

**University of Hawai‘i  
State of Hawai‘i**  
**Financial and Compliance Audit**  
**June 30, 2016**

**University of Hawai'i**  
**State of Hawai'i**  
**Index**  
**Year Ended June 30, 2016**

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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, 2016, and have issued our report thereon dated December 15, 2016. 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 logo for Accuity LLP, featuring the word "Accuity" in a cursive script followed by "LLP" in a bold, sans-serif font.

Honolulu, Hawaii  
December 15, 2016

## Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

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 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, 2016. 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 \$11,002 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 is separately audited. The federal awards expended by the Research Corporation for the year ended June 30, 2016, which are outside the scope of this report, did not meet the audit requirements described in the *OMB Compliance Supplement*.

### 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance 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, 2016.

### **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance, and which are described in the accompanying schedule of findings and questioned costs as Finding Nos. 2016-001 through 2016-006. 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 the Uniform Guidance, 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Finding Nos. 2016-001 through 2016-003 and 2016-005 that we consider to be significant deficiencies.

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 the Uniform Guidance**

We have audited the consolidated financial statements of the University, as of and for the year ended June 30, 2016, and the related notes to the consolidated financial statements, which collectively comprise the University's basic financial statements. We issued our report thereon dated December 15, 2016, which contained an unmodified opinion 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 the Uniform Guidance 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Accuity* LLP

Honolulu, Hawai'i  
December 15, 2016

**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, 2016

	CFDA No.	Pass-Through Identifier	Passed Through to Subrecipients	Expenditures
<b>MAJOR PROGRAM – RESEARCH AND DEVELOPMENT</b>				
<b>U.S. Department of Agriculture</b>				
Agricultural Research Service				
Agricultural Research – Basic and Applied Research	10.001			\$ 2,037,790
Animal and Plant Health Inspection Service				
Plant and Animal Disease, Pest Control, and Animal Care	10.025		\$ 2,059,124	
Wildlife Services	10.028		27,085	2,086,209
Agricultural Marketing Service				
Federal-State Marketing Improvement Program	10.156		\$ 1,715	55,488
National Institute of Food and Agriculture				
Grants for Agricultural Research, Special Research Grants	10.200			25,727
Cooperative Forestry Research	10.202			294,382
Payments to Agricultural Experiment Stations Under the Hatch Act	10.203			2,028,293
Animal Health and Disease Research	10.207			10,167
Agriculture and Food Research Initiative ("AFRI")	10.310		2,102,330	5,753,696
Biomass Research and Development Initiative				
Competitive Grants Program ("BRDI")	10.312		502,257	1,263,559
Cooperative Extension Service	10.500			13,624
Forest Service				
Other	10.			545,029
Natural Resources Conservation Service				
Soil Survey	10.903			5,179
Passed through from				
State of Hawaii Dept. of Agriculture	10.025			388,750
State of Hawaii Dept. of Agriculture	10.170			71,096
State of Hawaii Dept. of Human Services	10.561			40,550
State of Hawaii Dept. of Land and Natural Resources	10.664			84,258
State of Hawaii Dept. of Land and Natural Resources	10.678			3,094
State of Hawaii Dept. of Land and Natural Resources	10.680			207,420
University of California – Davis	10.200			62,432
University of California – Davis	10.329			114
University of California – Riverside	10.309			100,062
California State University – Fresno	10.310			32,983
Colorado State University	10.500			33,771
Michigan State University	10.500			107,908
National Fish and Wildlife Foundation	10.912			23,346
Oceanic Institute	10.200			140,721
State University of Rutgers	10.025			13,948
University of Tennessee	10.310			19,981
Utah State University	10.215			242,199
University of Wyoming	10.215		19,990	1,592,623
				15,711,766
<b>U.S. Department of Commerce</b>				
National Oceanic and Atmospheric Administration ("NOAA")				
Ocean Exploration	11.011			10,470
Integrated Ocean Observing System ("IOOS")	11.012			2,620,061
Sea Grant Support	11.417		95,027	1,326,504
Financial Assistance for National Centers for Coastal Ocean Science	11.426			42,436
Fisheries Development and Utilization Research Development Grants and				
Cooperative Agreements Program	11.427			216,402
Climate and Atmospheric Research	11.431		369	381,816
NOAA Cooperative Institutes	11.432		25,081	13,282,656
Unallied Industry Projects	11.452			303,169
Unallied Management Projects	11.454			107,842
Office of Coastal Management	11.473			29,334
Center for Sponsored Coastal Ocean Research – Coastal Ocean Program	11.478		56,817	125,267
Coral Reef Conservation Program	11.482			181,319
Other	11.			94,188
National Institute of Standards and Technology				
Measurement and Engineering Research and Standards	11.609			47,736
Passed through from				
State of Hawaii Dept. of Defense	11.467			6,358
State of Hawaii Dept. of Land and Natural Resources	11.482			164,125
Research Corporation of the University of Hawaii	11.	PO #Z10079456		10,430
University of California – Los Angeles	11.431			5,000
East West Center	11.431		9,401	240,574
University of Maryland	11.012			187,797
National Fish and Wildlife Foundation	11.463			42,365
The Nature Conservancy	11.463			46,310
University Corp for Atmospheric Research	11.431			9,649
University Corp for Atmospheric Research	11.467			21,198
Woods Hole Oceanographic Institute	11.431			78,949
				812,755
				19,581,955

# University of Hawai'i State of Hawai'i Schedule of Expenditures of Federal Awards Year Ended June 30, 2016

	CFDA No.	Pass-Through Identifier	Passed Through to Subrecipients	Expenditures
<b>U.S. Department of Defense</b>				
Air Force				
Air Force Defense Research Sciences Program	12.800		56,040	498,267
Other	12.		1,570,787	9,676,984
Army				
Basic and Applied Scientific Research	12.300			1,851,753
Military Medical Research and Development	12.420			249,143
Basic Scientific Research	12.431		25,000	217,727
Legacy Resource Management Program	12.632			18,073
Other	12.		272,691	2,859,478
Navy				
Basic and Applied Scientific Research	12.300		4,761,951	18,934,259
Science, Technology, Engineering & Mathematics ("STEM")				
Education, Outreach and Workforce Program	12.330			644,045
Navy Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance	12.335			53,683
Other	12.		162,989	1,242,192
Deputy Under Secretary Defense	12.			6,138,604
National Geospatial Intelligence Agency	12.		589,439	1,301,742
Washington Headquarters Services				
Basic, Applied, and Advanced Research in Science and Engineering	12.630			3,989,972
Other	12.			1,045,973
U.S. Special Operations Command	12.			72,565
Defense Intelligence Agency	12.		62,500	294,409
Office of the Secretary of Defense				
Legacy Resource Management Program	12.632			35,712
Passed through from				
State of Hawaii Dept. of Land and Natural Resources	12.630			52,715
University of Alaska – Anchorage	12.	PO P0483046,W911KB1420001		63,281
University of Alaska – Fairbanks	12.300			25,462
University of Alaska – Fairbanks	12.	UAF 15-0067 P0487116		193,608
Archinoetics, LLC	12.	1065-00		111,585
The Boeing Company	12.	PC 794406		53,688
University of California – San Diego	12.	S9000898/55022508, AMDT 2		80,517
CDM Smith Federal Programs Corporation	12.	6413-135-002-CS		11,956
University of Central Florida	12.420			138,985
Firstpass Engineering	12.	PO 53		(19,167)
Henry M Jackson Foundation	12.420			55,927
University of London – Royal Holloway	12.800			105,903
Makai Ocean Engineering Inc	12.			133,677
Massachusetts Institute of Technology	12.431			17,439
University of New Hampshire	12.	15-018		51,810
Pacific Health Research & Education Institute	12.			1,686
Sandia National Laboratories	12.	PO 1645862		18,612
Spectrum Photonics Inc	12.	SPI-SK2016-002		1,810
Tetra Tech Inc	12.	1116902		11,126
Vanderbilt University	12.300			100,364
Vencore Services and Solutions	12.	PO 100006814		272,785
Wyle Laboratories, Inc	12.	various		346,685
				1,830,454
				50,955,035
<b>U.S Department of Housing and Urban Development</b>				
Passed through from				
State of Hawaii Dept. of Human Services	14.267			41,475
<b>U.S Department of the Interior</b>				
Bureau of Land Management				
Wildland Fire Research and Studies Program	15.232		10,058	56,293
Fish and Wildlife Service				
Fish and Wildlife Management Assistance	15.608			19
Endangered Species Conservation – Recovery Implementation Funds	15.657			1,070,873
Fish and Wildlife Coordination and Assistance Programs	15.664			158,176
Cooperative Landscape Conservation	15.669			531,281
Other	15.			18,445
U.S. Geological Survey				
Assistance to State Water Resources Research Institutes	15.805			320,840
U.S. Geological Survey – Research and Data Collection	15.808			1,639,479
Volcano Hazards Program Research and Monitoring	15.818			136,858
National Climate Change and Wildlife Science Center	15.820		210,329	1,925,376
National Park Service				
Natural Resource Stewardship	15.944			49
Cooperative Research and Training Programs – Resources of the National Park System	15.945		6,000	1,156,883
National Park Service Conservation, Protection, Outreach and Education	15.954			1,656
Other	15.			40,285
				1,198,873

# University of Hawai'i State of Hawai'i Schedule of Expenditures of Federal Awards Year Ended June 30, 2016

	CFDA No.	Pass-Through Identifier	Passed Through to Subrecipients	Expenditures
Passed through from				
State of Hawaii Dept. of Land and Natural Resources	15.605			179,095
State of Hawaii Dept. of Land and Natural Resources	15.608			544
State of Hawaii Dept. of Land and Natural Resources	15.611			581,045
State of Hawaii Dept. of Land and Natural Resources	15.614			107,569
State of Hawaii Dept. of Land and Natural Resources	15.615			795,948
State of Hawaii Dept. of Land and Natural Resources	15.630			7,713
State of Hawaii Dept. of Land and Natural Resources	15.634			679,170
State of Hawaii Dept. of Land and Natural Resources	15.643			19,313
State of Hawaii Dept. of Land and Natural Resources	15.657			251,304
State of Hawaii Dept. of Land and Natural Resources	15.944			28,295
University of Alaska – Fairbanks	15.	UAF 14-0033		6,231
America View	15.815			23,413
American Bird Conservancy	15.663			91,002
Government of American Samoa	15.634			724
Howard University	15.657			52,659
Institute for Wildlife Studies	15.945			16,291
Malama Kahalawai Inc	15.631			8,042
National Fish and Wildlife Foundation	15.663			36,823
Commonwealth of the Northern Mariana Islands	15.615			18,194
				<u>2,903,375</u>
				9,959,888
<b>U.S. Department of Justice</b>				
Office of Juvenile Justice and Delinquency Prevention				
Reduction and Prevention of Children's Exposure to Violence	16.730		131,849	160,062
Passed through from				
State of Hawaii Dept. of Human Services	16.540			<u>8,432</u>
				168,494
<b>U.S. Department of Transportation</b>				
Federal Aviation Administration				
Air Transportation Centers of Excellence	20.109			30,494
Passed through from				
State of Hawaii Dept. of Land and Natural Resources	20.205			10,000
State of Hawaii Dept. of Land and Natural Resources	20.219			35,530
State of Hawaii Dept. of Transportation	20.205		12,925	207,706
State of Hawaii Dept. of Transportation	20.	various	8,457	349,199
University of Central Florida	20.701			341,664
Michigan State University	20.701			73,695
Oregon State University	20.761			<u>96,454</u>
				1,114,248
				1,144,742
<b>National Aeronautics and Space Administration</b>				
Goddard				
Science	43.001		524,675	13,675,015
Education	43.008			575,226
Other	43.			<u>640,515</u>
				14,890,756
Ames				
Science	43.001			351,262
Other	43.			<u>114,913</u>
				466,175
John H. Glenn Research Center				
Science	43.001			14,417
Johnson Space Center				
Science	43.001		22,581	582,293
Exploration	43.003		56,400	<u>78,819</u>
				661,112
Passed through from				
University of Arizona	43.001			15,291
University of Arizona	43.	Y403002		5,692
Arizona State University	43.001			13,210
Arizona State University	43.	various		35,133
Bermuda Institute of Ocean Sciences Inc	43.001			18,814
University of California – Berkeley	43.001			177,137
University of California – Los Angeles	43.001			76,588
University of California – San Diego	43.001			10,441
University of Colorado – Denver	43.001			42,818
ICS Associates Inc	43.012			5,000
Jet Propulsion Lab	43.	various		98,969
Johns Hopkins University	43.001			31,035
Johns Hopkins University	43.	124221		98,276
Lowell Observatory	43.001			30,156
Malin Space Science Systems, Inc	43.001			65,096
University of Missouri	43.009			14,124
University of North Carolina – Chapel Hill	43.001			78,097
Northwestern University	43.001			15,018
Planetary Science Institute	43.001			23,054
Q-Peak Inc	43.	SC 57675-2726		29,791
Sierra Lobo Inc	43.			23,500

# University of Hawai'i State of Hawai'i Schedule of Expenditures of Federal Awards Year Ended June 30, 2016

	CFDA No.	Pass-Through Identifier	Passed Through to Subrecipients	Expenditures
Smithsonian Astrophysical Observatory	43.001			62,136
University of South Carolina	43.001			149,528
Southwest Research Institute	43.001			45,956
Space Telescope Science Institute	43.001			11,584
Space Telescope Science Institute	43.	various		379,154
Research Foundation for the State University of New York	43.001			57,182
Universities Space Research Association	43.001			15,777
Universities Space Research Association	43.	002235-03		66,031
Woods Hole Oceanographic Institute	43.001			39,879
Wyle Laboratories, Inc	43.	various		258,659
				<u>1,993,126</u>
				18,025,586
<b>National Endowment for the Arts and Humanities</b>				
Passed through from				
Hawaii Council for Humanities	45.129			2,873
<b>National Science Foundation</b>				
Engineering Grants	47.041		41,584	1,326,188
Mathematical and Physical Sciences	47.049		415,334	4,629,010
Geosciences	47.050		262,123	16,314,211
Computer and Information Science and Engineering	47.070		720,365	2,347,477
Biological Sciences	47.074		925,652	4,251,806
Social, Behavioral and Economic Sciences	47.075			572,313
Education and Human Resources	47.076		388,299	5,343,291
Polar Programs	47.078			77,484
Office of International Science and Engineering	47.079			19,422
Office of Cyberinfrastructure	47.080		83,230	160,695
Office of Experimental Program to Stimulate Competitive Research	47.081			14,754
Office of Integrative Activities	47.083			17,557
Passed through from				
Adnoviv, LLC	47.			20,747
University of Alaska – Fairbanks	47.076			64,991
American Association of Community Colleges	47.076			7,646
Association of Universities for Research in Astronomy, Inc.	47.049			2,121,881
ARRA – Assn. of Universities for Research in Astronomy, Inc.	47.082			44,588
Association of Universities for Research in Astronomy, Inc.	47.	PO N568540-A		30,692
University of California – San Diego	47.050			37,515
California Institute of Technology	47.050			29,781
California State University – Northridge	47.074			17,069
Canada-France-Hawaii Telescope Corporation	47.049		125,000	125,000
University of Central Florida	47.041			14,974
College of Charleston	47.070			28,755
Clemson University	47.070			329,816
Columbia University	47.050			3,445
Consortium for Ocean Leadership	47.050			50,086
University of Georgia	47.074			2,603
University of Illinois – Chicago	47.070			226,674
University of Illinois – Urbana-Champaign	47.050			130,155
Indiana University	47.070			146,730
Koa Technologies, LLC	47.041			45,736
University of Maryland	47.074			32,587
University of Massachusetts – Amherst	47.075			8,819
Monterey Bay Aquarium Research	47.050			81,156
National Center for Science & Civic Engagement	47.076			2,057
National Radio Astronomy Observatory	47.049			19,801
University of New Hampshire	47.074			5,075
University of New Mexico	47.050			165,410
City University of New York	47.049			23,772
State University of New York	47.050			73,903
North Carolina State University	47.050			841
University of Notre Dame	47.049			1,035
Open Source Project Network	47.050			29,108
Pacific Resources for Education & Learning	47.076			88,278
Predictive Science Inc	47.050			62,924
Princeton University	47.050			50,746
Purdue University	47.070			111,742
University of Rhode Island	47.050			11,388
Rice University	47.050			67,874
State University of Rutgers	47.075			21,872
University of Southern California	47.050			322,068
University of Texas – Austin	47.074			47,829
University Corp for Atmospheric Research	47.050			51,031
VentureWell	47.076			2,250
University of Washington	47.050			70,298
				<u>4,830,748</u>
				39,904,956
<b>U.S. Department of Veterans Affairs</b>				
	64.			16,360

# University of Hawai'i State of Hawai'i Schedule of Expenditures of Federal Awards Year Ended June 30, 2016

	CFDA No.	Pass-Through Identifier	Passed Through to Subrecipients	Expenditures
<b>Environmental Protection Agency</b>				
Office of Research and Development				
Science To Achieve Results Research Program	66.509			63,241
P3 Award: National Student Design Competition for Sustainability	66.516			2,956
				66,197
Passed through from				
State of Hawaii Dept. of Health	66.419			2,826
State of Hawaii Dept. of Health	66.454			31,560
State of Hawaii Dept. of Health	66.817			27,374
				61,760
				127,957
<b>U.S. Department of Energy</b>				
Office of Science Financial Assistance Program				
Conservation Research and Development	81.049			2,048,409
Renewable Energy Research and Development	81.086			667,909
	81.087		1,089,096	2,486,163
Passed through from				
Alliance for Sustainable Energy LLC	81.	XGJ-5-52227-01		82,668
Battelle Memorial Institute	81.	various		741,247
Brookhaven National Lab	81.	241773		46,520
University of California – Berkeley	81.	7088334, MOD 2		46,246
Carnegie Institution of Washington	81.112			35,844
Cornell University	81.087			88,264
Duke University Medical Center	81.087			268,779
Duke University Medical Center	81.			20,583
InnoSys, Inc	81.	various		71,783
Lawrence Livermore National Lab	81.	various		82,576
University of Michigan	81.113			275,449
National Renewable Energy Lab	81.	AGB-1-11433-01		646
Trendstone Technologies Inc	81.049			56,284
University Corp for Atmospheric Research	81.087			2,105
				1,818,994
				7,021,475
<b>U.S. Department of Education</b>				
Office of Elementary and Secondary Education				
Javits Gifted and Talented Students Education	84.206		20,306	570,979
Passed through from				
State of Hawaii Dept. of Education	84.	D15-032_CO-10544		776
Pacific Resources for Education & Learning	84.283			212,616
				213,392
				784,371
<b>U.S. Department of Health and Human Services</b>				
National Institutes of Health				
Family Smoking Prevention and Tobacco Control Act Regulatory Research	93.077		34,933	550,840
Environmental Health	93.113			163,777
Mental Health Research Grants	93.242		156,288	1,545,379
Drug Abuse and Addiction Research Programs	93.279		564,958	2,270,245
Discovery and Applied Research for Technological Innovations to Improve Human Health				
	93.286			285,352
Minority Health and Health Disparities Research	93.307		648,949	6,841,307
Trans-NIH Research Support	93.310			988
Research Infrastructure Programs	93.351			549,170
Cancer Cause and Prevention Research	93.393		4,799,192	11,499,975
Cancer Treatment Research	93.395		217,339	1,222,501
Cancer Biology Research	93.396			55,328
Cancer Centers Support Grants	93.397		77,360	2,179,570
Cancer Research Manpower	93.398			158,286
Cardiovascular Diseases Research	93.837		188,787	1,588,482
Blood Diseases and Resources Research	93.839		34,172	61,445
Arthritis, Musculoskeletal and Skin Diseases Research	93.846			72,642
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847		38,642	860,844
Extramural Research Programs in the Neurosciences and Neurological Disorders				
	93.853		3,421	436,095
Allergy and Infectious Diseases Research	93.855		95,953	1,749,717
Biomedical Research and Research Training	93.859		1,366,994	9,370,515
Child Health and Human Development Extramural Research	93.865			431,728
Aging Research	93.866			352,509
International Research and Research Training	93.989		28,324	198,618
Others	93.			1,473,313
				43,918,626
Centers for Disease Control and Prevention				
Environmental Public Health and Emergency Response	93.070			35,512
Administration for Community Living				
Special Programs for the Aging – Title IV – and Title II – Discretionary Projects	93.048			142,674
Health Resources and Services Administration				
Grants to Increase Organ Donations	93.134			355,304
Geriatric Academic Career Awards	93.250			18,183
				373,487
Office of the Secretary				
Teenage Pregnancy Prevention Program	93.297		246,226	501,327

