	-	327	1,740	6,794	3,364	-
Mutual bond funds	112,065	-	-	-	-	-	112,065
Total fixed income securities	<u>\$ 305,809</u>	<u>\$ 100,046</u>	<u>\$ 81,218</u>	<u>\$ 2,048</u>	<u>\$ 7,068</u>	<u>\$ 3,364</u>	<u>\$ 112,065</u>

Interest Rate Risk

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

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At June 30, 2014, the composition of the University's fixed income investments and maturities are summarized below:

	Fair Value	Investment Maturities (in Years)			
		Less than 1	1 to 5	6 to 10	More than 10
U.S. Treasury	\$ 76,926	\$ 38,166	\$ 36,945	\$ 1,790	\$ 25
U.S. government agencies	120,278	54,930	39,926	11,938	13,484
Corporate bonds	717	95	400	222	-
Mutual bond funds	106,418	32,327	51,695	16,500	5,896
Total fixed income securities	<u>\$ 304,339</u>	<u>\$ 125,518</u>	<u>\$ 128,966</u>	<u>\$ 30,450</u>	<u>\$ 19,405</u>

Foreign Currency Risk

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

At June 30, 2014 and 2013, the University's exposure to foreign currency risk expressed in U.S. dollars was not significant.

3. Accounts Receivable

The composition of accounts receivable at June 30, 2014 and 2013 is summarized as follows:

	2014	2013
U.S. government	\$ 58,485	\$ 60,301
State and local government	6,403	5,793
Private agencies	7,773	6,764
Other	42,984	47,000
	<u>115,645</u>	<u>119,858</u>
Less: Allowance for uncollectible receivables	<u>26,344</u>	<u>23,749</u>
	<u>\$ 89,301</u>	<u>\$ 96,109</u>

4. U.S. Government Funding

The federal government reimburses the University for certain overhead costs (e.g., facilities and administrative costs) incurred in support of federally-sponsored programs based on cost reimbursement rates negotiated with the University's cognizant agency, the U.S. Department of Health and Human Services. These reimbursements amounted to approximately \$44,142 in 2014 and \$46,424 in 2013.

The University's federal grants and contracts are subject to periodic audit by federal examiners. In the opinion of the University, any adjustments which may be required as a result of these audits would not be material to the overall financial position of the University.

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5. Notes and Contributions Receivable

The composition of notes and contributions receivable at June 30, 2014 and 2013 is summarized as follows:

	2014	2013
Student notes		
Federal loan programs	\$ 19,079	\$ 19,178
State loan programs	8,095	8,311
University loan funds	68	69
Other notes receivable	47	71
Total student and other notes outstanding	<u>27,289</u>	<u>27,629</u>
Less: Allowance for uncollectible receivables	<u>7,954</u>	<u>7,514</u>
Total student and other notes receivable, net	<u>19,335</u>	<u>20,115</u>
Contributions receivable	52,635	20,933
Less: Allowance for uncollectible pledges	1,207	1,045
Less: Discount to present value	859	100
Total contributions receivable, net	<u>50,569</u>	<u>19,788</u>
Total student notes and contributions receivable, net	69,904	39,903
Less: Current portion, net	<u>17,788</u>	<u>15,266</u>
	<u>\$ 52,116</u>	<u>\$ 24,637</u>

The allowance for uncollectible receivables at June 30, 2014 and 2013 is comprised of:

	2014	2013
Federal Perkins loan program	\$ 4,575	\$ 4,363
State of Hawai'i Higher Education loans	3,317	3,062
Nursing/Health Profession loans	34	35
Hawai'i Educator loans	-	2
Short-term loans	28	52
	<u>\$ 7,954</u>	<u>\$ 7,514</u>

Payments on contributions receivable at June 30, 2014 are expected to be collected in:

Less than one year	\$ 15,636
One year to five years	<u>36,999</u>
	<u>\$ 52,635</u>

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

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

During the years ended June 30, 2014 and 2013, the University distributed \$2,628 and \$2,456 in student loans through the U.S. Department of Education Federal Perkins Loan, respectively, and \$151,730 and \$153,387 in Direct Loan programs, respectively. These distributions and related funding sources are not included as expenses or revenues in the accompanying financial statements.

As discussed in Note 1 to the consolidated financial statements, pledges for permanent endowments that do not meet eligibility requirements, as defined by GASB Statement No. 33, are not recorded as assets until the related gift is received. Accordingly, permanent endowment pledges totaling approximately \$9,359 and \$3,259 at June 30, 2014 and 2013, respectively, were not recognized as assets in the accompanying consolidated financial statements because of uncertainties with regard to their realizability, valuation, bequest intentions and other conditional promises until the specified conditions are met.

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

6. Inventories

The inventories and the methods of valuation at June 30, 2014 and 2013 are summarized below:

		2014	2013
University of Hawai'i Bookstore merchandise inventory	Lower of cost or market using the first-in, first-out retail inventory method.	\$ 8,453	\$ 10,339
University of Hawai'i Chemistry Stockroom	Cost applied on the first-in, first-out basis.	1,103	1,088
University of Hawai'i Facilities Management Warehouse	Cost applied on the first-in, first-out basis.	1,034	-
University of Hawai'i Press merchandise inventory	Job order or specific identification method. Books remaining in the inventory after the first year of publication are written off on the straight-line basis over a five-year period.	676	572
University of Hawai'i other inventory	Cost applied on the first-in, first-out basis.	342	289
		<u>\$ 11,608</u>	<u>\$ 12,288</u>

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7. Capital Assets

A summary of capital assets at June 30, 2014 and 2013 is as follows:

	Beginning Balance	Additions	Deductions	Transfers	Ending Balance
2014					
Nondepreciable capital assets					
Land	\$ 14,891	\$ 87	\$ -	\$ 21,233	\$ 36,211
Construction in progress	397,825	145,838	6,080	(306,618)	230,965
Total capital assets not being depreciated	412,716	145,925	6,080	(285,385)	267,176
Depreciable capital assets					
Land improvements	122,161	28	-	5,401	127,590
Infrastructure	149,100	552	15,290	36,070	170,432
Buildings	1,964,451	15,062	20,988	233,566	2,192,091
Equipment	366,068	22,529	15,602	10,348	383,343
Library materials	159,466	2,373	-	-	161,839
Total capital assets being depreciated	2,761,246	40,544	51,880	285,385	3,035,295
Less: Accumulated depreciation	1,146,842	109,458	25,679	-	1,230,621
Capital assets, net	\$ 2,027,120	\$ 77,011	\$ 32,281	\$ -	\$ 2,071,850
2013					
Nondepreciable capital assets					
Land	\$ 14,486	\$ 405	\$ -	\$ -	\$ 14,891
Construction in progress	545,827	277,206	98	(425,110)	397,825
Total capital assets not being depreciated	560,313	277,611	98	(425,110)	412,716
Depreciable capital assets					
Land improvements	102,014	432	-	19,715	122,161
Infrastructure	107,526	792	-	40,782	149,100
Buildings	1,608,864	14,321	13,695	354,961	1,964,451
Equipment	350,271	18,227	12,082	9,652	366,068
Library materials	157,190	2,276	-	-	159,466
Total capital assets being depreciated	2,325,865	36,048	25,777	425,110	2,761,246
Less: Accumulated depreciation	1,059,241	106,631	19,030	-	1,146,842
Capital assets, net	\$ 1,826,937	\$ 207,028	\$ 6,845	\$ -	\$ 2,027,120

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

The State Department of Accounting and General Services ("DAGS") administers certain of the University's construction projects. Upon completion, the University records the total project cost, including amounts funded from state and federal sources. No capital assets were transferred to the University from DAGS in 2014 or 2013.

8. Other Noncurrent Assets

Other noncurrent assets at June 30, 2014 and 2013 were comprised of:

	2014	2013
Interest in beneficial trusts held by others	\$ 15,159	\$ 13,912
Prepaid bond insurance	337	355
Other	<u>2,207</u>	<u>2,172</u>
	<u>\$ 17,703</u>	<u>\$ 16,439</u>

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

Amounts due from and due to the State of Hawai'i at June 30, 2014 and 2013 were as follows:

	2014		2013	
	Due from	Due to	Due from	Due to
State appropriations for current operations	\$ 924		\$ 329	
State capital appropriations – noncurrent	<u>349,084</u>		<u>338,108</u>	
Total due from State of Hawai'i	<u>\$ 350,008</u>		<u>\$ 338,437</u>	
Imprest/petty cash advances		\$ 86		\$ 95
Advance		6,000		6,000
General obligation bonds – current		176		167
Employee fringe adjustments		<u>10</u>		<u>41</u>
Due to State of Hawai'i – current		6,272		6,303
General obligation bonds – noncurrent		<u>380</u>		<u>555</u>
Total due to State of Hawai'i		<u>\$ 6,652</u>		<u>\$ 6,858</u>

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

Activity related to amounts due to the State of Hawai'i for general obligation bonds for the year ended June 30, 2014 is as follows:

	Original Amount	Beginning Balance	Principal Repayment	Ending Balance
Series DB (interest rate, 2.80% to 5.25%)				
Student Housing				
Mānoa	\$ 731	\$ 366	\$ 84	\$ 282
Hilo	143	71	16	55
Parking Structure Phase I	425	213	49	164
	<u>1,299</u>	<u>650</u>	<u>149</u>	<u>501</u>
Series DG (interest rate, 5.00%)				
Student Housing				
Mānoa	82	41	9	32
Hilo	16	7	2	5
Parking Structure Phase I	47	24	6	18
	<u>145</u>	<u>72</u>	<u>17</u>	<u>55</u>
	<u>\$ 1,444</u>	<u>\$ 722</u>	<u>\$ 166</u>	<u>\$ 556</u>

Activity related to amounts due to the State of Hawai'i for general obligation bonds for the year ended June 30, 2013 is as follows:

	Original Amount	Beginning Balance	Principal Repayment	Ending Balance
Series DB (interest rate, 2.80% to 5.25%)				
Student Housing				
Mānoa	\$ 731	\$ 446	\$ 80	\$ 366
Hilo	143	87	16	71
Parking Structure Phase I	425	260	47	213
	<u>1,299</u>	<u>793</u>	<u>143</u>	<u>650</u>
Series DG (interest rate, 5.00%)				
Student Housing				
Mānoa	82	50	9	41
Hilo	16	9	2	7
Parking Structure Phase I	47	29	5	24
	<u>145</u>	<u>88</u>	<u>16</u>	<u>72</u>
	<u>\$ 1,444</u>	<u>\$ 881</u>	<u>\$ 159</u>	<u>\$ 722</u>

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

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

At June 30, 2014, principal and interest maturities on general obligation bonds for each of the next five years, and the next subsequent five-year period and thereafter are as follows:

Year ending June 30,	Principal	Interest
2015	\$ 176	\$ 3
2016	185	1
2017	195	-
	<u>\$ 556</u>	<u>\$ 4</u>