# University of Hawai'i State of Hawai'i Schedule of Expenditures of Federal Awards Year Ended June 30, 2016

	CFDA No.	Pass-Through Identifier	Passed Through to Subrecipients	Expenditures
Agency for Healthcare Research and Quality Research on Healthcare Costs, Quality and Outcomes	93.226		62,079	80,485
Centers for Medicare and Medicaid Services Health Care Innovation Awards ("HCIA")	93.610			3,247,986
Passed through from				
State of Hawaii Dept. of Health	93.048			21,209
State of Hawaii Dept. of Health	93.104			19,421
State of Hawaii Dept. of Health	93.243			197,742
State of Hawaii Dept. of Health	93.283			901
State of Hawaii Dept. of Health	93.757			108,386
State of Hawaii Dept. of Health	93.758			31,766
State of Hawaii Dept. of Health	93.917			24,128
State of Hawaii Dept. of Health	93.945			47,404
State of Hawaii Dept. of Health	93.958			9,336
State of Hawaii Dept. of Health	93.959			19,619
State of Hawaii Dept. of Human Services	93.779			8,357
State of Hawaii Office of the Governor	93.624			39,193
Beth Israel Deaconess Med Ctr	93.213			114,457
Brigham and Women's Hospital Inc	93.			55
University of California – Davis	93.262			52,397
University of California – Davis	93.397			47,593
University of California – Los Angeles	93.279			(29,723)
University of California – San Francisco	93.242			24,240
University of California – San Francisco	93.393			34,951
University of California – San Francisco	93.855			91,516
Cancer Prevention Institute of California	93.393			14,678
Chaminade University	93.307			240,309
Children's Hospital of Philadelphia	93.			13,681
Dartmouth College	93.393			38,993
ECOG-ACRIN Cancer Research Group	93.			257
Georgia State University	93.077			8,609
Harvard University	93.393			16,306
University of Hawaii Foundation	93.375			234,850
Hawaii Pacific University	93.279			97,163
Hawaii Public Health Institute	93.305			14,407
Health Research Inc.	93.393			37,568
Johns Hopkins University	93.393			12,583
Johns Hopkins University	93.865			263,607
University of Maryland	93.113		61,453	103,167
University of Miami	93.361			165,700
Michigan State University	93.286			11,502
University of Minnesota	93.393		218,765	312,976
Morehouse School of Medicine	93.307		10,646	634,877
National Childhood Cancer Foundation	93.			58,983
University of Nevada – Las Vegas	93.859			227,968
University of New Mexico	93.859			4,070
University of North Carolina – Chapel Hill	93.859			10,089
University of North Carolina – Greensboro	93.273			189,180
Northeastern University	93.279			29,694
NSABP Foundation Inc.	93.395			67
Oregon Health & Science University	93.			2,365
Pacific Health Research & Education Institute	93.847			10,841
Pacific Health Research & Education Institute	93.866			24,787
Palo Alto Veterans Institute for Research	93.393		29,831	94,784
Papa Ola Lokahi	93.397			150,500
University of Pittsburgh Cancer Institute	93.393			63,000
Portland State University	93.310			213,038
Queen's Hospital Medical Center	93.394			211,027
Riverside Research Institute	93.286			73,006
Riverside Research Institute	93.394			45,212
University of Rochester	93.135			15,000
Seattle Institute for Biomedical and Clinical Research	93.847			132,718
University of Southern California	93.172			243,079
University of Southern California	93.866			43,073
Southwest Oncology Group	93.			2,694
Stanford University	93.393		29,835	173,627
University of Texas – San Antonio	93.865			170,960
University of Texas Southwestern Med Ctr	93.837			90,000
Tulane University of Louisiana	93.865			19,485
University of Utah	93.393			9,319
Vanderbilt University Medical Center	93.393			51,807
Virginia Commonwealth University	93.077			60,527
Virginia Polytechnic Institute & State University	93.394			45,493
Virginia Polytechnic Institute & State University	93.865			49,822
University of Washington	93.307			90,081
University of Washington	93.855			27,166
University of Washington	93.989			51,726
World Health Organization	93.393			1,781
Yale University	93.395			13,709
Yale University	93.853			27,307
				<u>5,812,166</u>
				54,112,263

# University of Hawai'i State of Hawai'i Schedule of Expenditures of Federal Awards Year Ended June 30, 2016

	CFDA No.	Pass-Through Identifier	Passed Through to Subrecipients	Expenditures
<b>U.S. Department of Homeland Security</b>				
Homeland Security Research, Development, Testing, Evaluation and Demonstration of Technologies Related to Nuclear Threat Detection	97.077			44,362
Passed through from				
NiyamiT Inc	97.			<u>15,358</u>
				59,720
<b>U.S. Agency for International Development</b>				
USAID Foreign Assistance for Programs Overseas	98.001			513,398
Passed through from				
Development Alternatives Inc	98.001		282,553	
Iowa State University	98.	404-21-77B	60,603	
Nathan Associates Inc	98.001		41,749	
Purdue University	98.001		15,825	33,749
Virginia Polytechnic Institute & State University	98.001		15,289	<u>15,378</u>
				434,032
				<u>947,430</u>
<b>Other</b>				
Smithsonian Institution	99.	09-S DD-400-0000184717		<u>4,770</u>
<b>Total Research and Development</b>				<b>218,571,116</b>
<b>MAJOR PROGRAM – STUDENT FINANCIAL ASSISTANCE</b>				
<b>U.S. Department of Education</b>				
Office of Federal Student Aid				
Federal Supplemental Educational Opportunity Grants	84.007		1,264,385	
Federal Work-Study Program	84.033		1,714,130	
Federal Perkins Loan Program	84.038		2,483,673	
Federal Perkins Loan Program	84.038		(369,813)	
Federal Pell Grant Program	84.063		61,437,730	
Federal Direct Student Loans	84.268		<u>156,333,365</u>	222,863,470
Teacher Education Assistance for College and Higher Education Grants	84.379			<u>45,052</u>
<b>Total Student Financial Assistance</b>				<b>222,908,522</b>
<b>MAJOR PROGRAM – TITLE III HIGHER EDUCATION – INSTITUTIONAL AID</b>				
<b>U.S. Department of Education</b>				
Office of Postsecondary Education				
Higher Education – Institutional Aid	84.031			<u>10,645,405</u>
<b>Total Title III Higher Education – Institutional Aid</b>				<b>10,645,405</b>
<b>MAJOR PROGRAM – TRIO CLUSTER</b>				
<b>U.S. Department of Education</b>				
Office of Postsecondary Education				
TRIO – Student Support Services	84.042		1,739,630	
TRIO – Talent Search	84.044		590,981	
TRIO – Upward Bound	84.047		1,991,237	
TRIO – Educational Opportunity Centers	84.066		<u>422,972</u>	4,744,820
<b>Total TRIO Cluster</b>				<b>4,744,820</b>
<b>MAJOR PROGRAM – TITLE VII NATIVE HAWAIIAN EDUCATION</b>				
<b>U.S. Department of Education</b>				
Office of Elementary and Secondary Education				
Native Hawaiian Education	84.362		1,303,638	5,912,455
Passed through from				
Kula No Na Po'e Hawaii	84.362		102,234	
Pacific American Foundation	84.362		219,572	
Waianae Coast Comprehensive Health Center	84.362		<u>14,220</u>	336,026
<b>Total Title VII Native Hawaiian Education</b>				<b>6,248,481</b>
<b>MAJOR PROGRAM – HOMELAND SECURITY TRAINING</b>				
<b>U.S. Department of Homeland Security</b>				
State and Local Homeland Security National Training Program	97.005		4,215,831	<u>7,052,475</u>
<b>Total State and Local Homeland Security National Training Program</b>				<b>7,052,475</b>
<b>MAJOR PROGRAM – GEAR UP PROGRAM</b>				
<b>U.S. Department of Education</b>				
Office of Postsecondary Education				
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334		702,669	<u>4,867,332</u>
<b>Total Gear Up Program</b>				<b>4,867,332</b>

# University of Hawai'i State of Hawai'i Schedule of Expenditures of Federal Awards Year Ended June 30, 2016

	CFDA No.	Pass-Through Identifier	Passed Through to Subrecipients	Expenditures
<b>MAJOR PROGRAM – C3T PROGRAM</b>				
<b>U.S. Department of Labor</b>				
Employment Training Administration				
Trade Adjustment Assistance Community College and Career Training ("TAACCCT") Grants	17.282			10,380,435
<b>Total C3T Program</b>				<b>10,380,435</b>
<b>MAJOR PROGRAM – CAREER &amp; TECHNICAL EDUCATION – BASIC GRANTS TO STATES</b>				
<b>U.S. Department of Education</b>				
Office of Vocational and Adult Education				
Career and Technical Education – Basic Grants to States	84.048			3,456,947
<b>Total Career &amp; Technical Education Program</b>				<b>3,456,947</b>
<b>MAJOR PROGRAM – IRTF OPERATION</b>				
<b>National Aeronautics and Space Administration</b>				
Goddard				
NNH14CK55B	43.			4,831,227
<b>Total IRTF Program</b>				<b>4,831,227</b>
<b>OTHER FEDERAL ASSISTANCE</b>				
<b>U.S. Department of Agriculture</b>				
Agricultural Research Service				
Agricultural Research – Basic and Applied Research	10.001			25,438
Animal and Plant Health Inspection Service				
Plant and Animal Disease, Pest Control, and Animal Care	10.025			79,376
Agricultural Marketing Service				
Federal-State Marketing Improvement Program	10.156			23,720
National Institute of Food and Agriculture				
Payments to Agricultural Experiment Stations Under the Hatch Act	10.203			9,847
Secondary and Two-Year Postsecondary Agriculture Education Challenge Grants	10.226		4,622	18,069
Alaska Native Serving and Native Hawaiian Serving Institutions Education Grants	10.228			1,659,778
Agriculture and Food Research Initiative ("AFRI")	10.310			57,901
Beginning Farmer and Rancher Development Program	10.311		5,744	148,720
Cooperative Extension Service	10.500			2,332,279
Farm Service Agency				
Other	10.			10,000
Forest Service				
Forest Stewardship Program	10.678			13,650
Other	10.			160,179
Natural Resources Conservation Service				
Environmental Quality Incentives Program	10.912		2,431	129,230
Other	10.			1
Passed through from				
State of Hawaii Dept. of Education	10.558			85,435
State of Hawaii Dept. of Education	10.559			27,040
State of Hawaii Dept. of Human Services	10.561			404,448
State of Hawaii Dept. of Land and Natural Resources	10.093			130
State of Hawaii Dept. of Land and Natural Resources	10.664			59,993
State of Hawaii Dept. of Land and Natural Resources	10.678			54,175
State of Hawaii Dept. of Land and Natural Resources	10.680			165,738
State of Hawaii Dept. of Land and Natural Resources	10.914			19,986
University of California – Davis	10.304			28,038
University of California – Davis	10.329			32,958
Kansas State University	10.500		35,792	85,818
Maui Economic Development Board	10.318			6,307
University of Nebraska – Lincoln	10.500			3,397
Pennsylvania State University	10.500			2,786
Utah State University	10.215			6,963
Utah State University	10.500			17,552
Washington State University	10.500			1,991
World Cocoa Foundation	10.777			315
				1,003,070
				5,671,258
<b>U.S. Department of Commerce</b>				
Economic Development Administration				
Economic Development – Technical Assistance	11.303			65,852
National Oceanic and Atmospheric Administration ("NOAA")				
NOAA Mission-Related Education Awards	11.008			9,926
Ocean Exploration	11.011			56,503
Integrated Ocean Observing System ("IOOS")	11.012			24,525
Sea Grant Support	11.417			1,133,491
Fisheries Development and Utilization Research Development Grants and Cooperative Agreements Program	11.427			25,255
NOAA Cooperative Institutes	11.432			22,658
Unallied Industry Projects	11.452			223,844
Unallied Management Projects	11.454			6,299
Meteorologic and Hydrologic Modernization Development	11.467			536,228
Congressionally Identified Awards and Projects	11.469			29,625
Office of Coastal Management	11.473			200,069
Other	11.			161,706
				2,430,129

# University of Hawai'i State of Hawai'i Schedule of Expenditures of Federal Awards Year Ended June 30, 2016

	CFDA No.	Pass-Through Identifier	Passed Through to Subrecipients	Expenditures
Minority Business Development Agency				
MBDA Business Center	11.805			344,338
Passed through from				
State of Hawaii Dept. of Defense	11.467			80,827
State of Hawaii Dept. of Land and Natural Resources	11.472			183,333
State of Hawaii Dept. of Land and Natural Resources	11.482			204,056
Conservation International Foundation	11.427			20,000
High Technology Development Corp	11.611			26,129
National Marine Sanctuary Foundation	11.011			3,875
National Marine Sanctuary Foundation	11.429			31,959
National Marine Sanctuary Foundation	11.	Check No. 14700		5,108
University of New Hampshire	11.400			1,307,250
University Corp for Atmospheric Research	11.431			22,950
				<u>1,885,487</u>
				4,725,806
<b>U.S. Department of Defense</b>				
Army				
Basic and Applied Scientific Research	12.300			30,009
Other	12.			28,092
				<u>58,101</u>
Navy				
Basic and Applied Scientific Research	12.300			1,219,643
Other	12.		10,343	696,576
				<u>1,916,219</u>
National Security Agency				
Language Grant Program	12.900			94,807
Mathematical Sciences Grants Program	12.901			3,490
GenCyber Grants Program	12.903			46,052
				<u>144,349</u>
Pacific Command				
Defense Logistics Agency	12.			147,750
				<u>7,531</u>
Passed through from				
Chaminade University	12.300			70,019
Ho'okipaipai LLC	12.002			23,131
Institute of International Education	12.550			803,302
Institute of International Education	12.	various	212,536	760,176
Johns Hopkins University	12.	various		118,525
				<u>1,775,153</u>
				4,049,103
<b>U.S. Department of Housing &amp; Urban Development</b>				
Office of Policy Development and Research				
Alaska Native/Native Hawaiian Institutions Assisting Communities	14.515		90,198	722,085
Passed through from				
State of Hawaii Dept. of Business, Economic Development and Tourism	14.	PEO 16-04		36,125
State of Hawaii Dept. of Labor and Industrial Relations	14.401			21,125
				<u>57,250</u>
				779,335
<b>U.S. Department of the Interior</b>				
Fish and Wildlife Service				
Service Training and Technical Assistance (Generic Training)	15.649			15,730
Endangered Species Conservation – Recovery Implementation Funds	15.657			43,933
Fish and Wildlife Coordination and Assistance Programs	15.664			155,259
Cooperative Landscape Conservation	15.669			29,820
				<u>244,742</u>
U.S. Geological Survey				
Other	15.			137,798
Office of Insular Affairs				
Economic, Social, and Political Development of the Territories	15.875		33,107	265,251
National Park Service				
Cooperative Research and Training Programs – Resources of the National Park System	15.945			7,163
Other	15.			2,737
				<u>9,900</u>
Passed through from				
State of Hawaii Dept. of Land and Natural Resources	15.605			307,045
State of Hawaii Dept. of Land and Natural Resources	15.611			44,999
State of Hawaii Dept. of Land and Natural Resources	15.614			70,719
State of Hawaii Dept. of Land and Natural Resources	15.615			215,244
State of Hawaii Dept. of Land and Natural Resources	15.634			1,421
Government of American Samoa	15.	C00216		12,770
Government of Guam	15.875			201,478
Commonwealth of the Northern Mariana Islands	15.875			10,311
				<u>863,987</u>
				1,521,678
<b>U.S. Department of Justice</b>				
Bureau of Justice Assistance				
Capital Case Litigation Initiative	16.746			121,352
National Institute of Justice				
Postconviction Testing of DNA Evidence to Exonerate the Innocent	16.820			63,629
Passed through from				
State of Hawaii Dept. of Human Services	16.540			67,778
State of Hawaii Dept. of Public Safety	16.751			4,397
				<u>72,175</u>
				257,156

# University of Hawai'i State of Hawai'i Schedule of Expenditures of Federal Awards Year Ended June 30, 2016

	CFDA No.	Pass-Through Identifier	Passed Through to Subrecipients	Expenditures
<b>U.S. Department of Labor</b>				
Passed through from				
State of Hawaii Dept. of Labor and Industrial Relations	17.207			232
County of Maui	17.259			<u>69,843</u>
				70,075
<b>U.S. Department of State</b>				
Passed through from				
East West Center	19.	various		541,562
<b>U.S. Department of Transportation</b>				
Passed through from				
State of Hawaii Dept. of Land and Natural Resources	20.219			93,205
State of Hawaii Dept. of Transportation	20.200			1,824
State of Hawaii Dept. of Transportation	20.600			106,372
State of Hawaii Dept. of Transportation	20.616			5,184
State of Hawaii Dept. of Transportation	20.	SRS-1500(86)		<u>15,693</u>
				222,278
<b>National Aeronautics and Space Administration</b>				
Goddard				
Science	43.001			471,053
Education	43.008			<u>913,438</u>
				1,384,491
Johnson Space Center				
Education	43.008			10,641
NASA Astrobiology Institute	43.			18,919
Passed through from				
University of Arizona	43.	Y403053		35,523
New Mexico State University	43.009			77,655
Space Telescope Science Institute	43.	HST-HF2-51359.001-A		<u>81,128</u>
				194,306
				1,608,357
<b>National Endowment for the Arts and Humanities</b>				
National Endowment for the Arts				
Promotion of the Arts – Grants to Organizations and Individuals	45.024			19,812
National Endowment for the Humanities				
Promotion of the Humanities – Division of Preservation and Access	45.149			543
Passed through from				
Hawaii State Foundation on Culture & Arts	45.025			24,005
Hawaii State Foundation on Culture & Arts	45	FY15-0052		25,000
Hawaii Council for the Humanities	45.129			7,435
WESTAF	45.025			<u>2,125</u>
				58,565
				78,920
<b>Small Business Administration</b>				
Small Business Development Centers				
Other	59.037			686,358
	59			<u>34,055</u>
				720,413
<b>U.S. Department of Veterans Affairs</b>				
	64.			51,574
<b>Environmental Protection Agency</b>				
Office of Research and Development ("ORD")				
Greater Research Opportunities Fellowships for				
Undergraduate Environmental Study	66.513			13,607
Science to Achieve Results ("STAR") Fellowship Program	66.514			<u>22,469</u>
				36,076
Passed through from				
State of Hawaii Dept. of Health	66.460			<u>98,124</u>
				134,200
<b>U.S. Department of Energy</b>				
Conservation Research and Development				
	81.086			29,794