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

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

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

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11. Long-Term Liabilities

Long-term liability activity for the years ended June 30, 2014 and 2013 is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
2014					
Bonds payable					
Revenue bonds payable	\$ 608,670	\$ -	\$ 14,740	\$ 593,930	\$ 15,345
Other liabilities					
Workers' compensation	14,698	3,866	4,296	14,268	5,350
Accrued vacation	70,758	26,843	24,769	72,832	28,491
Postretirement health care/life insurance benefits (Note 15)	514,364	106,832	42,000	579,196	-
Note payable	16,500	500	-	17,000	-
Total other liabilities	616,320	138,041	71,065	683,296	33,841
Total long-term liabilities	\$ 1,224,990	\$ 138,041	\$ 85,805	\$ 1,277,226	\$ 49,186
2013					
Leases and bonds payable					
Revenue bonds payable	\$ 622,910	\$ -	\$ 14,240	\$ 608,670	\$ 14,740
Other liabilities					
Workers' compensation	14,885	4,072	4,259	14,698	5,421
Accrued vacation	74,602	25,410	29,254	70,758	27,208
Postretirement health care/life insurance benefits (Note 15)	413,462	142,602	41,700	514,364	-
Note payable	-	16,500	-	16,500	-
Total other liabilities	502,949	188,584	75,213	616,320	32,629
Total long-term liabilities	\$ 1,125,859	\$ 188,584	\$ 89,453	\$ 1,224,990	\$ 47,369

Revenue Bonds Payable

The University's revenue bonds payable at June 30, 2014 and 2013 is as follows:

	Series	Date Issued	Authorized	2014	2013
Frear Hall Construction, Student Housing System at Mānoa, Food Service System and Student Housing System at Hilo (interest rate, 3.25% to 5.0%)	2006A	December 13, 2006	\$ 100,000	\$ 89,825	\$ 92,020
University Health & Wellness Center (interest rate, 3.5% to 5.0%)	Ref 2006A	October 25, 2006	133,810	127,420	131,495
Various acquisition and construction projects (interest rate, 2.5% to 6.0%)	2009A	April 15, 2009	100,000	92,195	94,480
University's Cancer Center (interest rate, 2.5% to 6.0%)	2010A-1, 2010A-2	October 7, 2010	138,640	130,495	133,290
Various construction projects (interest rate, 2.5% to 6.0%)	2010B-1, 2010B-2	October 7, 2010	154,090	147,995	150,085
Student Housing System at Mānoa and Telecommunications System (interest rate, 2.0% to 5.0%)	2012A(R)	February 22, 2012	8,575	6,000	7,300
			<u>\$ 635,115</u>	<u>\$ 593,930</u>	<u>\$ 608,670</u>

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In February 2012, the University issued \$8,575 in Series 2012A(R) revenue bonds to retire (current refund) \$8,955 of the outstanding Series 2001B revenue bonds. The proceeds of the Series 2012A(R) bonds were deposited into a trust account with an escrow agent to fully defease the outstanding principal of the Series 2001B bonds. The defeasance resulted in an accounting gain of \$943 and an economic loss (difference between the present values of the debt service payments on the old and new debt) of \$27. The coupon interest rates for the Series 2012A(R) bonds range from 2.0 percent – 5.0 percent (first interest payment due on April 1, 2012) and mature on October 1, 2018.

In October 2010, the University issued \$292,730 in Series 2010A-1 (\$111,265), 2010A-2 (\$27,375), 2010B-1 (\$127,535), and 2010B-2 (\$26,555) bonds (collectively, the "Series 2010 Bonds") for the purpose of financing the costs of certain University projects. The Series 2010A-1 and Series 2010B-1 bonds are designated as "Build America Bonds" under the provisions of the American Recovery and Reinvestment Act of 2009. These University projects may include the construction and maintenance of the University's Cancer Center, renovations and additions to the Mānoa Campus Center, construction and equipment for an Information Technology Building, renovations to the Sinclair Library basement on the Mānoa campus, further development of the University of Hawai'i at West O'ahu ("UH-West O'ahu") Kapolei campus, various energy conservation/efficiency projects on the community college campuses on O'ahu, Kaua'i and Maui, land acquisition for the Leeward Community College Wai'anae Education Center, construction of the Kapi'olani Community College Culinary Institute of the Pacific, and renovation of the observatory for the Panoramic Survey Telescope & Rapid Response System 2 telescope. The coupon interest rates for the Series 2010 Bonds range from 2.50 percent – 6.03 percent (first interest payment due on April 1, 2011) and mature on October 1, 2030 and 2040.

The University receives funds from the State of Hawai'i Tobacco Settlement Special Fund for the payment of principal and interest on the Refunding Series 2006A bonds to finance the cost of construction of the medical school facility and for annual operating expenses incurred by the facility. The funds received from the State of Hawai'i Tobacco Settlement Special Fund for debt service amounted to \$9,926 in 2014 and 2013.

The revenue bonds are paid from certain unrestricted revenues in annual installments, including semi-annual interest payments ranging from \$490 to \$15,906 with the final payment due in October 2040. Series 2006A, 2009A, 2010 and 2012A(R) bonds interest is payable semi-annually on April 1 and October 1, and the principal is payable on October 1 of each year. The Refunding Series 2006A interest is payable semi-annually on January 15 and July 15, and the principal is payable on July 15 of each year. The Bond Resolution adopted on May 17, 2002 and supplemented, stipulates that all available moneys on deposit in any special fund or revolving fund of the University, excluding moneys on deposit in the University Revenue – Undertakings Fund derived from the University Bond System, are pledged to the payment of the Refunding Series 2006A bonds, interest and premiums (if any). All available moneys on deposit in any special fund or revolving fund of the University, including moneys on deposit in the University Bond System, are pledged to the payment of the Series 2006A, 2009A, 2010 and 2012A(R) bonds, interest and premiums (if any).

The University entered into continuing disclosure certificates for the benefit of revenue bondholders, where it agreed to provide certain financial information and operating data relating to the University with respect to its revenue bonds to the Municipal Securities Rulemaking Board. The University, based on consultation with its bond counsel and bond underwriter, has complied in all material respects with the continuing disclosure requirements.