# University of Hawai'i State of Hawai'i Schedule of Expenditures of Federal Awards Year Ended June 30, 2016

	CFDA No.	Pass-Through Identifier	Passed Through to Subrecipients	Expenditures
<b>U.S. Department of Education</b>				
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			1,670,001
Overseas Programs – Group Projects Abroad	84.021			21,890
Overseas Programs – Doctoral Dissertation Research Abroad	84.022			40,618
Fund for the Improvement of Postsecondary Education	84.116			165,972
Centers for International Business Education	84.220			13,009
Language Resource Centers	84.229			180,414
Child Care Access Means Parents in School	84.335			216,053
College Access Challenge Grant Program	84.378		323,775	1,147,277
Strengthening Minority-Serving Institutions	84.382			497,143
Transition Programs for Students with Intellectual Disabilities into Higher Education	84.407			<u>434,286</u>
				4,386,663
Office of Special Education and Rehabilitative Services				
Rehabilitation Long-Term Training	84.129			79,307
Special Education – Personnel Development to Improve Services and Results for Children with Disabilities	84.325			1,093,791
Special Education – Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326			<u>170,382</u>
				1,343,480
Office of Elementary and Secondary Education				
English Language Acquisition State Grants	84.365			384,057
Improving Teacher Quality State Grants	84.367			<u>264,393</u>
				648,450
Passed through from				
State of Hawaii Dept. of Education	84.287			59,033
State of Hawaii Dept. of Education	84.372			1,759,403
State of Hawaii Dept. of Human Services	84.126			643,439
State of Hawaii Dept. of Human Services	84.			38,664
State Public Charter School Commission	84.419			80,013
Alu Like, Inc.	84.259			942,473
Government of American Samoa	84.	various		1,185,429
Endicott College	84.116			108
Kaho'olawe Island Reserve Commission	84.259			76,963
National Writing Project Corp.	84.367			<u>11,181</u>
				4,796,706
				<u>11,175,299</u>
<b>U.S. Institute of Peace</b>				
Annual Grant Competition	91.001			6,151
<b>U.S. Department of Health and Human Services</b>				
Health Resources and Services Administration				
Area Health Education Centers Point of Service Maintenance and Enhancement Awards	93.107		693,361	916,330
Maternal and Child Health Federal Consolidated Programs	93.110		29,486	547,384
Emergency Medical Services for Children	93.127		28,268	204,655
Centers of Excellence	93.157			677,345
Grants to States for Loan Repayment Program	93.165			164,607
Telehealth Programs	93.211			323,563
Substance Abuse and Mental Health Services – Projects of Regional and National Significance	93.243			197,810
Advanced Nursing Education Grant Program	93.247			484,120
Universal Newborn Hearing Screening	93.251			670,451
Advanced Education Nursing Traineeships	93.358			310,386
Nurse Education, Practice Quality and Retention Grants	93.359			368,865
Mental and Behavioral Health Education and Training Grants	93.732		118,814	131,130
Health Careers Opportunity Program	93.822		41,650	161,012
PPHF Geriatric Education Centers	93.969		20,000	<u>641,982</u>
				5,799,640
Centers for Disease Control and Prevention				
Centers for Disease Control and Prevention – Investigations and Technical Assistance	93.283		275,252	832,335
Early Hearing Detection and Intervention Information System ("EHDI-IS") Surveillance Program	93.314			231,580
PPHF: Racial and Ethnic Approaches to Community Health Program Financed Solely by Public Prevention and Health Funds	93.738		42,044	<u>622,956</u>
				1,686,871
Substance Abuse and Mental Health Services Administration				
Substance Abuse and Mental Health Services – Projects of Regional and National Significance	93.243			233,881
Administration for Community Living				
University Centers for Excellence in Developmental Disabilities Education, Research, and Service	93.632		313,865	1,023,725
Alzheimer's Disease Initiative: Specialized Supportive Services Project ("ADI-SSS") thru Prevention and Public Health Funds ("PPHF")	93.763			<u>129,061</u>
				1,152,786
Office of Minority Health				
Community Programs to Improve Minority Health Grant Program	93.137			108,179

# University of Hawai'i State of Hawai'i Schedule of Expenditures of Federal Awards Year Ended June 30, 2016

	CFDA No.	Pass-Through Identifier	Passed Through to Subrecipients	Expenditures
<b>Passed through from</b>				
State of Hawaii Dept. of Education	93.243			77,776
State of Hawaii Dept. of Education	93.	CO-10266 MOA D11-140		13,473
State of Hawaii Dept. of Health	93.004			28,877
State of Hawaii Dept. of Health	93.104			10,119
State of Hawaii Dept. of Health	93.217			59,307
State of Hawaii Dept. of Health	93.243			208,785
State of Hawaii Dept. of Health	93.283			8,000
State of Hawaii Dept. of Health	93.757			18,754
State of Hawaii Dept. of Health	93.758			27,852
State of Hawaii Dept. of Health	93.944			24,345
State of Hawaii Dept. of Health	93.958			109,159
State of Hawaii Dept. of Health	93.959			849,984
State of Hawaii Dept. of Health	93.991			35,701
State of Hawaii Dept. of Health	93.	ASO LOG 16-032		108,689
State of Hawaii Dept. of Human Services	93.536			1,374,448
State of Hawaii Dept. of Human Services	93.558			15,744
State of Hawaii Dept. of Human Services	93.596		46,598	697,277
State of Hawaii Dept. of Human Services	93.658			422,033
State of Hawaii Dept. of Human Services	93.667			94,341
State of Hawaii Dept. of Human Services	93.779			162,274
State of Hawaii Judiciary	93.243			19,707
State of Hawaii Office of Information Management and Technology	93.511			334,661
City & County of Honolulu	93.044			2,487
City & County of Honolulu	93.052			212,375
Government of American Samoa	93.283			50,000
University of Arizona	93.516			90,363
Association of University Centers on Disabilities	93.524			3,305
Association of University Centers on Disabilities	93.			7,358
University of California – Los Angeles	93.279			187,592
University of California – San Francisco	93.145			138,353
Coalition for a Drug-Free Hawaii	93.276			22,122
Federated States of Micronesia	93.283			53,936
Global Coalition Against Cervical Cancer	93.424			12,088
Government of Guam	93.185			17,930
Government of Guam	93.283			33,553
Government of Guam	93.778			26,327
ARRA – Hawaii Health Information Exchange	93.718			1,102
Made in Hope	93.290			1,999
Republic of the Marshall Islands	93.283			61,676
Commonwealth of the Northern Mariana Islands	93.185			36,849
Commonwealth of the Northern Mariana Islands	93.778			28,711
Commonwealth of the Northern Mariana Islands	93.888			3,756
Commonwealth of the Northern Mariana Islands	93.912			133,566
Commonwealth of the Northern Mariana Islands	93.	CNMI-CHC-SIM 2015-001		81,149
Republic of Palau	93.283			18,924
University of Tennessee	93.103			2,000
University Clinical, Education & Research Associates	93.917			113,115
Waianae Coast Comprehensive Health Center	93.178			930
				<u>6,042,872</u>
				15,024,229
<b>Corporation for National and Community Service</b>				
State Commissions	94.003			273,644
AmeriCorps	94.006		2,206,292	<u>2,206,292</u>
				2,479,936
<b>Social Security Administration</b>				
Social Security – Work Incentives Planning and Assistance Program	96.008			86,657
<b>U.S. Department of Homeland Security</b>				
Passed through from				
County of Kauai	97.044			3,134
Daughters of Hawaii	97.036			<u>53,608</u>
				56,742
<b>Agency for International Development</b>				
USAID Foreign Assistance for Programs Overseas	98.001			108,423
Passed through from				
American Council on Education	98.012		33,523	117,341
Michigan State University	98.	RC102095BHEARD-Bangladesh		<u>29,000</u>
				146,341
				254,764
<b>Other</b>				
Peace Corps	99.			<u>24,400</u>
<b>Total other federal assistance</b>				<u>49,569,687</u>
<b>Total expenditures of federal awards</b>			<b>\$ 35,083,757</b>	<b>\$ 543,276,447</b>

**University of Hawai‘i  
State of Hawai‘i  
Notes to the Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2016**

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**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 Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (the "Uniform Guidance"). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements. The University has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**2. Loans Outstanding**

The University had the following loans outstanding as of June 30, 2016, which are not presented in the schedule of expenditures of federal awards.

	<b>CFDA No.</b>	<b>Loans Outstanding</b>
<b>Major Program – Student Financial Assistance</b>		
Federal Perkins Loan	84.038	\$ 17,023,459
Nurse Faculty Loan Program	93.264	277
Nursing Student Loan	93.364	11,374
		<u>\$ 17,035,110</u>

During the year ended June 30, 2016, the University distributed \$2,483,673 and \$156,333,365 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. During the year ended June 30, 2016, the University returned \$369,813 of Federal capital contributions to the U.S. Department of Education Federal Perkins Loan program. The return of funds are included as an operating expense in the University’s consolidated financial statements.

## **SECTION 3**

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**University of Hawai'i  
State of Hawai'i  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2016**

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**Section I – Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued	Unmodified
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?	Yes
Type of auditors' report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. CFR Part 200, Section 200.516?	Yes

**Identification of Major Programs<sup>1</sup>**

<b>CFDA Number</b>	<b>Federal Program or Cluster</b>	
Various	Research and Development Cluster	
Various	Student Financial Assistance Cluster – Grants, Scholarships and Loans	
Various	TRIO Cluster	
17.282	Trade Adjustment Assistance Community College and Career Training	
43.000	NASA IRTF Operation	
84.031	Title III Higher Education – Institutional Aid	
84.048	Career and Technical Education	
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs (“GEAR UP”)	
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?	Yes

<sup>1</sup> Refer to Section 2 of this report for detailed information on each contract and grant comprising the University's major programs.

<sup>2</sup> 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, 2016**

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**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  
Title VII Native Hawaiian Education  
Year Ended June 30, 2016**

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**Section III – Federal Award Findings and Questioned Costs**

**Questioned  
Costs**

**\$29,167**

**Finding No. 2016-001:** Approval of Payroll Expenditures – Significant Deficiency

**Federal Agency:** U.S. Department of Education

**CFDA Number and Title:** 84.362 – Title VII Native Hawaiian Education

**Finding and Cause**

During our audit, we noted that for the period from July 1, 2015 through the termination of the project on November 30, 2015, documentation could not be provided evidencing supervisory approval of payroll expenditures incurred by an employee of the Research Corporation of the University of Hawaii (“RCUH”) who was working on a grant for the Title VII Native Hawaiian Education program.

Section 3.810, *RCUH Time Reporting* of RCUH’s policies and procedures states that employees must certify the accuracy of their reported hours worked either electronically or via the submission of a hardcopy timesheet. Subsequently, an individual with requisite knowledge of the employee’s job responsibilities is responsible for approving the employee’s reported hours worked either electronically or via manual signature on the hardcopy timesheet. This individual typically shall be the Principal Investigator for the project, or their authorized designee.

**Effect**

Failure by RCUH’s Human Resources Department and University project personnel to adhere to the designated approval processes for salaries and wages exposes the University to an undue risk of noncompliance with Title 2 U.S. Code of Federal Regulations (“CFR”) Part 220 – *Cost Principles for Educational Institutions (OMB Circular A-21)*.

**Repeat Finding**

This is not a repeat finding.

**Recommendation**

We recommend that RCUH’s Human Resources Department work with University project personnel to ensure that the proper documentation, either electronic or hardcopy, is maintained evidencing the approval of all employee timesheets.

**Views of Responsible Officials and Planned Corrective Actions**

Refer to Section 5 – Corrective Action Plan (Unaudited) for the University’s response to the identified instance of noncompliance.

**University of Hawai'i  
 State of Hawai'i  
 Schedule of Findings and Questioned Costs  
 Title III Higher Education Institutional Aid –  
 Gaining Early Awareness and Readiness for Undergraduate Programs  
 Year Ended June 30, 2016**

---

**Questioned  
 Costs**

**\$59,950**

**Finding No. 2016-002:** Improper Consultant Expenditures – Significant Deficiency  
**Federal Agency:** U.S. Department of Education  
**CFDA Number and Title:** 84.031 – Title III Higher Education – Institutional Aid  
 84.334 – GEAR UP

**Finding and Cause**

During our audit, we noted the following instances in which a University employee was hired as a consultant to the University:

- During fiscal years 2013 through 2016, a University employee was contracted to provide services to grants within the Title III Higher Education – Institutional Aid program amounting to \$28,000 and services to non-federally funded University programs amounting to \$24,000.
- During fiscal years 2014 and 2016, a University employee was contracted to provide services to grants within the GEAR UP program amounting to \$7,950.

**Criteria**

OMB Circular A-21, *Cost Principles for Educational Institutions* and Title 2 U.S. CFR Part 220 – *Cost Principles for Educational Institutions (OMB Circular A-21)*, allow for the incurrence of “costs of professional and consultant services rendered by persons who are members of a particular profession or possess a special skill, and who are not officers or employees of the institution.”

Also, Section A8.230, *Contracting for Services*, of the University’s Administrative Procedures, states “Programs requiring specialized skills, knowledge, resources and/or experience which cannot be provided by existing staff may obtain such services on a contractual basis from providers outside the University. Under no circumstances should a services contract be used to circumvent University employment procedures or to perform a job that could be accomplished by available personnel within the University.”

**Effect**

Failure by the University’s project personnel to adhere to the allowable cost principles of OMB Circular A-21 and Title 2 U.S. CFR Part 220 exposes the University to an undue risk of misuse of federal funds which may ultimately jeopardize the University’s eligibility to receive federal funds in the future.

Also regarding non-federally funded projects, failure by the University’s project personnel to adhere to the University’s procurement policies and procedures exposes the University to an undue risk of misuse of their general funds.

**University of Hawai'i  
State of Hawai'i  
Schedule of Findings and Questioned Costs  
Title III Higher Education Institutional Aid –  
Gaining Early Awareness and Readiness for Undergraduate Programs  
Year Ended June 30, 2016**

---

**Repeat Finding**

This is not a repeat finding.

**Recommendation**

We recommend that prior to executing a contract for services with a consultant or subcontractor, the University's project personnel ensure that the consultant or subcontractor is not an employee of the University. We also recommend that RCUH and the University review existing consultant or subcontractor agreements to ensure that additional service agreements with University employees do not exist and that RCUH and the University work together to develop policies and procedures to ensure that similar incidents do not occur in the future.

**Views of Responsible Officials and Planned Corrective Actions**

Refer to Section 5 – Corrective Action Plan (Unaudited) for the University's response to the identified instances of noncompliance.

**University of Hawai'i  
 State of Hawai'i  
 Schedule of Findings and Questioned Costs  
 Research and Development Cluster  
 Office of Research Services  
 Year Ended June 30, 2016**

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**Questioned  
 Costs**

**\$ -**

**Finding No. 2016-003:** Subrecipient Monitoring – Significant Deficiency

**Federal Agency:** National Science Foundation  
 Department of Justice  
 Department of Health & Human Services

**CFDA Number and Title:** 47.049 – Mathematical and Physical Sciences  
 16.730 – Reduction and Prevention of Children’s Exposure to Violence  
 93.632 – University Centers for Excellence in Developmental Disabilities  
 Education, Research and Service

**Finding and Cause**

During our audit, we noted instances in which the University’s Office of Research Services (“ORS”) department did not perform during-the-award monitoring procedures over the following subrecipients in a timely manner as follows:

- Expenditures incurred during the review period from July 1, 2015 through December 31, 2015; documented during-the-award monitoring procedures were not completed until August 11, 2016.
- Expenditures incurred during the review period from January 1, 2016 through March 31, 2016; documented during-the-award monitoring procedures were not completed until October 12, 2016.
- Expenditures incurred during the review period from October 1, 2015 through March 31, 2016; documented during-the-award monitoring procedures were not completed until August 11, 2016.

**Criteria**

Title 2 U.S. CFR Part 200 – *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, requires a pass-through entity to perform during-the-award monitoring of a subrecipient’s use of Federal awards through reporting, site visits, regular contact or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations and the provisions of contracts or grant agreements, and that performance goals are achieved.

To fulfil the requirements of Title 2 U.S. CFR Part 200, twice a year, Compliance Specialists within the ORS are assigned to perform during-the-award monitoring procedures over selected subrecipients with the expectation that such procedures are completed within the fiscal year.

**University of Hawai'i  
State of Hawai'i  
Schedule of Findings and Questioned Costs  
Research and Development Cluster  
Office of Research Services  
Year Ended June 30, 2016**

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**Effect**

Failure by ORS personnel to perform during-the-award subrecipient monitoring procedures in a timely manner exposes the University to an undue risk of noncompliance with Title 2 U.S. CFR Part 200.

**Repeat Finding**

This is not a repeat finding.

**Recommendation**

We recommend that ORS ensure that during-the-award subrecipient monitoring procedures are performed in a timely manner.

**Views of Responsible Officials and Planned Corrective Actions**

Refer to Section 5 – Corrective Action Plan (Unaudited) for the University's response to the identified instances of noncompliance.

**University of Hawai'i  
State of Hawai'i  
Schedule of Findings and Questioned Costs  
Student Financial Assistance Cluster  
University of Hawai'i at Mānoa  
Year Ended June 30, 2016**

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**Questioned  
Costs**

**\$ -**

**Finding No. 2016-004:** Federal Direct Loan 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 that for one out of twenty students tested, the institution failed to update student enrollment status in the National Student Loan Data System (“NSLDS”) within a timely manner. The finding occurred as a result of a change in enrollment requirements for graduate assistants. The institution reviewed its population of graduate assistants receiving Federal Direct Loans who had incorrect enrollment status and updated 43 records upon identification during our audit.

**Criteria**

Title 34, Section 685.309 (b)(2) of the CFR states that unless it expects to submit its next updated enrollment report to the Secretary within the next 60 days, a school must notify the Secretary within 30 days after the date the school discovers that a loan under Title IV of the Act was made to or on behalf of a student who was enrolled on at least a half-time basis or failed to enroll on at least a half-time basis for the period which the loan was intended.

**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 (“HEA”).

**Repeat Finding**

This is not a repeat finding.

**Recommendation**

We recommend that the institution update NSLDS in a timely manner and assess the impact to compliance requirements when making changes to institutional requirements.

**Views of Responsible Officials and Planned Corrective Actions**

Refer to Section 5 – Corrective Action Plan (Unaudited) for the University’s response to the identified instance of noncompliance.

**University of Hawai'i  
 State of Hawai'i  
 Schedule of Findings and Questioned Costs  
 Student Financial Assistance Cluster  
 University of Hawai'i West O'ahu  
 Year Ended June 30, 2016**

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**Questioned  
 Costs**

\$500

**Finding No. 2016-005:** Financial Aid Administration – Significant Deficiency

**Federal Agency:** U.S. Department of Education

**CFDA Number and Title:** 84.268 – Federal Direct Student Loans  
 84.007 – Federal Supplemental Educational Opportunity Grants

**Finding and Cause**

Due to turnover in critical positions within the financial aid office, we noted the following instances of noncompliance:

- The institution did not budget the correct tuition, student fees, and books and supplies for its cost of attendance (“COA”) in line with published information that’s made available to students.
- The institution was not able to evidence that they were transmitting and reconciling borrower data on a monthly basis.
- The institution did not perform calculations for unofficial withdrawals of the fall semester in a timely manner.
- For 1 out of 10 students tested, the student was awarded \$1,587 greater than its estimated financial need, of which \$500 was Title IV aid.

**Criteria**

Title 34, Section 668.43(a)(1) of the CFR requires the cost of attending the institution be made readily available to enrolled and prospective students.

Title 34, Section 685.30(b)(5) of the CFR requires the institution to reconcile institution records with Direct Loan funds received from the Secretary and Direct Loan disbursement records submitted to and accepted by the Secretary on a monthly basis.

Title 34, Section 668.22(j)(2) of the CFR requires the institution that is not required to take attendance must determine the withdrawal date for a student who withdraws without providing notification to the institution no later than 30 days after the end of the earlier of 1) the payment period or period of enrollment, as applicable; 2) the academic year; or 3) the program.

Title 34, Section 673.5(a)(1) of the CFR states that an institution may only award or disburse a Federal Perkins loan or an FSEOG to a student if that loan or the FSEOG, combined with the other estimated financial assistance the student receives, does not exceed the student's financial need.

**University of Hawai'i  
State of Hawai'i  
Schedule of Findings and Questioned Costs  
Student Financial Assistance Cluster  
University of Hawai'i West O'ahu  
Year Ended June 30, 2016**

---

**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 ("HEA").

In addition, the lack of a monthly reconciliation could result in discrepancies between Federal Direct Loan awarded and what was actually disbursed. As performing a monthly reconciliation is a requirement by the Federal agency, the unavailable support could lead to fees or penalties incurred by the institution.

**Repeat Finding**

This is a repeat of prior audit finding 2015-04.

**Recommendation**

We recommend that the institution:

- Ensure that controls are in place over the COA budget and that someone reviews the COA budget inputted into the Banner system and ensures that it agrees to the General Catalog provided to enrolled and prospective students.
- The institution should reconcile borrower information on a monthly basis and retain records to ensure compliance with Federal requirements.
- Ensure that unofficial withdrawals are timely determined so that return of Title IV fund calculations can be timely completed.
- Ensure that financial assistance does not exceed need before financial assistance is awarded and disbursed to the student.

We further recommend that personnel in the department be cross trained to perform other functions in the event of turnover or extended leaves of absence.

**Views of Responsible Officials and Planned Corrective Actions**

Refer to Section 5 – Corrective Action Plan (Unaudited) for the University's response to the identified instances of noncompliance.

**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, 2016**

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**Questioned  
Costs**

**\$982**

**Finding No. 2016-006:** Financial Aid Administration – Control Deficiency  
**Federal Agency:** U.S. Department of Education  
**CFDA Number and Title:** 84.063 – Federal Pell Grant  
84.263 – Federal Direct Loans

**Finding and Cause**

During our audit, we noted the following instances of noncompliance:

- For 2 out of 15 students tested, the institution incorrectly prepared the return of Title IV calculation, resulting in an underpayment of \$19 to the Title IV program. The institution reviewed all calculations and determined that an additional eight return of Title IV calculations were incorrectly prepared, three of which resulted in an underpayment of the amount that was required to be returned of \$982.
- For 2 out of 15 students tested, the institution failed to update student enrollment status in the NSLDS within a timely manner.

**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.

**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 HEA.

**Repeat Finding**

This is not a repeat finding.

**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, 2016**

---

**Recommendation**

We recommend that the institution:

- Ensure that the correct information is used to prepare the return of Title IV calculation and that someone review the calculation prepared.
- Provide the National Student Clearinghouse with its enrollment report timely so that it can update NSLDS within the 60 day requirement.

**Views of Responsible Officials and Planned Corrective Actions**

Refer to Section 5 – Corrective Action Plan (Unaudited) for the University's response to the identified instances of noncompliance.

## **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, 2016**

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<b>Finding No.</b>	<b>Description</b>	<b>Classification</b>	<b>Status</b>		<b>Current Year Finding No.</b>
			<b>Resolved</b>	<b>Unresolved</b>	
2015-01	Return of Title IV Funds	Control deficiency ("CD")	X		
2015-02	Federal Direct Student Loans Exit Interview	CD	X		
2015-03	Federal Direct Student Loans Exit Interview	CD	X		
2015-04	Financial Aid Administration	CD		X	2016-005
2015-05	Return of Title IV Funds	CD	X		
2015-06	Federal Direct Student Loans Exit Interview	CD	X		
2015-07	Financial Aid Administration	CD	X		

**SECTION 5**  
**CORRECTIVE ACTION PLAN (UNAUDITED)**



UNIVERSITY *of* HAWAI'I®  

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SYSTEM

**INSTITUTIONAL CORRECTIVE ACTION RESPONSES FOR  
THE SINGLE AUDIT REPORT FINDINGS AND QUESTIONED COSTS**

**FISCAL YEAR ENDED JUNE 30, 2016**

**Corrective Action Plan Related to the Schedule of Findings and Questioned Costs  
Title VII Native Hawaiian Education  
Year Ended June 30, 2016**

**Finding No. 2016-001:**                    **Approval of Payroll Expenditures – Significant Deficiency**

**Federal Agency:**                    U.S. Department of Education

**CFDA Number and Title:**        84.362 – Title VII Native Hawaiian Education

**Questioned Costs:**                \$29,167

**Responsible Individual:**        Nelson Sakamoto, Director of Human Resources, Research Corporation of the University of Hawai'i

**Date Action Taken:**                Immediately

The Corrective Action Plan will include a memo to the University of Hawai'i (the "University") Principal Investigator (PI) to inform her of this audit finding and to require her to provide a written assurance that she will ensure her certification/counter-signature on any personnel/payroll action that were prepared by a Research Corporation of the University of Hawai'i (RCUH) employee. For this audit finding, the RCUH will take additional corrective actions which include modifications to our applicable policies/procedures, forms, an improved oversight process, and training:

- (a) **Revise Payroll Policy:** Revised Policy No. 3810 RCUH Time Reporting to include clear and unambiguous wording that prohibits an RCUH employee from preparing and submitting his/her own time report.
  
- (b) **Revise Delegation of Signature Authority:** RCUH will revise the RCUH Human Resources Portal Access & Delegation of Authorization Form and process to include clear and unambiguous wording informing the PI that at no time can an RCUH employee submit any personnel or payroll action for themselves. The process will be revised to include an annual audit of these delegations to ensure they remain accurate. We plan to automate this process and request the University to assist the RCUH by reporting changes in status of University employees that may have been given delegation rights by the PI, or changes in employment status of the PI.
  
- (c) **Enforce oversight requirements of RCUH Payroll staff:** Require the RCUH Payroll Office to require all RCUH employees, who have been delegated authority to submit timesheets for their PI and who are submitting their own timesheet, to obtain their PI's signature to signify his/her certification of the (delegated authority assigned) RCUH employee's time report. Failure to submit a PI's certification will result in the RCUH employee not getting paid on time and possibly additional corrective actions.
  
- (d) **Prohibit RCUH employee from submitting online timesheet for themselves:** Modify RCUH Online Timesheet to deny an RCUH employee's ability to submit his/her own timesheet without a PI counter-certification.

**Corrective Action Plan Related to the Schedule of Findings and Questioned Costs  
Title VII Native Hawaiian Education  
Year Ended June 30, 2016**

**Finding No. 2016-001:                    Approval of Payroll Expenditures – Significant Deficiency (Continued)**

- (e) Notification to PIs: We will send out notifications to all PIs of this audit finding and remind all PIs of their responsibilities for time certifications and counter-signing all timesheets whenever an RCUH employee is authorized by delegation to submit his/her own timesheet.
  
- (f) In-Person and online training: Conduct training upon completion of these revisions in policies, procedures, and forms. All current individuals who possess a delegation from their PI will be required to attend this training or lose their delegation. Produce a web-based training and require any new PI or his/her delegated designee to attend as part of the Delegation of Authorization process.

All of these corrective actions are underway. Memos and notices will be sent out within the next 5-10 working days. The remainder will be completed by the end of January 2017.

**Responsible Individual:**                    Cindy Yamamoto, Fiscal Administrator, University of Hawai'i Maui College

**Date Action Taken:**                        November 16, 2016

The current University of Hawai'i Maui College (UH Maui College) PI on record has been notified that timesheets must be approved and maintained as documentation.

**Corrective Action Plan Related to the Schedule of Findings and Questioned Costs  
Title III – Higher Education Institutional Aid  
Gaining Early Awareness and Readiness for Undergraduate Programs  
Year Ended June 30, 2016**

**Finding No. 2016-002:** Improper Consultant Expenditures – Significant Deficiency

**Federal Agency:** U.S. Department of Education

**CFDA Number and Title:** 84.031 – Title III Higher Education – Institutional Aid  
84.334 – GEAR UP

**Questioned Costs:** \$59,950

**Responsible Individuals:** Cindy Yamamoto, Fiscal Administrator, UH Maui College  
Jonathan McKee, Principal Investigator, UH Maui College  
Benjamin Guerrero, Project Director, UH Maui College

**Program:** Title III Higher Education – Institutional Aid

**Date Action Taken:** November 16, 2016

Prior to executing a contract for services with a consultant or subcontractor that has any relationship with the University, it will be thoroughly screened. The November 2016 Office of Research Services (ORS) Newsletter included an article entitled “Professional Service Costs (2 CFR 200.459)” explaining that while costs of professional and consultant services are an allowable charge, such persons cannot be officers or employees of the University. This newsletter issue was distributed to the UH Maui College. There are no current contracts with UH Maui College employees.

**Responsible Individual:** Sharon Nakagawa, Fiscal Administrator, Windward Community College

**Program:** Non-federally funded

**Date Action Taken:** November 17, 2016

In the future, if RCUH determines that there was no “employment relationship” and the Employee/Independent Contractor (EIC) request indicates that the individual is a current University/RCUH employee, the Fiscal Administrator (FA) will request additional information from the program to ensure there is no conflict in their University/RCUH employment and the service contract.

The FA has informed the PI that per AP 8.230, paragraph 1, “Programs requiring specialized skills, knowledge, resources and/or experience which cannot be provided by existing staff may obtain such services on a contractual basis from providers outside the University. Under no circumstances should a services contract be used to circumvent University employment procedures or to perform a job that could be accomplished by available personnel within the University.”

**Corrective Action Plan Related to the Schedule of Findings and Questioned Costs  
Title III – Higher Education Institutional Aid  
Gaining Early Awareness and Readiness for Undergraduate Programs  
Year Ended June 30, 2016**

**Finding No. 2016-002:**                    **Improper Consultant Expenditures – Significant Deficiency (Continued)**

**Responsible Individual:**            Richard Okubo, Institutional Support, Student Equity Excellence  
Diversity

**Program:**                                GEAR UP

**Date Action Taken:**                November 15, 2016

The program office has been informed that prior to execution, all contracts for services with a consultant or subcontractor must clear an Employee-Independent Contractor (EIC) review. The result of this review must be submitted to the business office by the program office prior to the submission of any purchase order that includes a contract for services. Pls have been informed that University employees cannot be hired as consultants.

**Responsible Individual:**            Gary Kawachi, Fiscal Administrator, Office of Student Affairs

**Program:**                                GEAR UP

**Date Action Taken:**                November 15, 2016

More stringent checks to determine independent contractor status will be implemented to ensure that reoccurrence of this type of transaction in the future can be avoided.

**Responsible Individual:**            Dawn Kim, Compliance Manager, Office of Research Services

**Date Action Taken:**                November 10, 2016

In addition to the ORS Newsletter article referenced above, ORS and RCUH are reviewing transactions to ensure that additional service agreements with University employees do not exist. Furthermore, the University and RCUH have agreed to work together to review and update current policies and procedures to ensure that similar incidents do not occur in the future. According to the U.S. Department of Education (DOE) regulations §75.516, consulting fees to employees are allowable in unusual circumstances. ORS will be working with the DOE to determine whether these particular payments meet this criteria.

**Corrective Action Plan Related to the Schedule of Findings and Questioned Costs  
Research and Development Cluster  
Office of Research Services  
Year Ended June 30, 2016**

**Finding No. 2016-003:**                    **Subrecipient Monitoring – Significant Deficiency**

**Federal Agency:**                    National Science Foundation  
Department of Justice  
Department of Health & Human Services

**CFDA Number and Title:**        47.049 - Mathematical and Physical Sciences  
16.730 - Reduction and Prevention of Children’s Exposure to Violence  
93.632 - University Centers for Excellence in Developmental  
Disabilities Education, Research and Service

**Responsible Individual:**        Dawn Kim, Compliance Manager, Office of Research Services

**Date Action Taken:**                Immediately

The ORS Compliance Specialists have been reminded to schedule during-the-award monitoring meetings as soon as assigned in order to complete them in a timely manner. If situations arise where the PI or project personnel are unavailable for a review, follow up actions will be performed and documented. During-the-award monitoring is part of the ORS Compliance Specialists’ job expectations and are incorporated into their performance evaluations.

**Corrective Action Plan Related to the Schedule of Findings and Questioned Costs  
Student Financial Assistance Cluster  
University of Hawai'i at Mānoa  
Year Ended June 30, 2016**

**Finding No. 2016-004:**                    **Federal Direct Loan Enrollment Reporting – Control Deficiency**

**Federal Agency:**                    U.S. Department of Education

**CFDA Number and Title:**        84.268 - Federal Direct Student Loans

**Responsible Individual:**        Jodie Kuba, Financial Aid Services Director, University of Hawai'i at Mānoa

**Date Action Taken:**                October 12, 2016

The process to determine the enrollment status of students who are or were previously classified as Graduate Assistants (GA) has been updated by the Office of the Registrar to reflect the application of the following parameters when reporting enrollment:

1. Students currently identified as a GA must have a minimum of six credits to be reported as full time.
2. A check to verify that the student is still classified as a GA has been implemented.
3. Students who are no longer classified as a GA must be enrolled for a minimum of eight credits in order to be reported as full time.
4. Students who are no longer classified as a GA with at least six credits but, less than eight credits are reported as three quarter time.
5. Enrollment status for reporting of graduate students with less than six credits are applied regardless of the students status as a GA.

**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, 2016**

**Finding No. 2016-005:**                    **Financial Aid Administration – Significant Deficiency**

**Federal Agency:**                    U.S. Department of Education

**CFDA Number and Title:**            84.268 – Federal Direct Student Loans  
    84.007 – Federal Supplemental Education Opportunity Grants

**Questioned Costs:**                    \$500

**Responsible Individual:**            Christina Padilla, Financial Aid Director, University of Hawai'i West O'ahu

**Date Action to be Taken:**            October 1, 2016

The University of Hawai'i West O'ahu (UHWO) Financial Aid Office experienced a transition which included the loss of all three of their employees over a nine month period from October 2015 to May 2016. The former director, Lester Ishimoto, retired on October 1, 2015. The financial aid specialist, Jami Kurtz, advanced to a new position with the University system office in November 2015, and the senior financial aid officer, Helen Longao, got a new position with the University John A. Burns School of Medicine in May 2016. As can be expected, the loss of all three seasoned employees in such a short time period proved to be a challenge for UHWO.

With continued commitment to meet student needs, UHWO maintained operations and continued to process financial aid in a timely manner to ensure that all eligible students were able to attend with as minimal disruption as possible. Upon the retirement of the former director, Hettie Scofield (a former senior University financial aid officer) was immediately hired to provide leadership and direction on a half-time basis while UHWO conducted a search for a permanent director. The search was prolonged longer than anticipated since there was significant turnover and movement of financial aid officers within the state of Hawai'i. UHWO expanded the search nationally after experiencing little success in attracting an experienced administrator within the state. UHWO also hired another former University financial aid officer, Lynette Egusa, to help meet the demands of the office on a part-time basis while the search was extended nationally. Both Hettie Scofield and Lynette Egusa worked for UHWO through remote access, Skype, phone and email.

Due to UHWO not being able to fill all three positions in a timely manner, the 2015-16 aid year was completed with temporary part-time employees who were helping the remaining enrollment staff from remote locations.

Currently, the situation has been rectified and the 2016-17 aid year is well underway with new staff and the improvement of controls to ensure oversight in the financial aid office. UHWO has now filled all three positions with qualified, seasoned and permanent employees. In recognition of the issues that arose during the 2015-16 aid year due to the turnover of staff, the University has also added an additional position to the office which we are currently advertising and hope to fill by February, 2017.

**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, 2016**

**Finding No. 2016-005:                    Financial Aid Administration – Significant Deficiency (Continued)**

Controls that have been immediately documented and put into process are as follows:

- The cost of attendance budget (COA) has a two-party review process prior to being entered into Banner for use. This will be reviewed by a member of the management/leadership team and approved for execution in Banner.
- The reconciliation report that is run monthly to determine students who have exited UHWO will be saved to ensure that the documentation is retained for future audit purposes.
- Unofficial withdrawals are researched and determined on a monthly basis, in order to process R2T4 calculations in a timely and efficient manner.
- Training for all staff regarding need-based aid will be conducted upon hire and the financial aid office will monitor student accounts with negative unmet need to ensure that aid is re-evaluated and proper steps are taken to ensure compliance with need-based aid regulations.

**Corrective Action Plan Related to the Schedule of Findings and Questioned Costs  
Student Financial Assistance Cluster  
Kaua'i Community College  
Year Ended June 30, 2016**

**Finding No. 2016-006:**                    **Financial Aid Administration – Control Deficiency**

**Federal Agency:**                    U.S. Department of Education

**CFDA Number and Title:**        84.063 - Federal Pell Grant  
84.263 - Federal Direct Loans

**Questioned Costs:**                \$982

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

**Date Action Taken:**                November 28, 2016

When performing R2T4 calculations for students that withdraw prior to census date (add/drop period), additional manual actions must be performed in Banner in order to ensure correct calculations. Amongst these actions, are to update the "offered" and "accepted" award amounts to what the student was eligible for immediately prior to the date of the withdrawal. Updating to the full-time amounts instead result in incorrect calculations. Procedures have been updated to specifically document this process for the instances of performing calculations for students that have withdrawn prior to census date.