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At June 30, 2014, future maturities of revenue bonds are as follows:

Year ending June 30,	Principal	Interest
2015	\$ 15,345	\$ 29,852
2016	17,115	29,126
2017	17,700	28,393
2018	18,585	27,651
2019	18,065	26,836
2020–2024	102,020	120,402
2025–2029	122,520	92,999
2030–2034	137,500	60,491
2035–2039	113,195	25,845
2040–2041	31,885	1,943
	<u>\$ 593,930</u>	<u>\$ 443,538</u>

Bond Premiums

Activity related to the premiums on general obligation and revenue bonds for the years ended June 30, 2014 and 2013 is as follows:

	Series	Beginning Balance	Additions	Reductions	Ending Balance
2014					
John A. Burns School of Medicine	Ref 2006A	\$ 1,314	\$ -	\$ 58	\$ 1,256
University's Cancer Center	2010A	1,395	-	365	1,030
Various construction projects	2010B	1,976	-	465	1,511
General obligation	DB	9	-	5	4
General obligation	DG	2	-	1	1
		<u>\$ 4,696</u>	<u>\$ -</u>	<u>\$ 894</u>	<u>\$ 3,802</u>
Total bond premiums					
2013					
John A. Burns School of Medicine	Ref 2006A	\$ 1,383	\$ -	\$ 69	\$ 1,314
University's Cancer Center	2010A	1,777	-	382	1,395
Various construction projects	2010B	2,447	-	471	1,976
General obligation	DB	15	-	6	9
General obligation	DG	3	-	1	2
		<u>\$ 5,625</u>	<u>\$ -</u>	<u>\$ 929</u>	<u>\$ 4,696</u>
Total bond premiums					

Note Payable

On May 4, 2012, the University entered into a five-year, unsecured loan agreement ("Note") with Hawaii Regional Center LP III ("Lender") for a commitment amount not to exceed \$18,000, subject to certain limitations. The proceeds were used to facilitate and fund construction of the UH-West O'ahu campus located in Kapolei, Hawai'i.

The Note bears interest at the rate of 1.5% per annum and is due and payable semi-annually to the Lender on January 1 and July 1 each year until the Note has been paid in full. Under the terms of the Note, repayment each fiscal year is limited and subject to specific appropriations by the State to make such payments. The Note matures on July 16, 2017, at which time the unpaid principal will be due. As of June 30, 2014, \$17,000 remains outstanding.

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12. Line of Credit (Research Corporation)

The Research Corporation has a revolving line of credit with First Hawaiian Bank in the amount of \$5,000 for short-term working capital, expiring on February 1, 2015. The terms of the revolving line of credit require repayment as specified in the credit agreement. All borrowings are collateralized by a security agreement over the Research Corporation's accounts receivable. The rate of interest on borrowings was 3.28 percent at June 30, 2014 and 2013. At June 30, 2014 and 2013, there were no borrowings under this line.

13. Property Leases

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

Year ending June 30,	Lease Amount
2015	\$ 2,612
2016	1,650
2017	1,300
2018	1,247
2019	642
2020–2024	615
2025–2029	334
Thereafter	1,789
	<u>\$ 10,189</u>

Rent expense for outside space for the years ended June 30, 2014 and 2013 approximated \$10,195 and \$8,366, respectively.

14. Employee Benefits

Employees' Retirement System

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

Prior to July 1, 1984, the ERS consisted only of a contributory option. In 1984, legislation was enacted to add a new noncontributory option for members of the ERS who are also covered under Social Security. Persons employed in positions not covered by Social Security are precluded from the noncontributory option. The noncontributory option provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory option or to elect the new noncontributory option and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and noncontributory options, respectively. Both options provide a monthly retirement allowance based on the employee's age, years of credited service and average final compensation ("AFC"). If the employee became a member prior to January 1, 1971, the AFC is the average salary earned during the five highest paid years of service, including the vacation payment, or three highest paid years of service, excluding the vacation payment. The AFC for

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members hired on or after that date is based on the three highest paid years of service, excluding the vacation payment. Contributions are based upon negotiated collective bargaining agreements, and the majority is funded by the State general fund as accrued. Subsequently, if an employee is paid from another funding source, contributions will be made from that same source. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liability.

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

Contribution requirements are not actuarially determined, but are established by the Hawai'i Revised Statutes ("HRS") Chapter 88 and amended by the Hawai'i State Legislature. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. The employee contribution rate is 7.8 percent of salary for the Contributory Plan and 6.0 percent of salary for the Hybrid Plan. There is no employee contribution for the Noncontributory Plan. Employer contributions are calculated as part of the State's total contribution requirements and are reimbursed to the State's General Fund as part of the fringe benefit rate on the University employees' actual salaries. The required employer contributions for the years ended June 30, 2014, 2013 and 2012 were \$87,753, \$84,154 and \$75,497, respectively. Effective July 1, 2008, the employer contribution rate increased from 13.75 percent to 15.00 percent of salary.

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

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

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

Basis of Accounting

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

Method Used to Value Investments

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

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Other Benefits

The State absorbs the fringe benefit cost for employees paid from State and federal appropriations. In fiscal years 2014 and 2013, the State appropriated funds to the Department of Budget and Finance to pay for these fringe benefit costs on behalf of the University. Fringe benefit costs included in total revenue and total expenditures amounted to \$168,891 and \$154,757 for fiscal years 2014 and 2013, respectively.