**Responsible Individual:**        Kailana Soto, Registrar, Kaua'i Community College

**Date Action Taken:**                November 29, 2016

On June 23, 2016, the Degree Transmission report for Kaua'i Community College (001614-00) was scheduled for transmission to the National Student Clearinghouse. Historically, a Clearinghouse Degree Transmission Reminder is sent via email four days prior to the scheduled transmission date. Timeliness is relied heavily on the reminder; however, the email for the Spring 2016 degree transmission was not received. As a result, the report was transmitted after the due date on July 13, 2016. In order to avoid future occurrences, the Schedule of Future Degree Transmissions to the Clearinghouse will be posted to the Admissions & Records Office's internal calendar.

**SECTION 6**  
**CONSOLIDATED FINANCIAL STATEMENTS**

**University of Hawai'i**  
**State of Hawai'i**  
**Index**  
**June 30, 2016 and 2015**

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## Report of Independent Auditors

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

### Report on the Consolidated 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, 2016 and 2015, 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 13.3 percent and 13.5 percent, respectively, of the total assets and deferred outflows of resources and 0.8 percent and 1.1 percent, respectively, of the total operating revenues of the University as of and for the years ended June 30, 2016 and 2015. 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, 2016 and 2015, 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 consolidated 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, 2016 and 2015, 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.

**Emphasis of Matter**

As discussed in Note 1 to the consolidated financial statements, the University adopted new accounting guidance under Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurements*. Our opinion is not modified with respect to this matter.

**Other Matters***Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules of net pension liability, contributions, and 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 December 15, 2016, 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, 2016. 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

The logo for Accuity LLP is written in a cursive, handwritten-style font. The word "Accuity" is in a larger, more decorative script, and "LLP" is in a simpler, smaller font to its right.

Honolulu, Hawai'i  
December 15, 2016

**University of Hawai'i**  
**State of Hawai'i**  
**Management's Discussion and Analysis (Unaudited)**  
**June 30, 2016 and 2015**

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**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, 2016 and 2015, with selected information for the year ended June 30, 2014. 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. Since then, what began as a college of ten students and 13 faculty members on the island of O'ahu has evolved and expanded to a 10-campus system spanning the main Hawaiian Islands. The University's growth over the years has been in response to the research and cultural needs of its educational community, the State of Hawai'i, and beyond.

The University is a multi-institutional system comprised of a major research university (Mānoa), two baccalaureate campuses (Hilo and West O'ahu), seven community colleges (Hawai'i, Honolulu, Kapiolani, Kauai, Leeward, Maui and Windward) and nine educational centers distributed across the State. The University is the sole public higher education system within the State and, therefore, has a unique competitive position and value in Hawai'i. Furthermore, the University is the only truly integrated higher education system in the country that seamlessly arranges its universities and community colleges into one system. Other public higher education systems in the country are typically separate and distinct systems defined by the type of system (community colleges, junior colleges and universities).

In addition to being an integrated higher education system, the University distinguishes itself through its Hawai'i, 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.

**University of Hawai'i  
State of Hawai'i  
Management's Discussion and Analysis (Unaudited)  
June 30, 2016 and 2015**

**University of Hawai'i Quick Facts**

<b>Students</b>	<b>Academic Year 2016</b>	<b>Academic Year 2015</b>	<b>Academic Year 2014</b>
Undergraduate	50,011	48,494	51,109
Graduate	5,745	8,558	5,943
<b>Total</b>	<b>55,756</b>	<b>57,052</b>	<b>57,052</b>

**Types of Degrees Awarded** **710**

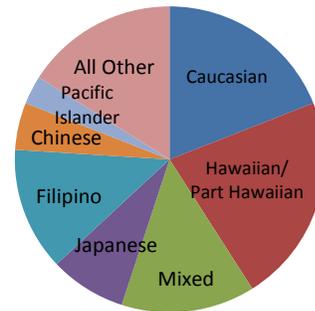
Certificates: Community Colleges	180
Certificates: University	101
Associate degrees	128
Bachelor's degrees	146
Master's degrees	91
Doctoral degrees	59
Professional degrees	5

**Residency**

Hawai'i	85%
Mainland	10%
Foreign	4%
Other	1%

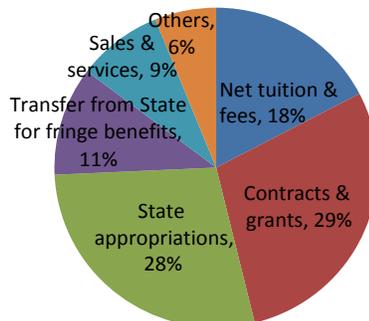
**Student Diversity (full time Students)**

Caucasian	19%
Hawaiian/Part Hawaiian	22%
Mixed	14%
Japanese	8%
Filipino	13%
Chinese	5%
Pacific Islander	3%
All Other	16%



<b>Total Revenues (\$ in thousands)</b>	<b>Fiscal Year 2016</b>	<b>% of Total</b>	<b>Fiscal Year 2015</b>	<b>Fiscal Year 2014</b>
Net tuition and fees	\$ 272,306	17%	\$ 262,660	\$ 248,377
Contracts and grants (including Pell grants)	451,669	29%	456,944	494,321
State appropriations	441,373	28%	413,148	391,266
Transfer from State for fringe benefits	172,248	11%	162,969	153,919
Sales and services	134,787	9%	135,315	130,879
Others	96,249	6%	244,066	292,413
<b>Total</b>	<b>\$ 1,568,632</b>	<b>100%</b>	<b>\$ 1,675,102</b>	<b>\$ 1,711,175</b>

**Fiscal Year 2016 Total Revenue**



**University of Hawai'i**  
**State of Hawai'i**  
**Management's Discussion and Analysis (Unaudited)**  
**June 30, 2016 and 2015**

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**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. In accordance with GASB requirements, certain significant revenues budgeted for fundamental operational support of the core instructional mission of the University must be recorded as nonoperating revenue, including state educational appropriations, private gifts, and investment income. Consequently, the Consolidated Statements of Revenues, Expenses and Changes in Net Position distinguish operating from nonoperating revenues and expenses. It is anticipated that the University will consistently report an operating loss since certain significant revenue sources relied upon for core operational needs are considered nonoperating revenue.
- **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, 2016 and 2015 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, 2016 and 2015**

**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, 2016, 2015 and 2014 are summarized as follows (in thousands of dollars):

	2016	Percentage of Total Assets and Deferred Outflows	2015	Percentage of Total Assets and Deferred Outflows	2014	Percentage of Total Assets and Deferred Outflows	FY 16 vs 15 Change	FY 15 vs 14 Change
<b>Current assets</b>								
Cash and operating investments	\$ 401,881	11%	\$ 375,052	10%	\$ 342,353	10%	\$ 26,829	\$ 32,699
Receivables, net	104,838	3%	104,711	3%	108,463	3%	127	(3,752)
Other current assets	21,712	1%	24,681	1%	23,597	1%	(2,969)	1,084
Total current assets	528,431	15%	504,444	14%	474,413	14%	23,987	30,031
<b>Noncurrent assets</b>								
Endowment and other investments	475,040	13%	477,243	13%	499,460	14%	(2,203)	(22,217)
Capital assets, net	2,053,385	57%	2,068,691	57%	2,071,850	60%	(15,306)	(3,159)
Other noncurrent assets	388,709	10%	466,840	13%	418,903	12%	(78,131)	47,937
Total assets	3,445,565	95%	3,517,218	96%	3,464,626	100%	(71,653)	52,592
<b>Deferred outflows of resources</b>								
Deferred loss on refunding	11,383	0%	5,251	0%	5,576	0%	6,132	(325)
Deferred outflows on net pension liability	163,699	5%	134,848	4%	-	0%	28,851	134,848
Total deferred outflows of resources	175,082	5%	140,099	4%	5,576	0%	34,983	134,523
Total assets and deferred outflows of resources	\$ 3,620,647	100%	\$ 3,657,317	100%	\$ 3,470,202	100%	\$ (36,670)	\$ 187,115
<b>Current liabilities</b>	\$ 266,951	7%	\$ 270,047	7%	\$ 263,583	8%	\$ (3,096)	\$ 6,464
<b>Noncurrent liabilities</b>								
Long-term debt	543,680	15%	561,470	16%	578,585	17%	(17,790)	(17,115)
Net pension liability	1,144,564	32%	1,089,882	30%	-	0%	54,682	1,089,882
Other noncurrent liabilities	828,653	24%	742,335	20%	666,508	18%	86,318	75,827
Total liabilities	2,783,848	78%	2,663,734	73%	1,508,676	43%	120,114	1,155,058
<b>Deferred inflows of resources</b>								
Deferred inflows on net pension liability	111,364	3%	151,162	4%	-	0%	(39,798)	151,162
Total deferred inflows of resources	111,364	3%	151,162	4%	-	0%	(39,798)	151,162
<b>Net position</b>								
Net investment in capital assets	1,504,935	42%	1,503,902	41%	1,519,669	44%	1,033	(15,767)
Restricted								
Nonexpendable	244,396	6%	235,894	6%	218,133	6%	8,502	17,761
Expendable	561,093	15%	644,743	18%	598,070	17%	(83,650)	46,673
Unrestricted	(1,584,989)	-44%	(1,542,118)	-42%	(374,346)	-10%	(42,871)	(1,167,772)
Total net position	725,435	19%	842,421	23%	1,961,526	57%	(116,986)	(1,119,105)
Total liabilities, deferred inflows of resources and net position	\$ 3,620,647	100%	\$ 3,657,317	100%	\$ 3,470,202	100%	\$ (36,670)	\$ 187,115

**Implementation of GASB Statements No. 68 and 71**

During fiscal year 2015, University of Hawai'i implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*.

The adoption of Statements No. 68 and 71 has significant impact on the University's financial statements, which requires us to report expenditures and liabilities in the amount statutorily required. Readers of the fiscal year 2015 financial statements should notice that the University's balance sheet showed significant financial impact by the inclusion of the University's proportionate share of the net pension liability for the Employees' Retirement System of the State of Hawai'i ("ERS") plan. The adoption resulted in the restatement of the University's fiscal year 2014 net position. Accordingly, the University's net position as of July 1, 2014 has been restated to \$849 million from \$1.962 billion, which reflects the retrospective effect of adoption for net pension liability of \$1.113 billion. Retroactive implementation of GASB Statement No. 68 was not deemed practical due to the cost and timing required to obtain and analyze

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the activity covering fiscal year 2014. As such, the University's fiscal year 2014 financial statements are presented in accordance with GASB Statement No. 27.

As of June 30, 2016, the net pension liability increased by \$54.7 million to \$1.144 billion from \$1.090 billion in fiscal year 2015, primarily due to the additional pension expense, the difference between expected and actual experience with economic and demographic factors, effect of changes in assumptions, and the difference between actual and projected earnings on plan investments. Refer to Note 14 for more information regarding the University's pension.

**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.

The University recorded an increase in working capital the last three fiscal years, which resulted mainly from the implementation of the new financial management policy. In November 2013, the University adopted a financial reserve policy to establish system-wide operating reserves from non-general fund revenue in amounts sufficient to provide continued operations for at least two months with a minimum of five percent unencumbered cash from all tuition and fee funds, special funds, and revolving funds. At June 30, 2016, 2015 and 2014, working capital amounted to \$261.5 million, \$234.4 million and \$210.8 million, respectively. The University is committed to maintaining a prudent level of working capital to fund operations, including pre-funding approximately \$390.2 million in extramural grants which were mostly paid on a cost reimbursement basis. Based on the \$1.536 billion of operating expenses (excluding depreciation) for the year ended June 30, 2016, the working capital at year end represents approximately 59 days of operating funds, as compared to 53 and 55 days of operating funds in 2015 and 2014, respectively.

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 \$528.4 million, \$504.4 million and \$474.4 million at June 30, 2016, 2015 and 2014, respectively. Total current assets increased by \$24.0 million, or 4.8 percent, at June 30, 2016, primarily due to a \$26.8 million increase in cash and operating investments. The increase was made up of the \$12.0 million cash balance increase from tuition and fees, the receipt of \$3.6 million from revolving funds, the proceeds of \$8.5 million from the 2015 revenue bond issuance, offset by the repayment of a \$6.0 million advance to the State of Hawai'i for the Snug Harbor project. Total current assets increased by \$30.0 million, or 6.3 percent, at June 30, 2015, mainly due to a \$32.7 million increase in cash and operating investments for similar reasons as in fiscal year 2016. The increase primarily resulted from the implementation of the financial reserve policy. The cash balance from tuition and fees increased by \$20 million in fiscal year 2015, in addition to the \$6 million advance from the State of Hawai'i for the Snug Harbor project that was not spent as of June 30, 2015.

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- Current liabilities consist primarily of accounts payable, accrued payroll and fringe benefits, advances from sponsor and unearned 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 \$267.0 million, \$270.0 million and \$263.6 million at June 30, 2016, 2015 and 2014, respectively. Total current liabilities decreased by \$3.1 million, or 1.1 percent, at June 30, 2016, primarily due to the decrease in accounts payable of \$5.1 million due to decreases in construction in progress expenditures accrued for coupled with a \$6.0 million repayment to the State of Hawai'i for the Snug Harbor project. The aggregated decrease is offset by an increase in accrued payroll of \$7.4 million in negotiated bonus payments paid in fiscal year 2017. Total current liabilities increased by \$6.5 million, or 2.5 percent, at June 30, 2015, primarily due to the increase from the State of Hawai'i for the Snug Harbor \$6.0 million project advance.

**Endowment and Other Investments**

The University's endowment and other investments, including endowments held with the Foundation, decreased by \$2.2 million, or 0.5 percent, to \$475.0 million at June 30, 2016 as a result of market value decline. The June 30, 2015 decrease of \$22.2 million, or 4.4 percent, was primarily due to a \$20.0 million reimbursement of preconstruction costs associated with a new facility for the Cancer Research Center, which was put into service in a prior fiscal year. Realized and unrealized losses in fiscal year 2016 totaled \$6.1 million, versus \$0.1 million realized and unrealized gains in fiscal year 2015. A summarized comparison of the University investments as of June 30, 2016, as follows (in thousands of dollars):

	<b>2016</b>	<b>2015</b>	<b>2014</b>
University of Hawai'i	\$ 103.8	\$ 104.0	\$ 133.7
Foundation	<u>371.2</u>	<u>373.2</u>	<u>365.8</u>
Total	<u>\$ 475.0</u>	<u>\$ 477.2</u>	<u>\$ 499.5</u>

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.

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.

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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 2016, 2015 and 2014, 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 \$2.6 million, \$2.5 million and \$2.4 million in fiscal years 2016, 2015 and 2014, respectively.

#### 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, 2016, 2015 and 2014, total capital assets, net of accumulated depreciation, remained constant to \$2.1 billion, which represented approximately 60 percent of the University's total assets. Capital asset additions totaled \$118.5 million, \$130.7 million and \$186.5 million in fiscal years 2016, 2015 and 2014, respectively, while depreciable capital asset disposals, net of accumulated depreciation, amounted to \$8.8 million, \$12.5 million and \$32.3 million, respectively.

The decreases of the additions in fiscal years 2016 and 2015 were due to the completion of many strategic capital projects in prior years. The decrease of the disposal in fiscal year 2015 was due to one-time large transfer of \$5.3 million assets to the Federal government.

#### Capital Projects

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 2016 and 2015 or in progress as of June 30, 2016 and 2015 included:

- **William S. Richardson School of Law Clinical Building** – The \$7 million William S. Richardson School of Law Clinical Building will break ground on September 30, 2016. The new building will increase teaching and conference space to train law students who serve the community.
- **Culinary Institute of the Pacific** – The \$25 million Phase I portion of the Culinary Institute of the Pacific broke ground on September 8, 2015. Phase I includes the infrastructure for the entire project, a parking lot, two single-story laboratory buildings, and an outdoor cooking area. Phase II will include the auditorium, administration building, classrooms, laboratories, and a restaurant.
- **Daniel K Inouye College of Pharmacy** – The \$33 million Daniel K Inouye College of Pharmacy broke ground in December of 2014. The 35,000 square foot instructional and research facility will be the permanent home of the Daniel K Inouye College of Pharmacy.
- **Community College Energy Conservation Project** – The \$38 million Leeward, Windward, Honolulu, and Kapiolani Community Colleges portion of the energy conservation project was completed on September 11, 2015. The project will reduce the consumption of electricity, water, wastewater and Syngas as well as create a curriculum based on conservation for each campus. The \$10 million University of Hawai'i Maui College project is scheduled to be completed in fiscal year 2017. The community colleges are leading the way to reach the University of Hawai'i's goal of net-zero energy by 2035.

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- **Hawai'i Community College Pāalamanui Campus** – The newest University of Hawai'i campus, the \$27.8 million Hawai'i Community College Pāalamanui opened on August 24, 2015. The community of Pāalamanui, "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 Pāalamanui Campus. The first phase includes five single-story buildings with kitchens, classrooms, laboratories, computer lab and a library.
- **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.
- **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.
- **University of Hawai'i at Mānoa Elevator Modernization Project** – The University of Hawai'i at Mānoa has been working hard to update the elevators in many of the aging buildings. The \$7.5 million Phase I, which included seven buildings, was completed in FY 2014. The \$11.5 million Phase II, which included eleven buildings, was completed in fiscal year 2016. Phase III and Phase IV are scheduled to be completed in fiscal years 2017 and 2018, respectively.

#### Financing

The University uses a variety of sources, including federal and state support, revenue bonds, bank loans, gifts, and other expendable resources to finance capital projects.

- **General obligation bonds** – The State of Hawai'i continues to provide strong support to the University and issued general obligation bonds to help finance certain University projects. These bonds are carried as liabilities of the State. In fiscal years 2016, 2015 and 2014, 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 years 2016, 2015 and 2014, \$106.8 million, \$106.1 million and \$101.0 million, respectively, were appropriated.
- **Revenue bonds** – The University also issued revenue bonds to finance capital projects. These bonds are carried as liabilities of the University. Total revenue bonds liabilities were \$562.6 million, \$578.6 million and \$593.9 million for fiscal years 2016, 2015 and 2014, respectively. The University revenue bonds were assigned municipal bond ratings of "A+," "Aa2" and "AA" by Standard & Poor's, Moody's Investors Service and Fitch Ratings, respectively. The University has appropriated funds, by statute, from the State of Hawai'i Tobacco Settlement Special Fund for the payment of principal and interest on revenue bonds to finance the cost of construction of the medical school facility and for annual operating expenses incurred by the facility. The University received State of Hawai'i Tobacco Settlement funds in the amount of \$9.5 million, \$9.9 million and \$9.9 million in fiscal years 2016, 2015 and 2014, respectively, to cover debt service for the bonds that financed the medical school facility. Refer to Note 11 for more information regarding the University revenue bonds.