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

Sick leave accumulates at the rate of 14 hours for each full month of service without limit, but can be taken only in the event of an illness and is not convertible to pay upon termination of employment. Accordingly, accumulated sick leave, earned but not taken, is not reflected as an accrual in the accompanying consolidated financial statements. Employees who retire with 60 days of unused sick leave are entitled to three months of service credit in the ERS. For each additional 20 days, or major fraction thereof, of unused sick leave they have in excess of 60 days, their service period is increased by one month. As of June 30, 2014 and 2013, accumulated sick leave approximated \$428,237 and \$406,973, respectively.

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

The University manages its workers' compensation program. Medical related payments for fiscal years 2014 and 2013 were \$2,080 and \$2,146, respectively. Temporary wage loss payments for fiscal years 2014 and 2013 amounted to \$577 and \$625, respectively.

15. Postemployment Benefits Other than Pensions

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

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Plan Description

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

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

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

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

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

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Funding Policy and Annual OPEB Cost

Employer contributions are financed on a pay-as-you-go basis. The University's contributions are calculated as part of the State's total contribution requirements and are reimbursed to the State's General Fund as part of the fringe benefit rate on the University employees' actual salaries. The University's annual OPEB cost is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following tables present the annual OPEB cost and the percentage of annual OPEB cost contributed to the plan for the fiscal year ended June 30, 2014:

Projected June 30, 2014 Net OPEB Obligation ("NOO")

July 1, 2013 net OPEB obligation	\$ 514,364
Plus: Annual OPEB cost	106,832
Less: Employer contributions (estimated "pay as you go" method)	<u>42,000</u>
Equals: Expected June 30, 2014 net OPEB obligation	<u>\$ 579,196</u>

The University remitted \$56,972 and \$53,598 in State assessed OPEB contributions for the years ended June 30, 2014 and 2013, respectively. The University's actuarially determined minimum OPEB contribution was \$42,000 and \$41,700 for the years ended June 30, 2014 and 2013, respectively. The difference between the State assessed and University actuarially determined OPEB contribution is reported net with Transfers from (to) State for Fringe Benefits in the accompanying Consolidated Statements of Revenues, Expenses and Changes in Net Position.

OPEB Summary

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2014	\$106,832	39.3%	\$579,196
June 30, 2013	\$142,602	29.2%	\$514,364
June 30, 2012	\$136,078	30.6%	\$413,462

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Funded Status

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

Actuarial value of assets	\$ -
Actuarial accrued liability	1,185,790
	<u>1,185,790</u>
Unfunded actuarial accrued liability ("UAAL")	<u>\$ 1,185,790</u>
Funded ratio	0%
Covered payroll (active plan members)	\$ 550,758
UAAL as a percentage of covered payroll	215.3%

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

Actuarial Methods and Assumptions

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

State of Hawai'i actuarial valuation date	July 1, 2013
Actuarial cost method	Entry age normal
Amortization method	Level percentage, closed
Amortization period	30 years
Asset valuation method	Not applicable
Actuarial assumptions	
Investment rate of return	4%
Projected salary increases	3.5%
Health care inflation rate	
Medical and Rx Pre-65	9.5% initial, 5% ultimate
Medical and Rx Post-65	10.0% initial, 5% ultimate

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16. Other Noncurrent Liabilities

Other noncurrent liabilities at June 30, 2014 and 2013 are comprised of:

	2014	2013
Liabilities under split interest agreements	\$ 6,889	\$ 6,488
Amounts held for others	3,182	2,946
Unearned revenue on pending sale of real estate	-	5,150
Other	2,800	2,430
	<u>\$ 12,871</u>	<u>\$ 17,014</u>

17. State Appropriations

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

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

Act 122, SLH 2014 Section 35, provided \$101,013 in general fund appropriations directly to the Department of Budget and Finance to pay for debt service on general obligation bonds issued for the University. As a result, the University itself received no appropriations and made no transfers for debt service on general obligation bonds for the year ended June 30, 2014.

Act 164, SLH 2011 Section 32, provided \$97,770 in general fund appropriations directly to the Department of Budget and Finance to pay for debt service on general obligation bonds issued for the University. As a result, the University itself received no appropriations and made no transfers for debt service on general obligation bonds for the year ended June 30, 2013.

The net amount of the University's State general and capital appropriations for the years ended June 30, 2014 and 2013 were \$391,266 and \$142,029 and \$374,280 and \$128,186, respectively.

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Net general and capital appropriations for the year ended June 30, 2014 were as follows:

General appropriations	
Act 134, SLH 2013, Appropriation Warrant No. 35	\$ 386,721
Act 237, SLH 2013, Appropriation Warrant No. 89	500
Act 272, SLH 2013, Appropriation Warrant No. 97	100
Act 275, SLH 2013, Appropriation Warrant No. 89	150
Total funds lapsed	(158)
Collective bargaining adjustment	<u>3,953</u>
Total general appropriations	<u>\$ 391,266</u>
Capital appropriations	
Act 134, SLH2013	\$ 83,900
Sections 39 & 71 of Act 134, SLH 2013	51,940
Section 39 of Act 134, SLH 2013	10,000
Total funds lapsed	<u>(3,811)</u>
Total capital appropriations	<u>\$ 142,029</u>

Net general and capital appropriations for the year ended June 30, 2013 were as follows:

General appropriations	
Act 164, SLH 2011, Appropriation Warrant No. 18	\$ 377,460
Act 129, SLH 2012, Appropriation Warrant No. 57	30
Total funds lapsed	(77)
Collective bargaining adjustment	120
Executive restrictions	<u>(3,253)</u>
Total general appropriations	<u>\$ 374,280</u>
Capital appropriations	
Act 164, SLH2011, as Amended by Act 106, SLH 2012	\$ 51,163
Sections 36 & 37 of Act 164, SLH 2011, as Amended by Act 106, SLH 2012	68,976
Section 36 of Act 164, SLH 2011, as Amended by Act 106, SLH 2012	825
Act 164, SLH2011	7,500
Total funds lapsed	<u>(278)</u>
Total capital appropriations	<u>\$ 128,186</u>

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18. Blended Component Information

The following condensed combining information summarizes the individual components of the University's consolidated financial position, results of operations and cash flows as of and for the years ended June 30, 2014 and 2013:

Condensed Consolidating Statements of Net Position

	2014				Total
	University	Research Corporation	Foundation	Consolidation Adjustments	
Assets and deferred outflows of resources					
Current assets	\$ 405,372	\$ 47,182	\$ 21,859	\$ -	\$ 474,413
Interdepartmental receivables	31,303	5,559	11,135	(47,997)	-
Capital assets, net	2,068,363	1,273	2,214	-	2,071,850
Other assets	498,357	-	416,541	3,465	918,363
Total assets	3,003,395	54,014	451,749	(44,532)	3,464,626
Deferred outflows of resources	5,576	-	-	-	5,576
Total deferred outflows of resources	5,576	-	-	-	5,576
Total assets and deferred outflows of resources	<u>\$ 3,008,971</u>	<u>\$ 54,014</u>	<u>\$ 451,749</u>	<u>\$ (44,532)</u>	<u>\$ 3,470,202</u>
Liabilities					
Current liabilities	\$ 251,331	\$ 11,007	\$ 1,245	\$ -	\$ 263,583
Interdepartmental payables	5,675	28,607	4,318	(38,600)	-
Noncurrent liabilities	1,230,800	4,222	10,071	-	1,245,093
Total liabilities	1,487,806	43,836	15,634	(38,600)	1,508,676
Net position					
Net investment in capital assets	1,516,182	1,273	2,214	-	1,519,669
Restricted					
Nonexpendable	10,493	-	216,999	(9,359)	218,133
Expendable	381,474	-	213,131	3,465	598,070
Unrestricted	(386,984)	8,905	3,771	(38)	(374,346)
Total net position	1,521,165	10,178	436,115	(5,932)	1,961,526
Total liabilities and net position	<u>\$ 3,008,971</u>	<u>\$ 54,014</u>	<u>\$ 451,749</u>	<u>\$ (44,532)</u>	<u>\$ 3,470,202</u>

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	2013				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Assets and deferred outflows of resources					
Current assets	\$ 443,800	\$ 46,286	\$ 36,144	\$ -	\$ 526,230
Interdepartmental receivables	38,635	12,331	3,315	(54,281)	-
Capital assets, net	2,023,921	983	2,216	-	2,027,120
Other assets	521,111	-	332,911	(6,718)	847,304
Total assets	3,027,467	59,600	374,586	(60,999)	3,400,654
Deferred outflows of resources	5,883	-	-	-	5,883
Total deferred outflows of resources	5,883	-	-	-	5,883
Total assets and deferred outflows of resources	<u>\$ 3,033,350</u>	<u>\$ 59,600</u>	<u>\$ 374,586</u>	<u>\$ (60,999)</u>	<u>\$ 3,406,537</u>
Liabilities					
Current liabilities	\$ 254,364	\$ 12,446	\$ 2,944	\$ -	\$ 269,754
Interdepartmental payables	14,059	33,867	3,040	(50,966)	-
Noncurrent liabilities	1,186,583	3,869	9,434	-	1,199,886
Total liabilities	1,455,006	50,182	15,418	(50,966)	1,469,640
Net position					
Net investment in capital assets	1,479,075	983	2,216	-	1,482,274
Restricted					
Nonexpendable	10,493	-	200,104	(3,259)	207,338
Expendable	377,176	-	159,672	(6,718)	530,130
Unrestricted	(288,400)	8,435	(2,824)	(56)	(282,845)
Total net position	1,578,344	9,418	359,168	(10,033)	1,936,897
Total liabilities and net position	<u>\$ 3,033,350</u>	<u>\$ 59,600</u>	<u>\$ 374,586</u>	<u>\$ (60,999)</u>	<u>\$ 3,406,537</u>

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Condensed Consolidating Statements of Revenues, Expenses and Changes in Net Position

	2014				Total
	University	Research Corporation	Foundation	Consolidation Adjustments	
Operating revenues					
Student tuition and fees, net	\$ 249,334	\$ -	\$ -	\$ (957)	\$ 248,377
Federal appropriations, grants and contracts	357,185	4,708	-	(4,708)	357,185
State and local grants and contracts	28,992	2,290	-	(1,210)	30,072
Nongovernmental sponsored programs	49,585	-	-	(9,786)	39,799
Sales and services of educational departments, other	30,276	-	5,667	(3,000)	32,943
Auxiliary enterprises	97,936	-	-	-	97,936
Other operating revenues	529	-	2,406	-	2,935
Total operating revenues	<u>813,837</u>	<u>6,998</u>	<u>8,073</u>	<u>(19,661)</u>	<u>809,247</u>
Operating expenses					
Depreciation	109,211	211	36	-	109,458
Other operating expenses	1,517,767	6,120	49,754	(23,243)	1,550,398
Total operating expenses	<u>1,626,978</u>	<u>6,331</u>	<u>49,790</u>	<u>(23,243)</u>	<u>1,659,856</u>
Operating income (loss)	(813,141)	667	(41,717)	3,582	(850,609)
Nonoperating activity					
Nonoperating revenues (expenses)	445,258	93	103,062	(3,564)	544,849
Capital contributions and additions to permanent and term endowments	141,582	-	15,602	(6,100)	151,084
Special and extraordinary items	-	-	-	-	-
Transfers	179,305	-	-	-	179,305
Total nonoperating activity	<u>766,145</u>	<u>93</u>	<u>118,664</u>	<u>(9,664)</u>	<u>875,238</u>
Increase (decrease) in net position	(46,996)	760	76,947	(6,082)	24,629
Net position					
Beginning of year	1,571,628	9,418	359,168	(3,317)	1,936,897
End of year	<u>\$ 1,524,632</u>	<u>\$ 10,178</u>	<u>\$ 436,115</u>	<u>\$ (9,399)</u>	<u>\$ 1,961,526</u>