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- **Loan agreement** – On May 4, 2012, the University entered into a five-year, unsecured loan agreement (“Note”) with Hawai'i Regional Center LP III (“Lender”) for a commitment amount not to exceed \$18 million, subject to certain limitations. The proceeds were used to facilitate and fund construction of the UH-West O'ahu campus located at Kapolei, Hawai'i. The Note bears interest at the rate of 1.5 percent 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 April 22, 2018, at which time the unpaid principal will be due. As of June 30, 2016, \$17 million remains outstanding.

**Net Position**

Net position represents the residual interest in the University's assets after liabilities are deducted. At June 30, 2016, 2015 and 2014, total net position amounted to \$725.4 million, \$842.4 million and \$2 billion, respectively. Net position is reported in four major categories: net investment in capital assets, restricted nonexpendable, restricted expendable and unrestricted. The University's net position at June 30, 2016, 2015 and 2014 is summarized as follows (in thousands of dollars):

	<b>2016</b>	<b>2015</b>	<b>2014</b>
Net investment in capital assets	\$ 1,504,935	\$ 1,503,902	\$ 1,519,669
Restricted – Nonexpendable	244,396	235,894	218,133
Restricted – Expendable	561,093	644,743	598,070
Unrestricted	<u>(1,584,989)</u>	<u>(1,542,118)</u>	<u>(374,346)</u>
Total net position	<u>\$ 725,435</u>	<u>\$ 842,421</u>	<u>\$ 1,961,526</u>

Net investment in capital assets is the University's capital asset, net of accumulated depreciation and the related outstanding debt used to finance the acquisition, construction or improvement of those assets. The net investment in capital assets increased by \$1 million in fiscal year 2016, primarily due to \$124.9 million of depreciation expense, \$8.8 million in net disposals offset by a \$16.0 million decrease in related debt and \$118.4 million of capital asset additions. In fiscal year 2015, the net investment in capital assets reduced by \$15.8 million from prior year due to \$121.4 million of depreciation expense, \$12.5 million in net disposals, and \$12.6 million decrease in related debt offset by \$130.7 million of capital asset additions.

Restricted nonexpendable net position primarily represents the University's and Foundation's permanent endowment funds, which are required to be maintained in perpetuity and amounted to \$244.4 million, \$235.9 million and \$218.1 million at June 30, 2016, 2015 and 2014, respectively. The increases of \$8.5 million and \$17.8 million in fiscal years 2016 and 2015, respectively, were primarily attributable to new permanent endowment gifts received.

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Restricted expendable net position is subject to externally imposed restrictions governing their use. Net position was restricted for the following purposes at June 30, 2016, 2015 and 2014 (in thousands of dollars):

	<b>2016</b>	<b>2015</b>	<b>2014</b>
Plant facilities	\$ 319,809	\$ 386,742	\$ 327,195
Donor-restricted activities	210,404	224,904	234,200
Loan activities	37,229	24,363	24,173
External sponsor activities	(6,349)	8,734	12,502
	<u>\$ 561,093</u>	<u>\$ 644,743</u>	<u>\$ 598,070</u>

In fiscal year 2016, the overall decrease of \$83.7 million in restricted expendable net position was primarily attributable to the spending of State capital appropriations received in the prior year. In fiscal year 2015, the overall increase of \$46.7 million in restricted expendable net position was attributable to a \$56.8 million increase in State capital appropriations to fund construction for the UH-West O'ahu Administration and Allied Health Facility and the UH-Hilo College of Pharmacy.

Net position that is not subject to externally imposed restrictions governing their use is classified as unrestricted for financial reporting purposes. At June 30, 2016, 2015 and 2014, unrestricted net positions amounted to deficits of \$1.58 billion, \$1.54 billion and \$374.3 million, respectively. Although unrestricted net position is not subject to externally imposed restrictions, all of the University's unrestricted net positions has been internally designated for various academic and research programs and initiatives, contractual commitments, and capital projects. In addition, unrestricted net positions of \$37.6 million, \$45.0 million and \$46.7 million were designated for endowment activities at June 30, 2016, 2015 and 2014, respectively.

In addition to the pension liability restatement from the retrospective adoption of GASB Statements No. 68 and 71, the reduction in unrestricted net positions for the years ended June 30, 2016 and 2015 was caused by the University's required accounting and recognition of the University's allocated share of the State of Hawai'i's actuarially determined total other postemployment 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, unrestricted net position continues to decline, despite the unrestricted net position of the University from operations showed growth. The University's share of the OPEB liability as of June 30, 2016, 2015 and 2014 was \$722.8 million, \$650.8 million and \$579.2 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 made contributions calculated as part of the State's total contribution requirements and were reimbursed to the State's General Fund as part of the fringe benefit rate on University employees' actual salaries.

Below is a table showing the unrestricted net position excluding pension and OPEB liabilities (in thousands of dollars):

	<b>2016</b>	<b>2015</b>	<b>2014</b>
Unrestricted net position	\$ (1,584,989)	\$ (1,542,118)	\$ (374,346)
Pension liability	1,144,564	1,089,882	-
OPEB liability	722,757	650,805	579,196
Adjusted net unrestricted position	<u>\$ 282,332</u>	<u>\$ 198,569</u>	<u>\$ 204,850</u>

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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, 2016, 2015 and 2014 summarized to match revenues supporting core activities with expenses associated with core activities, are as follows (in thousands of dollars):

	2016		2015		2014		Increase (Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	FY 16 vs 15 Change	FY 15 vs 14 Change
<b>Revenues</b>								
<b>Operating</b>								
Tuition and fees	\$ 403,411	30.2%	\$ 392,471	30.0%	\$ 377,550	27.4%	\$ 10,940	\$ 14,921
Less: Scholarship allowances	(131,105)	-9.8%	(129,811)	-9.9%	(129,173)	-9.4%	(1,294)	(638)
Grants and contracts	390,231	29.2%	390,800	29.9%	427,056	30.9%	(569)	(36,256)
Sales and services	134,787	10.1%	135,315	10.3%	130,879	9.5%	(528)	4,436
Other revenue	2,211	0.2%	2,568	0.2%	2,935	0.2%	(357)	(367)
Total operating revenues	799,535	59.9%	791,343	60.5%	809,247	58.6%	8,192	(17,904)
<b>Nonoperating</b>								
State appropriations	441,373	33.0%	413,148	31.6%	391,266	28.3%	28,225	21,882
Federal Pell grant	61,438	4.6%	66,144	5.1%	67,265	4.9%	(4,706)	(1,121)
Net investment income	679	0.1%	4,659	0.4%	51,520	3.7%	(3,980)	(46,861)
Private gifts	32,382	2.4%	32,600	2.5%	61,127	4.4%	(218)	(28,527)
Total nonoperating revenues	535,872	40.1%	516,551	39.5%	571,178	41.4%	19,321	(54,627)
Total revenues supporting core activities	1,335,407	100.0%	1,307,894	100.0%	1,380,425	100.0%	27,513	(72,531)
<b>Expenses</b>								
<b>Operating</b>								
Compensation and benefits	1,113,771	75.2%	1,093,021	73.1%	1,070,419	71.0%	20,750	22,602
Supplies, services and cost of goods sold	202,157	13.6%	205,833	13.8%	238,687	15.8%	(3,676)	(32,854)
Telecom and utilities	64,633	4.4%	72,282	4.8%	79,860	5.3%	(7,649)	(7,578)
Scholarships and fellowships	43,440	2.9%	49,302	3.3%	50,835	3.4%	(5,862)	(1,533)
Other expense	111,615	7.5%	112,076	7.5%	110,597	7.3%	(461)	1,479
Total operating expenses	1,535,616	103.6%	1,532,514	102.4%	1,550,398	102.8%	3,102	(17,884)
<b>Nonoperating (revenues) expenses</b>								
Transfers from State, net	(200,216)	-13.5%	(191,584)	-12.8%	(183,460)	-12.2%	(8,632)	(8,124)
Transfers (from) to Federal – capital assets	(4,081)	-0.3%	5,315	0.4%	4,156	0.3%	(9,396)	1,159
Interest expense	25,064	1.7%	27,523	1.9%	26,690	1.8%	(2,459)	833
Total nonoperating revenues	(179,233)	-12.1%	(158,746)	-10.5%	(152,614)	-10.1%	(20,487)	(6,132)
Expenses associated with core activities before depreciation	1,356,383	-	1,373,768	-	1,397,784	-	(17,385)	(24,016)
Loss from core								
Loss from core activities before depreciation	(20,976)	-	(65,874)	-	(17,359)	-	44,898	(48,515)
Depreciation	124,937	8.5%	121,378	8.2%	109,458	7.3%	3,559	11,920
Expenses associated with core activities including depreciation	1,481,320	100.0%	1,495,146	100.0%	1,507,242	100.0%	(13,826)	(12,096)
Loss from core activities	(145,913)		(187,252)		(126,817)		\$ 41,339	\$ (60,435)
<b>Other nonoperating activity</b>								
Capital gifts and grants	28,122		165,904		146,068			
Permanent endowment	9,254		19,426		9,502			
Other expenses, net	(8,449)		(4,391)		(4,124)			
Other nonoperating income, net	28,927		180,939		151,446			
Increase (decrease) in net position	(116,986)		(6,313)		24,629			
<b>Net position</b>								
Beginning of year	842,421		1,961,526		1,936,897			
Adjustment for change in accounting principle	-		(1,112,792)		-			
Beginning of year, as restated	842,421		848,734		1,936,897			
End of year	\$ 725,435		\$ 842,421		\$ 1,961,526			

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#### Revenues Supporting Core Activities

The University has a diversified stream of revenues to support its operations. No single source generated more than 35 percent of the total 2016 revenue. 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 under-graduate 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, was up by \$9.6 million, or 3.7 percent, to \$272.3 million in fiscal year 2016. The increase in fiscal year 2015 was \$14.3 million, or 5.8 percent, to \$262.7 million. The increases in fiscal years 2016 and 2015 were primarily attributable to the increase in tuition rates between 4 percent and 5 percent among all campuses offset by a decline in enrollment. Scholarship allowances amounted to \$131.1 million, \$129.8 million and \$129.2 million in fiscal years 2016, 2015 and 2014, respectively.

One of the largest sources of revenue (29 percent) was grants and contracts. Total revenues from federal, state and local grants, and contracts and nongovernmental sponsored programs was relatively flat in fiscal year 2016 as compared to 2015. The University like other research institutions across the country continues to weather an extremely challenging funding landscape brought on by the lingering effects of sequestration, uncertainties in agency funding, budget cuts and the realignment of R&D funding priorities. The grants and contracts revenue amounted to \$390.2 million, \$390.8 million and \$427.0 million in fiscal years 2016, 2015 and 2014, respectively.

Sales and services revenues, which are mainly comprised of bookstores, student and faculty housing, food services, parking and athletics, was down by \$0.5 million, or 0.4 percent, to \$134.8 million in fiscal year 2016. The decrease was primarily attributable to the decline in textbook sales, where the University faced increasing competition with online retailers and direct marketing from publishers. Sales and services revenues increased by \$4.4 million, or 3.4 percent, to \$135.3 million in fiscal year 2015 from fiscal year 2014. The increase was primarily attributable to the increase in revolving fund project activity.

General state appropriations increased significantly by \$28.2 million, or 6.8 percent, to \$441.4 million in fiscal year 2016 and by \$21.9 million, or 5.6 percent, to \$413.1 million in fiscal year 2015. The State of Hawai'i continued to provide strong financial support to the University as the sole public higher education system within the State. The additional funding in fiscal year 2016 included \$6.3 million for performance based funding, \$1.2 million for Title IX compliance support, \$19.3 million for salary increase negotiated by the collective bargaining agreements, and \$1.4 million for other mission critical programs. The increase in fiscal year 2015 was mainly attributable to an increase in legislative appropriations to pay for in faculty union contracts, and to address the need for increased administrative support at the UH-West O'ahu campus due to increased enrollment.

The University's net investment income for fiscal year 2016, as compared to fiscal year 2015, went down by \$4.0 million, or 85.4 percent. The fiscal year 2016 decrease was mainly due to the decrease in realized gain of \$7.8 million offset by the decrease in unrealized loss and other investment loss of \$1.5 million and \$1.4 million, respectively. The University's net investment income for fiscal year 2015, as compared to fiscal year 2014, also decreased by \$46.8 million, or 91 percent, mainly due to the decrease in realized gain of \$13.6 million and unrealized gain of \$31.1 million, which was in line with the decrease in the market performance in fiscal year 2015.

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The components of net investment income for the years ended June 30, 2016, 2015 and 2014 were as follows (in thousands):

	2016	2015	2014	Increase (Decrease)	
				FY 16 vs 15 Change	FY 15 vs 14 Change
Interest and dividend income	\$ 8,640	\$ 7,974	\$ 7,621	\$ 666	\$ 353
Net realized gains	572	8,336	21,904	(7,764)	(13,568)
Net unrealized gains (losses)	(6,703)	(8,232)	22,826	1,529	(31,058)
Other, net	(1,830)	(3,419)	(831)	1,589	(2,588)
	<u>\$ 679</u>	<u>\$ 4,659</u>	<u>\$ 51,520</u>	<u>\$ (3,980)</u>	<u>\$ (46,861)</u>

Private gifts, most of which are restricted as to use, stayed relatively consistent at \$32.4 million in fiscal year 2016 compared to \$32.6 million in fiscal year 2015. Private gifts decreased by \$28.5 million, or 47 percent, to \$32.6 million in fiscal year 2015 compared to \$61.1 million in fiscal year 2014. The decrease was primarily attributable to a one-time \$40 million donation received in fiscal year 2014 offset by a one-time \$5.7 million donation received in fiscal year 2015.

**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 75.2 percent during fiscal year 2016, 73.1 percent during fiscal year 2015 and 71.0 percent during fiscal year 2014, were related to compensation and benefits.

Compensation and benefits went up by \$21.0 million, or 1.9 percent, to \$1,114 million in fiscal year 2016 as compared to fiscal year 2015 and increased by \$22.6 million, or 2.1 percent, to \$1,093 million in fiscal year 2015 as compared to fiscal year 2014. The fiscal year 2016 increase was attributable to a 4.0 percent pay increase, or \$3.1 million, and one-time pay bonus, or \$7.4 million negotiated by the collective bargaining agreements, and an increase in fringe benefits of \$9.3 million. The increase of OPEB assessment was a result from the enacted Act 268, SLH 2013 during the 2013 legislative session. The Act requires the State and the University to fully fund the Annual Required contribution as determined by an actuary within 30 years. The University recognized \$117.1 million, \$113.0 million and \$106.8 million postretirement health and life insurance benefits in fiscal years 2016, 2015 and 2014, respectively. The increases in postretirement health and life insurance benefits in fiscal years 2016 and 2015 were a result of year-to-year increases in the payroll expense actuarial assumptions.

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 2016, such expenses decreased by \$3.7 million, or 1.8 percent, to \$202.2 million as compared to fiscal year 2015. The fiscal year 2016 decrease was primarily attributable to decreases in purchases of supplies, federal property acquisitions, and other miscellaneous operating costs offset by increases in controlled property acquisitions and cost of goods sold. In fiscal year 2015, such expenses decreased by \$32.9 million, or 13.8 percent, to \$205.8 million as compared to fiscal year 2014. The fiscal year 2015 decrease was primarily attributable to the decrease in sponsored project expenditures due to the sunset of American Recovery and Reinvestment Act of 2009 funds.

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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 decreased by \$4.6 million, or 2.6 percent, to \$174.5 million in fiscal year 2016 as compared to prior year. The decrease was primarily attributable to the number of Pell grants awarded, and the contributing factors were: 1) decreased enrollment and 2) increase in overall household income that stemmed from the effect of the low unemployment rate in Hawai'i that took families out of the Pell grant eligibility. Total aid to students also decreased by \$1 million, or 0.5 percent, to \$179.1 million in fiscal year 2015 as compared to the prior fiscal year 2014 for similar reasons.

The University depreciates its capital assets over their estimated useful lives using the straight-line method. Depreciation expense increased by \$3.6 million, or 2.9 percent, to \$124.9 million during fiscal year 2016 as compared to fiscal year 2015. The increase in fiscal year 2016 was primarily attributable to building and equipment additions and reclassifications from construction in progress. Depreciation expense increased by \$11.9 million, or 10.9 percent, to \$121.4 million during fiscal year 2015 as compared to fiscal year 2014. The increase in fiscal year 2015 was primarily attributable to building and equipment additions and reclassifications from construction in progress.

Transfers from State amounted to \$200.2 million, \$191.6 million and \$183.5 million in fiscal years 2016, 2015 and 2014, respectively. Transfers from State were primarily for fringe benefit expense paid by the State for the University, the tobacco settlement moneys paying for John A. Burns School of Medicine revenue bond debt service, and the UH Cancer Center cigarette stamp tax collections. The increase in Transfer from State for both fiscal years 2016 and 2015 were primarily attributable to the increase in fringe benefit rates.

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 2016, capital gifts and grants, including state capital appropriations and transfers, decreased by \$137.8 million, or 83.0 percent, to \$28.1 million compared to \$165.9 million in fiscal year 2015. In fiscal year 2015, there was an increase of \$19.8 million, or 13.6 percent, compared to \$146.1 million in fiscal year 2014. The decrease in fiscal year 2016 was primarily attributable to the decrease of capital

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appropriations from the State of Hawai'i by \$145.3 million, or 89.8 percent, to \$16.5 million compared to the increase of capital appropriations in fiscal year 2015 of \$19.8 million. Other capital gifts and grants during fiscal year 2016 included federal capital grants of \$4.8 million and private capital gifts and grants of \$1.1 million. During fiscal year 2015, other capital gifts and grants included federal capital grants of \$4.5 million and private capital gifts and grants of \$0.6 million.

**Cash Flows**

The Consolidated Statements of Cash Flows present 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, 2016, 2015 and 2014 are as follows (in thousands of dollars):

	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>FY 16 vs 15 Change</b>	<b>FY 15 vs 14 Change</b>
Cash received from operations	\$ 799,112	\$ 804,374	\$ 799,092	\$ (5,262)	\$ 5,282
Cash payments for operations	(1,293,552)	(1,299,687)	(1,314,062)	6,135	14,375
Net cash used in operating activities	<u>(494,440)</u>	<u>(495,313)</u>	<u>(514,970)</u>	<u>873</u>	<u>19,657</u>
Net cash provided by noncapital financing activities	560,769	538,775	508,527	21,994	30,248
Net cash used in capital and related financing activities	(43,518)	(41,419)	(50,446)	(2,099)	9,027
Net cash provided by (used in) investing activities	(9,443)	23,461	42,492	(32,904)	(19,031)
Net increase (decrease) in cash	<u>13,368</u>	<u>25,504</u>	<u>(14,397)</u>	<u>(12,136)</u>	<u>39,901</u>
<b>Cash</b>					
Beginning of year	<u>89,811</u>	<u>64,307</u>	<u>78,704</u>	<u>25,504</u>	<u>(14,397)</u>
End of year	<u>\$ 103,179</u>	<u>\$ 89,811</u>	<u>\$ 64,307</u>	<u>\$ 13,368</u>	<u>\$ 25,504</u>

The University's cash and cash equivalents increased by \$13.4 million, or 14.9 percent, to \$103.1 million at June 30, 2016 from \$89.8 million at June 30, 2015. During fiscal year 2016, \$494.4 million in cash was used for operating activities, offset by \$560.8 million in cash provided by noncapital financing activities. Net cash used in capital and related financing activities and investing activities amounted to \$43.5 million and \$9.4 million in fiscal year 2016.

The net cash used in operating activities was reduced by \$0.9 million and \$19.7 million in fiscal years 2016 and 2015, respectively. The reduction was the result of the implementation of the financial reserve policy that required the University to reserve at least two months of working capital with a minimum of five percent unencumbered cash from non-general fund revenue.

The \$2.1 million increase in net cash used in capital and related financing activities in fiscal year 2016 as compared to fiscal year 2015 was primarily attributable to a reduction of capital appropriation received from the State of Hawai'i of \$25.8 million and \$12.0 million due to the advance and repayment of funds to the State of Hawai'i offset by a decrease in capital asset purchases of \$28.5 million and the receipt of proceeds from the Series 2015A bond issuance of \$8.6 million. The \$9.0 million decrease in cash used in capital and related financing activities in fiscal year 2015 as compared to fiscal year 2014 was primarily attributable to a decrease in capital asset purchases of \$44.2 million, offset by an increase in capital gifts and grants of \$11.4 million and a \$20.0 million transfer of funds for reimbursement of preconstruction costs associated with the UH Cancer Center.

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**Looking Forward**

The University of Hawai'i is one of the most important economic engines in Hawai'i with a total estimated impact of \$3.61 billion on Hawai'i's economy. In relation to this, the University is impacted by Hawai'i's economy in its enrollment and funding received from the State of Hawai'i and gift donors. Looking toward the future, Hawai'i's economy is expected to continue positive growth into 2017, according to the State Department of Business, Economic Development & Tourism. The tourism and construction industries are projected to remain strong, while the government and military sectors will continue to stay relatively unchanged. Hawai'i's robust economy has kept the unemployment rate low at 3.4 percent as of August 2016.

As the sole provider of public higher education in Hawai'i, the University plays a vital role in improving the social, economic and environmental well-being of current and future generations. To effectively provide higher education to the community, the University has developed and is implementing the University of Hawai'i Strategic Directions, 2015–2021, built upon previous work outlined in the Strategic Outcomes and Performances Measures, 2008–2015, that will guide the University's priorities for the next three biennia to achieve the outcomes directed by the Board of Regents (the "Board").

The four strategic directions outlined below describe the University's priorities for 2015–2021:

- Hawai'i Graduation Initiative
- Hawai'i Innovation Initiative
- 21<sup>st</sup> Century Facilities
- High Performance Mission-Driven System

**Enrollment and Tuition**

According to the 2016 College Affordability Diagnosis by the Pennsylvania State University Graduate School of Education, University of Hawai'i community colleges are the most affordable public, two-year institutions of higher education in the nation. Hawai'i ranked as the third overall for most affordable state when considering the percentage of family income required for residents to finance the full cost of a public higher education. The University at Mānoa puts Hawai'i in 5th place among states in providing affordable access to a public research university education, and the state ranks 7th in affordable access to a public, four-year, non-doctoral institutions through the University of Hawai'i at Hilo and at West O'ahu.

The University's enrollment continues to trend downward since peaking in 2010, however, the likely reasons are varied. Since 2010, the State economy has significantly improved each year following the recession. The University has also been very successful on a number of its initiatives to increase graduation rates, to increase the speed at which student matriculate, and working with public high schools to graduate their students with University-granted college credits. Looking within the long-term historical context, overall enrollment at the University of Hawai'i remains high. The peak associated to the Great Recession is perceived to be anomalously high. Fall census headcount comparisons are as follows:

	<b>Fall 2016</b>	<b>% Change</b>	<b>Fall 2015</b>	<b>% Change</b>	<b>Fall 2014</b>
Mānoa	18,056	-4.3	18,865	-3.3	19,507
Hilo	3,666	-4.3	3,829	-2.4	3,924
West O'ahu	2,939	9.2	2,692	1.2	2,661
Community Colleges	28,757	-5.3	30,370	-1.9	30,960
<b>Total</b>	<b>53,418</b>	<b>-4.2</b>	<b>55,756</b>	<b>-2.3</b>	<b>57,052</b>

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On October 11, 2011, the Board approved a five-year tuition schedule. Fiscal year 2015–2016 is the fourth year of the schedule. Tuition rates for fiscal year 2015–2016 were scheduled to increase as much as seven percent. However, in the interest of preserving affordability and access to public higher education in the State of Hawai'i, the Board amended the previously-approved schedule and reduced the percentage of tuition increase scheduled for year four and five of the schedule – reducing tuition rate increases to not more than five percent. On July 21, 2016, the Board approved a new three-year tuition increase schedule for fiscal year to begin July 1, 2018. This new schedule has no increases for fiscal year 2016–2017, and tuition increases in fiscal years 2017–2018 and 2018–2019 ranging from one to two percent at various campuses.

The University is committed to provide financial aid to achieve its affordability objective. The total financial aid, including aid from federal, State and private grants and awards, provided to undergraduate students were \$121.0 million, \$120.4 million and \$119.4 million in academic years 2015, 2014 and 2013, respectively.

In Hawai'i, experts estimate 70 percent of jobs will require at least an associate's degree by 2020. Only 44 percent of working-age residents had such a degree in 2014. The University of Hawai'i has an enormous opportunity to provide affordable higher education while increasing enrollment in the State of Hawai'i.

#### **Extramural Funds**

The extramural fund awards include a mix of research and non-research programs that provide financial stability and balance to the University. About 40-50 percent of the projects are non-research in nature and are intended for training, workforce development, outreach and community services, clinical trials, and others.

The University like other research institutions across the country continues to weather an extremely challenging funding landscape brought on by the lingering effects of sequestration, uncertainties in agency funding, budget cuts and the realignment of R&D funding priorities. Despite these challenges, the University research enterprise worked diligently to halt three straight years of decline in extramural award funding and managed a slight increase in fiscal year 2015.

Unfortunately, despite continued efforts, fiscal year 2016 Extramural Awards closed at \$391 million, a decrease of eight percent as compared to last year's tally of \$425 million. In addition to the difficult funding environment, the University also absorbed a number of setbacks that contributed to the decrease, including the end of a four-year workforce training initiative by the U.S. Department of Labor for programs in cyber security and health, the absence of a large U.S. Navy task order for Applied Research Laboratory, and a decrease in extramural funding at the University of Hawai'i at Hilo.

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While research funding will continue to remain a challenge at the University for years to come, we will continue to align our research enterprise with national science and technology funding priorities, while helping to address the critical challenges of the nation and our state. We have made headway in building a pipeline of revenue generating awards in fiscal year 2017:

- \$20M grant from the National Science Foundation's Experimental Program to Stimulate Competitive Research ("EPSCoR") for its 'Ike Wai collaboration, a five-year study of water sustainability issues.
- \$8.5 million from the Office of Naval Research for its Asia-Pacific Research Initiative for Sustainable Energy Systems ("APRISES") to continue testing and evaluation of renewable generation and power systems controls for smart- and micro-grids.
- \$8M in two separate awards from the National Cancer Institute to study cancer risk in multi-ethnic groups.

#### Facilities and Infrastructure

The University has a strong commitment to its core facilities and infrastructure. In the past three years, the University completed many major construction projects, which included the newest campus – Hawai'i Community College Pālanui campus, Clarence T.C. Ching Athletics Complex, the new three-story Student Services building at the University at Hilo, the expansion of the two-story Warrior Recreation Center at Mānoa, and other new buildings in Maui College, Leeward and Windward Community Colleges to accommodate anticipated enrollment growth.

Meanwhile, the State of Hawai'i Legislature continued its strong financial support to the University's capital improvement program and provided general obligation bond appropriations for the 2015–2017 and 2013–2015 fiscal biennia that were approximately \$365.5 million and \$390 million, respectively. In September 2015, the University also issued Series 2015-A Taxable Revenue Bonds to help fund two new strategic construction projects: \$5 million for the Hilo College of Pharmacy and \$3.5 million for the Law School. Both projects included state funds of \$28 million and \$3.5 million, respectively, in general obligation ("GO") bond funds.

Improvement and modernization of the University's physical assets is key to delivering the University's strategic directions that strives for 21<sup>st</sup> century facilities for learning, teaching and research. The University has developed a six-year CIP plan for fiscal years 2018–2023 (the "6-Year CIP Plan") that will set forth a vision of a physical environment that supports and augments the high quality education and research that takes place at our University. It also presents a coordinated, long-term strategy that (1) prioritizes classrooms, laboratories and student spaces with a focus on improving the learning and research environment, 2) targets those facilities with the highest utility and poorest conditions through upgrade to the interior/exterior structures, building roofs, mechanical and electrical systems, pedestrian pathways and roadways, and 3) changes the paradigm on how the University manages its space. This 6-year CIP Plan is organized in four categories: Major Capital Improvement Projects; Renew, Improve & Modernize Projects ("RIM Projects"); Minor Capital Improvement Projects; and Planning Projects. The University believes this plan will move us toward a multi-faceted approach that improves the quality of learning and research environment, through the lens of our students and faculty, while addressing our deferred maintenance backlogs. We have projected to reduce the current deferred maintenance of \$496.3 million to \$327.3 million in fiscal year 2023 under this plan.

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#### **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 the fundraising goals. In fiscal year 2016, the University had raised \$66.1 million as compared to \$129.0 million in fiscal year 2015 and \$98.6 million in fiscal year 2014.

#### **State General Fund Appropriations**

The State of Hawai'i continues to provide strong support to the University as the sole provider of public higher education in Hawai'i. When compared to other universities in the nation, the University is well supported by the State and is ranked 11th in the category of higher education operating appropriation per full-time equivalent in 2014. The Hawai'i Governor supported, and the State Legislature appropriated, an increase of \$28.2 million, or 6.8 percent, in general funds to the University's fiscal year 2017 operating budget. These funds were allocated throughout the campuses to reward academic performance and fund faculty salary increases that were negotiated through collective bargaining agreements and other special programs.

Future general fund appropriations are dependent upon the financial health of the State, State Council of Revenues projections and priorities yet to be articulated by the Governor and State legislature. The current outlook shows positive signs. The State ended fiscal year 2016 with general fund surplus exceeding \$1 billion, although it was a single point of data. The Council on Revenues forecasted a 5.5 percent growth for fiscal year 2017. However, tax revenue collections for the current fiscal year through September 2016 were down 3.3 percent compared to the previous fiscal year. In addition, ERS (retirement) and OPEB (health fund) unfunded liabilities for the State are roughly \$18 billion. To continue to provide quality and affordable education to the residents of Hawai'i, the University has been working hard with lawmakers to advance the University's needs and priorities.

#### **Hawai'i Graduation Initiative and 15 to Finish Campaign**

Hawai'i Graduation Initiative (“HGI”) is a system-wide strategic initiative that focuses on increasing the number of educated citizens within the state. HGI is aligned with the Hawai'i P-20 goal to increase the number of working age adults in the state who hold a degree to 55 percent by 2025. Because of this focused effort, the UH campuses have increased the number of degrees and certificates awarded to 11,680 or by 46 percent since 2008.

HGI's *15 to Finish* campaign encourages students to take 15 credits per semester (or 30 credits per year) to graduate on time (i.e., in most cases, two years for an associate degree and four years for a bachelor's degree). UH has nearly doubled the percentage of first-time freshmen who enroll in 15 or more credits in their first semester since the start of the campaign in 2012.

The campaign has garnered national attention. To date, *15 to Finish* campaigns have been implemented by seven states at scale and an additional 120 institutions nationwide. An additional seven states have committed to launching campaigns in 2017. At Complete College America's 2016 Annual Convening of the Alliance in November, the UH System was the inaugural recipient of two President's Awards, one of which was for the *15 to Finish* campaign. The President's Award recognizes innovation and outstanding contributions to national college completion efforts.

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**Hawai'i Innovation Initiative**

To leverage its distinctive strengths in earth and ocean sciences, astronomy, evolutionary biology, and energy research, the University is continuing our efforts to spearhead the Hawai'i Innovation Initiative, a proactive partnership between the University, the private sector and government to create a third economic driver for the state based on the University's research. Our XLR8UH venture accelerator program has developed 15 startup companies, generated over \$600,000 in revenue and secured \$7.8 million in total funding. In March 2016, we launched the i-Lab, a reconfigurable working space for students in cross disciplines to engage in innovation and entrepreneurial projects; and in July 2016, the Pacific Asian Center for Entrepreneurship ("PACE") at Mānoa's Shidler College of Business opened their version of the i-Lab called sPACE. Finally, we will again be hosting the second annual Future Focus innovation conference in October 2016 – this year focusing on medical research, cyber security and entrepreneurship.

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*(All dollars reported in thousands)*

	2016	2015
<b>Assets and Deferred Outflows of Resources</b>		
Current assets		
Cash and cash equivalents	\$ 103,179	\$ 89,811
Operating investments	298,702	285,241
Due from State of Hawai'i	102	188
Accounts receivable, net	86,913	87,719
Current portion of notes and contributions receivable, net	16,972	16,221
Accrued interest receivable	851	583
Inventories	10,250	11,765
Prepaid expenses and other current assets	<u>11,462</u>	<u>12,916</u>
Total current assets	528,431	504,444
Noncurrent assets		
Due from State of Hawai'i	329,751	399,144
Endowment and other investments	475,040	477,243
Notes and contributions receivable, net	40,068	48,155
Capital assets, net	2,053,385	2,068,691
Other noncurrent assets	<u>18,890</u>	<u>19,541</u>
Total noncurrent assets	2,917,134	3,012,774
Total assets	<u>3,445,565</u>	<u>3,517,218</u>
Deferred outflows of resources		
Deferred loss on refunding	11,383	5,251
Deferred outflows on net pension liability	<u>163,699</u>	<u>134,848</u>
Total deferred outflows of resources	175,082	140,099
Total assets and deferred outflows of resources	<u>\$ 3,620,647</u>	<u>\$ 3,657,317</u>
<b>Liabilities, Deferred Inflows of Resources and Net Position</b>		
Current liabilities		
Accounts payable	\$ 51,596	\$ 56,702
Accrued payroll and fringe benefits	66,300	57,434
Advances from sponsors	34,002	33,979
Unearned revenue	46,314	48,361
Due to State of Hawai'i	6,294	12,510
Current portion of long-term liabilities	55,216	51,923
Other current liabilities	<u>7,229</u>	<u>9,138</u>
Total current liabilities	266,951	270,047
Noncurrent liabilities		
Accrued vacation	45,251	44,618
Accrued workers' compensation	11,747	9,926
Net pension liability	1,144,564	1,089,882
Other postemployment benefits	722,757	650,805
Due to State of Hawai'i	-	195
Revenue bonds payable	543,680	561,470
Premium on bonds payable	14,754	2,972
Note payable	17,000	17,000
Other noncurrent liabilities	<u>17,144</u>	<u>16,819</u>
Total noncurrent liabilities	2,516,897	2,393,687
Total liabilities	<u>2,783,848</u>	<u>2,663,734</u>
Deferred inflows of resources		
Deferred inflows on net pension liability	<u>111,364</u>	<u>151,162</u>
Total deferred inflows of resources	111,364	151,162
Commitments and contingencies		
Net position		
Net investment in capital assets	1,504,935	1,503,902
Restricted		
Nonexpendable	244,396	235,894
Expendable	561,093	644,743
Unrestricted	<u>(1,584,989)</u>	<u>(1,542,118)</u>
Total net position	725,435	842,421
Total liabilities, deferred inflows of resources and net position	<u>\$ 3,620,647</u>	<u>\$ 3,657,317</u>

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

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**Years Ended June 30, 2016 and 2015**  
*(All dollars reported in thousands)*

	2016	2015
<b>Operating revenues</b>		
Student tuition and fees	\$ 403,411	\$ 392,471
Less: Scholarship allowances	<u>131,105</u>	<u>129,811</u>
Net student tuition and fees	272,306	262,660
Federal appropriations, grants and contracts	322,266	325,531
State and local grants and contracts	32,831	29,033
Nongovernmental sponsored programs	35,134	36,236
Sales and services of educational departments, other	35,763	36,163
Auxiliary enterprises		
Bookstores	20,736	22,467
Student housing (net of scholarship allowances of \$1,474 and \$1,537)	32,102	31,164
Other auxiliary enterprises revenues	46,186	45,521
Other operating revenues	<u>2,211</u>	<u>2,568</u>
Total operating revenues	<u>799,535</u>	<u>791,343</u>
<b>Operating expenses</b>		
Compensation and benefits	1,113,771	1,093,021
Supplies, services and cost of goods sold	202,157	205,833
Depreciation	124,937	121,378
Telephone and utilities	64,633	72,282
Scholarships and fellowships	43,440	49,302
Travel expenses	33,962	33,022
Repairs and maintenance	28,571	33,545
Rental expenses	12,877	12,747
Other operating expenses	<u>36,205</u>	<u>32,762</u>
Total operating expenses	<u>1,660,553</u>	<u>1,653,892</u>
Operating loss	<u>(861,018)</u>	<u>(862,549)</u>
<b>Nonoperating revenues (expenses)</b>		
State appropriations	441,373	413,148
Federal Pell grants	61,438	66,144
Private gifts	32,382	32,600
Net investment income	679	4,659
Interest expense	(25,064)	(27,523)
Net transfers from (to) State of Hawai'i for		
Fringe benefits	172,248	162,969
Hawai'i Barrel Tax	2,784	2,051
School of Nursing	1,066	133
University of Hawai'i Cancer Center	6,366	6,919
Other	(86)	1,704
Loss on disposal of capital assets	(8,165)	(4,907)
Other, net	<u>(284)</u>	<u>516</u>
Net nonoperating revenues before capital and endowment additions (deductions)	<u>684,737</u>	<u>658,413</u>
Capital – state appropriations	16,547	161,822
Capital – federal grants/subsidies	4,829	4,460
Capital – gifts and grants	1,095	648
Net transfers from (to) State of Hawai'i for capital assets	5,651	(1,026)
Transfers from State of Hawai'i, Tobacco settlement	9,549	9,924
Transfers from State of Hawai'i, University of Hawai'i Cancer Center	7,876	7,884
Transfers from other State agencies	413	-
Transfers from (to) Federal – capital assets	4,081	(5,315)
Additions to permanent endowments	<u>9,254</u>	<u>19,426</u>
Total other revenues	<u>59,295</u>	<u>197,823</u>
Net nonoperating revenues	<u>744,032</u>	<u>856,236</u>
Change in net position	(116,986)	(6,313)
<b>Net position</b>		
Beginning of year	842,421	1,961,526
Adjustment for change in accounting principle (Note 1)	-	(1,112,792)
Beginning of year, as restated	<u>842,421</u>	<u>848,734</u>
End of year	<u>\$ 725,435</u>	<u>\$ 842,421</u>