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	2013				Total
	University	Research Corporation	Foundation	Consolidation Adjustments	
Operating revenues					
Student tuition and fees, net	\$ 243,009	\$ -	\$ -	\$ (1,198)	\$ 241,811
Federal appropriations, grants and contracts	352,805	4,284	-	(4,284)	352,805
State and local grants and contracts	27,982	1,883	-	(919)	28,946
Nongovernmental sponsored programs	41,657	-	-	(8,615)	33,042
Sales and services of educational departments, other	36,594	-	5,480	(3,000)	39,074
Auxiliary enterprises	94,199	-	-	(62)	94,137
Other operating revenues	520	-	2,469	-	2,989
Total operating revenues	<u>796,766</u>	<u>6,167</u>	<u>7,949</u>	<u>(18,078)</u>	<u>792,804</u>
Operating expenses					
Depreciation	106,428	166	37	-	106,631
Other operating expenses	1,504,120	5,705	47,393	(22,067)	1,535,151
Total operating expenses	<u>1,610,548</u>	<u>5,871</u>	<u>47,430</u>	<u>(22,067)</u>	<u>1,641,782</u>
Operating income (loss)	(813,782)	296	(39,481)	3,989	(848,978)
Nonoperating activity					
Nonoperating revenues (expenses)	430,039	67	60,059	(3,838)	486,327
Capital contributions and additions to permanent and term endowments	140,927	-	13,899	771	155,597
Special and extraordinary items	-	-	-	-	-
Transfers	172,757	-	-	-	172,757
Total nonoperating activity	<u>743,723</u>	<u>67</u>	<u>73,958</u>	<u>(3,067)</u>	<u>814,681</u>
Increase (decrease) in net position	(70,059)	363	34,477	922	(34,297)
Net position					
Beginning of year (as restated)	1,641,687	9,055	324,691	(4,239)	1,971,194
End of year	<u>\$ 1,571,628</u>	<u>\$ 9,418</u>	<u>\$ 359,168</u>	<u>\$ (3,317)</u>	<u>\$ 1,936,897</u>

Condensed Consolidating Statements of Cash Flows

	2014			
	University	Research Corporation	Foundation	Total
Net cash provided by (used in)				
Operating activities	\$ (514,055)	\$ 3,903	\$ (4,818)	\$ (514,970)
Noncapital financing activities	492,741	-	15,786	508,527
Capital and related financing activities	(49,945)	(501)	-	(50,446)
Investing activities	59,109	90	(16,707)	42,492
Total change in cash	(12,150)	3,492	(5,739)	(14,397)
Cash and cash equivalent balances				
Beginning of year	35,296	33,819	9,589	78,704
End of year	<u>\$ 23,146</u>	<u>\$ 37,311</u>	<u>\$ 3,850</u>	<u>\$ 64,307</u>

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	2013			
	University	Research Corporation	Foundation	Total
Net cash provided by (used in)				
Operating activities	\$ (546,100)	\$ 253	\$ (7,613)	\$ (553,460)
Noncapital financing activities	487,525	-	13,559	501,084
Capital and related financing activities	(110,006)	(95)	-	(110,101)
Investing activities	191,972	1,064	(7,422)	185,614
Total change in cash	23,391	1,222	(1,476)	23,137
Cash and cash equivalent balances				
Beginning of year	11,905	32,597	11,065	55,567
End of year	\$ 35,296	\$ 33,819	\$ 9,589	\$ 78,704

19. Litigation, Other Contingent Liabilities and Commitments

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

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

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

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

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

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

Risk Management

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

Construction and Other Contracts

The University is committed under contracts awarded for construction and other services. These commitments amounted to approximately \$207,076 and \$250,036 as of June 30, 2014 and 2013.

Collective Bargaining Agreements

The Board of Regents, as a public employer, is mandated by Hawai'i Revised Statutes ("HRS"), Chapter 89 to negotiate with and enter into written agreements with exclusive representatives (i.e., unions) on matters of wages, hours and conditions of employment affecting University personnel included in various bargaining units. These written agreements, also known as collective bargaining agreements ("CBA") or successor agreements, including supplemental agreements, memorandums of agreement, and memorandums of understanding, reached outside of these successor agreements, cover wages, hours, contributions to the Employer-Union Trust Fund, and other terms and conditions of employment subject to collective bargaining.

Depending on the nature of their positions, most employees working at the University are included in a bargaining unit ("BU") as defined in HRS §89-6(a). Civil service personnel (e.g., blue collar non-supervisory/supervisory, white collar non-supervisory/supervisory, registered professional nurses, and institutional and health positions) working at the University are included in BUs 1, 2, 3, 4, 9 and 10. Non-civil service positions such as faculty members and administrative, professional and technical ("APT") staff are Board of Regents ("BOR") appointees and are included in BUs 7 and 8, respectively. As such, the University is responsible for properly administering the eight CBAs associated with aforementioned BUs.

Pursuant to mutually agreed upon terms specified in CBAs effective from July 1, 2011 through June 30, 2013, certain employees within BUs 1, 2, 3, 4, 8 and 10 were subjected to a 5% salary reduction during fiscal years 2012 and 2013. Thereafter, multi-year, successor CBAs for BUs 1, 2, 3, 4, 8 and 10 were reached between the unions and the Employer in 2013. CBAs pertaining to BUs 2, 3, 4 and 8 are now effective for the duration of July 1, 2013 through June 30, 2015. CBAs pertaining to BUs 1 and 10 are now effective for the duration of July 1, 2013 through June 30, 2017. The aforementioned CBAs stipulate across-the-board ("ATB") salary increases or changes to salary schedules that effectively increase salaries in each year covered by the terms of these agreements which have already been legislatively approved.

The Unit 7 faculty members of the University are currently under a six-year CBA covering the period July 1, 2009 through June 30, 2015. The subject Unit 7 CBA included a provision to temporarily reduce the salaries of faculty paid by appropriated funds by 6.667 % for 18 months beginning January 1, 2010. Effective July 1, 2011, the salaries of faculty members subjected to the temporary reduction were restored to December 31, 2009 rates (plus any subsequent promotions or special salary adjustments). The Unit 7 CBA stipulates that faculty who were subjected to the

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mandated temporary salary reduction may be paid one-time lump sum payments equivalent up to the amount of the temporary reduction taken to be paid in fiscal years 2013 (25%), 2014 (25%), and 2015 (50%) all due on August 1st of each respective fiscal year. The Unit 7 CBA also provides for all faculty members to have their base salaries increased by 3% effective July 1, 2013 and July 1, 2014.

On June 20, 2014 the University administration and the University of Hawai'i Professional Assembly ("UHPA") tentatively agreed to a two-year successor collective bargaining agreement covering the period July 1, 2015 to June 30, 2017. The tentative agreement was ratified in support by the Unit 7 faculty members on August 25, 2014. The successor agreement will provide a 4% across the board pay increase in each of the next two years, increases the minimum salaries to faculty members paid by rank, and negotiated EUTF contributions. The total cost is estimated at \$32 million which is subject to legislative appropriations.

Successor bargaining negotiations are underway between the University and the Hawaii Government Employees Association ("HGEA") for Unit 8 APT employees of the University who are currently working on a contract that covers the period July 1, 2013 to July 1, 2015.

The University's employees in BU 1 – Blue Collar, Non-supervisory employees and BU 10 – Health, Institutional, and Correctional employees are working under a four-year (4) contract that covers the period July 1, 2013 to July 1, 2017.

The State is currently in successor bargaining negotiations with the HGEA over BUs 2, 3, 4 and 9 who are currently working under contracts that cover the period July 1, 2013 to July 1, 2015.

In assessing the University's responsibilities to negotiate and administer CBAs, below are several considerations in regards to litigation, contingent liabilities and commitments:

- Without exception, the BOR must participate with exclusive representatives in good-faith negotiations over the issue of wages, hours and conditions of work (as mandated by HRS §89-9[a]), for University personnel included in the applicable BUs.
- CBAs for civil service personnel (BUs 1, 2, 3, 4, 9 and 10) are negotiated by and between the State of Hawai'i (including the BOR and other public employers), the respective Counties (including the City and County of Honolulu), the Hawaii Health Systems Corporation, and the Judiciary, with the exclusive representative of each bargaining unit. The exclusive representative for BUs 1 and 10 is the United Public Workers ("UPW") while the exclusive representative for BUs 2, 3, 4 and 9 is the Hawai'i Government Employees Association ("HGEA"). These CBAs for the aforementioned BUs are applicable to all civil service personnel working for the State which are represented by the State as a Department under the Executive Branch.
- CBAs for faculty members (BU 7) are negotiated by and between the Governor, the University President, and the BOR with UHPA, the exclusive representative for Faculty members. APT personnel (BU 8) are negotiated by and between the Governor, the University President, and the BOR with the HGEA who is the exclusive representative for the University's APTs. In contrast to CBAs for civil service personnel, the CBAs for BUs 7 and 8 are applicable only to the University as BOR appointees, specifically APT personnel and faculty members of the University.

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- Failure of parties to achieve successor agreements during negotiations initiated on behalf of blue collar workers (BU 1) and/or faculty (BU 7) could result in work interruptions and/or stoppages that may hamper or halt University operations since these bargaining units still retain the right to strike.
- If an impasse exists regarding successor negotiations involving BUs 2, 3, 4, 8, or 9, the BOR, along with the respective exclusive representatives and other public employers is subject to interest arbitration, whereby the decision of the arbitration panel and its cost items are subject to legislative appropriations and approval.
- Once a successor agreement is reached and legislatively approved, the University has a responsibility and commitment to abide by all the terms set forth in the agreement.
- As an employer of employees belonging to multiple bargaining units, the University may sometimes be subject to unforeseen labor costs related to the assertion of the most favored nation clause.
- Improper administration, disputes regarding CBA interpretation, or a lack of adherence to CBAs could result in litigation and associated costs.

Note: Certain employees, such as Executive/Managerial personnel and those whose responsibilities concern confidential matters affecting employee-employer relations, are excluded from collective bargaining pursuant to HRS §89-6; wages, hours and other terms and conditions of employment for these personnel are provided by law or action of the BOR, as applicable.

**Required Supplementary Information
Other Than Management's
Discussion and Analysis**

University of Hawai'i
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Schedule of Funding Progress (Unaudited)
Year Ended June 30, 2014
(All dollars reported in thousands)

Postemployment Benefits Other than Pensions

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b) - (a)	Funded Ratio (a) / (b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b) - (a) / (c)
July 1, 2013	\$0	\$1,185,790	\$1,185,790	0%	\$579,196	204.7%
July 1, 2011	\$0	\$1,965,769	\$1,965,769	0%	\$517,856	379.6%
July 1, 2009	\$0	\$1,849,949	\$1,849,949	0%	\$495,498	373.4%