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

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	2016	2015
<b>Cash flows from operating activities</b>		
Student tuition and fees	\$ 267,057	\$ 261,826
Grants and contracts	395,583	401,284
Other revenues	136,472	141,264
Payments to employees	(870,514)	(862,510)
Payments to suppliers and other	(379,598)	(387,875)
Payments for scholarships and fellowships	(43,440)	(49,302)
Net cash used in operating activities	<u>(494,440)</u>	<u>(495,313)</u>
<b>Cash flows from noncapital financing activities</b>		
State appropriations	441,459	413,884
Gifts and grants for other than capital purposes	109,406	113,855
Transfer from State of Hawai'i for		
Hawai'i Barrel Tax	2,784	2,051
School of Nursing	1,066	133
University of Hawai'i Cancer Center	6,366	6,919
Other	(86)	1,704
Other receipts (disbursements)	(226)	229
Net cash provided by noncapital financing activities	<u>560,769</u>	<u>538,775</u>
<b>Cash flows from capital and related financing activities</b>		
Capital appropriations	85,940	111,762
Capital gifts and grants	5,171	5,112
Proceeds from issuance of capital debt	8,575	-
Purchases of capital assets	(109,459)	(137,954)
Proceeds from sale of capital assets	653	1,245
Principal paid on capital debt	(19,190)	(15,521)
Interest paid on capital debt	(27,046)	(29,871)
Advance from (repayment to) State of Hawai'i	(6,000)	6,000
Transfer from other State agencies	413	-
Transfer from State of Hawai'i for		
Tobacco Settlement	9,549	9,924
University of Hawai'i Cancer Center	7,876	7,884
Net cash used in capital and related financing activities	<u>(43,518)</u>	<u>(41,419)</u>
<b>Cash flows from investing activities</b>		
Interest and dividends on investments, net	7,163	975
Proceeds from sales and maturities of investments	962,297	1,116,678
Purchase of investments	(978,903)	(1,094,192)
Net cash provided by (used in) investing activities	<u>(9,443)</u>	<u>23,461</u>
Net increase in cash and cash equivalents	13,368	25,504
<b>Cash and cash equivalents</b>		
Beginning of year	<u>89,811</u>	<u>64,307</u>
End of year	<u>\$ 103,179</u>	<u>\$ 89,811</u>

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

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	2016	2015
<b>Reconciliation of operating loss to net cash used in operating activities</b>		
Operating loss	\$ (861,018)	\$ (862,549)
Adjustments to reconcile operating loss to net cash used in operating activities		
On behalf payments by State for fringe benefits	195,332	179,007
Depreciation expense	124,937	121,378
Pension and other post retirement health care benefit expense	34,901	48,975
Bad debt expense, net	146	3,454
Changes in operating assets and liabilities		
Accounts receivable	1,542	2,168
Notes and contributions receivable	9	317
Inventories	1,515	(157)
Prepaid expenses and other assets	810	(1,219)
Accounts payable	(3,403)	(4,990)
Accrued payroll and benefits	10,200	923
Accrued workers' compensation liability	2,588	1,244
Advances from sponsors	23	7,343
Other, net	(2,022)	8,793
Net cash used in operating activities	<u>\$ (494,440)</u>	<u>\$ (495,313)</u>
<b>Supplemental information of noncash transactions</b>		
Noncash contributions	\$ 1,951	\$ 2,196
Net transfers from (to) State of Hawai'i for capital assets	5,651	(1,026)
Transfers from (to) Federal for capital assets	4,081	(5,315)
Accounts payable for capital assets	18,874	20,577
Bond proceeds deposited immediately into escrow	171,408	-
Defeasance of outstanding revenue bond principal	(163,245)	-

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. 61. 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 instruments that have remaining maturity at time of purchase of one year or less are reported at amortized cost. Investments in time certificates of deposits are carried at cost. 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 limited partnerships, absolute return, real estate and other investments include limited partnership investments in private equity, venture capital, real estate, and hedge funds including absolute return and long/short hedge funds. Fair value 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. The private equity, venture capital, and real estate investments are not readily marketable and involve assumptions and methods that are reviewed by the Foundation. 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. A portion of the investments made by certain hedge funds is also not readily marketable; additionally, hedge fund managers may not provide the detail of their underlying marketable securities. The hedge fund valuation process is carefully reviewed by the Foundation with the assistance of an outside consultant. The Foundation utilized the net asset value per share for the investments in limited partnerships, absolute return, real estate and other investments. 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.

**Fair Value Measurements**

For financial assets reported at fair value, the University defines fair value as the price that would be received to sell an asset in the principal or most advantageous market in an orderly transaction between market participants. The University measures fair value using assumptions developed based on market data obtained from independent external sources and the reporting entity's own assumptions. The hierarchy is broken down into levels based on the reliability of the inputs as follows:

- **Level 1** – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2** – Inputs (other than quoted prices) included within Level 1 that are observable for the asset or liability, either directly or indirectly.

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- **Level 3** – Unobservable inputs for an asset or liability reflecting management's assumption. Level 3 inputs are used to measure fair value to the extent that observable Level 1 or 2 inputs are not available.

**Due from and Due to State**

The State Director of Budget and 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 or capital 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 is recognized as assets and contribution revenues when the Foundation is notified of their existence. The reported value of the assets is fair value.

**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. 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.

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**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 \$25,562 and \$29,156 for the years ended June 30, 2016 and 2015, respectively, of which capitalized interest as a cost of construction amounted to \$498 and \$1,633, 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 renewals, replacements 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.

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 Outflows of Resources**

Deferred outflows of resources represent a consumption of net position that applies to a future period. 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. The deferred outflow of resources related to pensions resulted from differences between expected and actual experiences which will be amortized over five years and University contributions to the pension plan subsequent to the measurement date of the actuarial valuations for the pension plans which will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

**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.

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**Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Employee's Retirement System ("ERS") and additions to/deductions from the ERS's fiduciary net position have been determined on the same basis as they are reported by the ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at their fair value.

**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.

**Deferred Inflows of Resources**

Deferred inflows of resources represent an acquisition of net position by the University that is applicable to a future reporting period. The deferred inflow of resources related to pensions resulted from the difference between projected and actual earnings on the pension plan and changes in the proportionate rate. These amounts are deferred and amortized over five years.

**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.
- **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.

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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, 2016 and 2015 amounted to \$805,489 and \$880,637, respectively, of which \$313,262 and \$380,053 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.

**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.

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**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, net pension 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 \$650 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 Consolidated Statements of Net Position (see Note 11).

The University also uses a third-party actuary to estimate its net pension liability and postemployment health care and life insurance benefit obligations. The assumptions used to determine the liabilities are described in Notes 14 and 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.

**New Accounting Pronouncements**

In 2016, the University adopted GASB Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. Management has adopted the new standard as presented in the University's financial statements.

In 2015, the University adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. Management has adopted the new standard as presented in the University's consolidated financial statements. Due to the adoption of GASB Statement No. 68 in fiscal year 2015, beginning net position was restated. The beginning net position as of July 1, 2014 was restated by \$1,112,792 from \$1,961,526 to \$848,734.

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The GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. The Statement replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The Statement addresses the financial reports of defined benefit other postemployment benefit plans that are administered through trusts that meet specified criteria. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The University is currently evaluating this accounting pronouncement.

The GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The Statement replaces GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Statement will require governments to report a liability on the face of the financial statements for the other postemployment benefits that they provide. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The University is currently evaluating this accounting pronouncement.

The GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*. The Statement establishes an additional blending requirement for the financial statement presentation of component units and applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The University is currently evaluating this accounting pronouncement.

The GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The Statement establishes accounting and financial reporting standards for irrevocable split-interest agreements created through trusts — or other legally enforceable agreements with characteristics that are equivalent to irrevocable split-interest agreements — in which a donor irrevocably transfers resources to an intermediary. The requirements of this Statement are effective for reporting periods beginning after December 15, 2016. The University is currently evaluating this accounting pronouncement.

The GASB issued Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, 68 and 73*. The Statement addresses certain issues that have been raised with respect to Statements No. 67, 68 and 73, and amends certain provisions of GASB Statements No. 67 and 68. The Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee contribution requirements. This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. This statement is effective for reporting periods beginning after June 15, 2016, except for paragraph 7 when employers' pension liability is measured as of a date other than the employer's most recent fiscal year end, which is effective for measurement dates on or after June 15, 2017. The University is currently evaluating this accounting pronouncement.

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**Reclassifications**

Certain amounts in the 2015 consolidated financial statements have been reclassified to conform to the 2016 presentation. Such reclassifications had no impact on the 2015 change in net position as previously reported, however did impact operating loss and net nonoperating revenues.

	<b>2015</b>		<b>2015</b>
	<b>As Previously</b>	<b>Reclassifications</b>	<b>Revised</b>
	<b>Reported</b>		
<b>Operating revenues</b>			
Nongovernmental sponsored programs	\$ 31,696	\$ 4,540	\$ 36,236
Total operating revenues	786,803	4,540	791,343
Operating loss	(867,089)	4,540	(862,549)
<b>Nonoperating revenues</b>			
Private gifts	31,870	730	32,600
Net nonoperating revenues before capital and endowment additions (deductions)	657,683	730	658,413
Capital – gifts and grants	5,918	(5,270)	648
Total other revenues	203,093	(5,270)	197,823
Net nonoperating revenues	860,776	(4,540)	856,236
<b>Cash flows from operating activities</b>			
Net cash used in operating activities	(499,853)	4,540	(495,313)
<b>Cash flows from noncapital financing activities</b>			
Net cash provided by noncapital financing activities	538,045	730	538,775
<b>Cash flows from capital and related financing activities</b>			
Net cash provided by noncapital financing activities	(36,149)	(5,270)	(41,419)

**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, 2016 and 2015, classified as cash and cash equivalents and operating investments, were \$271,416 and \$299,528, with corresponding bank balances of \$282,084 and \$292,908, respectively. The portion of such bank balances covered by the Federal Deposit Insurance Corporation or by collateral held by the State Director of Budget & Finance in the name of the University totaled \$276,554 at June 30, 2016 and \$282,960 at June 30, 2015. Additional cash equivalent balances of \$7,341 at June 30, 2016 and \$6,608 at June 30, 2015 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.

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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 \$10,428 and \$4,161 at June 30, 2016 and 2015, 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 2016 and 2015, the University's spending rate policy provided for annual distributions was four and a half percent of the trailing five-year moving average of the endowment fair value.

At June 30, 2016 and 2015, the University's investments were comprised of the following:

	2016		2015	
	Fair Value	Cost	Fair Value	Cost
Money market funds	\$ 11,679	\$ 11,679	\$ 17,880	\$ 17,880
Fixed income securities	210,172	207,952	171,488	172,227
Equity securities	5,866	5,143	5,658	5,183
Mutual funds	179,089	178,440	170,153	166,251
Time certificates of deposit	192,518	192,518	210,015	210,015
Limited partnerships	74,376	43,289	75,651	43,105
Absolute return	19,612	14,779	27,814	22,905
Real estate	17,105	21,084	23,957	27,365
Other investments	63,325	56,312	59,868	48,304
Total investments	773,742	731,196	762,484	713,235
Less: Current portion	298,702	297,425	285,241	284,871
Total noncurrent investments	\$ 475,040	\$ 433,771	\$ 477,243	\$ 428,364

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Changes in the University's investments for the year ended June 30, 2016 were as follows:

	<b>Fair Value</b>	<b>Cost Basis</b>	<b>Net Unrealized Gain (Loss)</b>	<b>Net Realized Gain (Loss)</b>
<b>University Endowment Pool</b>				
End of year	\$ 63,479	\$ 63,094	\$ 385	
Beginning of year	<u>65,557</u>	<u>63,930</u>	<u>1,627</u>	
Net change	<u>(2,078)</u>	<u>(836)</u>	<u>(1,242)</u>	\$ (532)
<b>Foundation Endowment Pool</b>				
End of year	255,979	215,551	40,428	
Beginning of year	<u>265,685</u>	<u>217,861</u>	<u>47,824</u>	
Net change	<u>(9,706)</u>	<u>(2,310)</u>	<u>(7,396)</u>	921
<b>Associated Students of the University of Hawai'i</b>				
End of year	8,350	7,590	760	
Beginning of year	<u>8,099</u>	<u>7,613</u>	<u>486</u>	
Net change	<u>251</u>	<u>(23)</u>	<u>274</u>	75
<b>School of Medicine</b>				
End of year	5,519	5,519	-	
Beginning of year	<u>5,516</u>	<u>5,516</u>	<u>-</u>	
Net change	<u>3</u>	<u>3</u>	<u>-</u>	1
<b>University Bond System</b>				
End of year	26,492	26,492	-	
Beginning of year	<u>24,830</u>	<u>24,830</u>	<u>-</u>	
Net change	<u>1,662</u>	<u>1,662</u>	<u>-</u>	2
<b>Operating investments</b>				
End of year	298,702	297,425	1,277	
Beginning of year	<u>285,241</u>	<u>284,871</u>	<u>370</u>	
Net change	<u>13,461</u>	<u>12,554</u>	<u>907</u>	47
<b>Other</b>				
End of year	115,221	115,525	(304)	
Beginning of year	<u>107,556</u>	<u>108,614</u>	<u>(1,058)</u>	
Net change	<u>7,665</u>	<u>6,911</u>	<u>754</u>	58
<b>Total investments</b>				
End of year	773,742	731,196	42,546	
Beginning of year	<u>762,484</u>	<u>713,235</u>	<u>49,249</u>	
Net change	<u>\$ 11,258</u>	<u>\$ 17,961</u>	<u>\$ (6,703)</u>	<u>\$ 572</u>

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Changes in the University's investments for the year ended June 30, 2015 were as follows:

	Fair Value	Cost Basis	Net Unrealized Gain (Loss)	Net Realized Gain (Loss)
<b>University Endowment Pool</b>				
End of year	\$ 65,557	\$ 63,930	\$ 1,627	
Beginning of year	<u>66,217</u>	<u>64,643</u>	<u>1,574</u>	
Net change	<u>(660)</u>	<u>(713)</u>	<u>53</u>	\$ (234)
<b>Foundation Endowment Pool</b>				
End of year	265,685	217,861	47,824	
Beginning of year	<u>264,174</u>	<u>210,514</u>	<u>53,660</u>	
Net change	<u>1,511</u>	<u>7,347</u>	<u>(5,836)</u>	6,861
<b>Associated Students of the University of Hawai'i</b>				
End of year	8,099	7,613	486	
Beginning of year	<u>8,251</u>	<u>7,561</u>	<u>690</u>	
Net change	<u>(152)</u>	<u>52</u>	<u>(204)</u>	161
<b>School of Medicine</b>				
End of year	5,516	5,516	-	
Beginning of year	<u>5,622</u>	<u>5,622</u>	<u>-</u>	
Net change	<u>(106)</u>	<u>(106)</u>	<u>-</u>	-
<b>University Bond System</b>				
End of year	24,830	24,830	-	
Beginning of year	<u>53,537</u>	<u>53,539</u>	<u>(2)</u>	
Net change	<u>(28,707)</u>	<u>(28,709)</u>	<u>2</u>	-
<b>Operating investments</b>				
End of year	285,241	284,871	370	
Beginning of year	<u>278,046</u>	<u>277,865</u>	<u>181</u>	
Net change	<u>7,195</u>	<u>7,006</u>	<u>189</u>	49
<b>Other</b>				
End of year	107,556	108,614	(1,058)	
Beginning of year	<u>101,659</u>	<u>100,281</u>	<u>1,378</u>	
Net change	<u>5,897</u>	<u>8,333</u>	<u>(2,436)</u>	1,499
<b>Total investments</b>				
End of year	762,484	713,235	49,249	
Beginning of year	<u>777,506</u>	<u>720,025</u>	<u>57,481</u>	
Net change	<u>\$ (15,022)</u>	<u>\$ (6,790)</u>	<u>\$ (8,232)</u>	<u>\$ 8,336</u>

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	2016	2015
<b>Summary of net investment income</b>		
Change in unrealized net loss	\$ (6,703)	\$ (8,232)
Net realized gain	<u>572</u>	<u>8,336</u>
	(6,131)	104
Interest and dividend income	8,640	7,974
Other	<u>(593)</u>	<u>(1,996)</u>
Investment income before management fees	1,916	6,082
Less: Management fees	<u>1,237</u>	<u>1,423</u>
Net investment income	<u>\$ 679</u>	<u>\$ 4,659</u>

The University's investments reported at fair value on a recurring basis have been categorized based on the fair value hierarchy in Note 1 at June 30, 2016 and 2015 as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Not Categorized Within the Fair Value Hierarchy
<b>2016</b>					
Money market funds	\$ 11,679	\$ 11,679	\$ -	\$ -	\$ -
Fixed income securities	210,172	88,576	90,247	-	31,349
Equity securities	5,866	5,866	-	-	-
Mutual funds	179,089	169,292	-	-	9,797
Time certificates of deposit	192,518	-	-	-	192,518
Limited partnerships	74,376	-	-	-	74,376
Absolute return	19,612	-	-	-	19,612
Real estate	17,105	-	-	6,440	10,665
Other investments	<u>63,325</u>	<u>-</u>	<u>-</u>	<u>2,375</u>	<u>60,950</u>
Total investments	<u>\$ 773,742</u>	<u>\$ 275,413</u>	<u>\$ 90,247</u>	<u>\$ 8,815</u>	<u>\$ 399,267</u>
<b>2015</b>					
Money market funds	\$ 17,880	\$ 17,880	\$ -	\$ -	\$ -
Fixed income securities	171,488	62,152	79,109	-	30,227
Equity securities	5,658	5,658	-	-	-
Mutual funds	170,153	160,707	-	-	9,446
Time certificates of deposit	210,015	-	-	-	210,015
Limited partnerships	75,651	-	-	-	75,651
Absolute return	27,814	-	-	-	27,814
Real estate	23,957	-	-	6,215	17,742
Other investments	<u>59,868</u>	<u>-</u>	<u>-</u>	<u>1,631</u>	<u>58,237</u>
Total investments	<u>\$ 762,484</u>	<u>\$ 246,397</u>	<u>\$ 79,109</u>	<u>\$ 7,846</u>	<u>\$ 429,132</u>

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The following is a general description of the terms and conditions upon which the University through the Foundation may redeem investments that are carried at net asset value:

- **Mutual funds** – Domestic mutual funds can be redeemed on a quarterly basis, with notification provided between 30 and 60 days prior to redemption. Investments in foreign mutual funds can be redeemed on a monthly basis with notification provided between 10 and 30 days prior to redemption.
- **Limited partnerships and other investments** – Redemption frequency for investments in this class range from monthly to annually, with notification provided between 2 and 90 days prior to redemption. Additionally, certain investments can be redeemed at the discretion of the investment managers.
- **Absolute return and real estate and other investments** – These investments can be redeemed at the discretion of the investment managers. The University through the Foundation has commitments to contribute additional amounts to this class of investments of approximately \$26,619 at June 30, 2016.

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.

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**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.

**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, 2016 and 2015, along with credit quality ratings, is summarized below:

	Fair Value	Credit Quality Rating					
		U.S. Govt-Exempt	AAA	AA	A	BBB	Not Rated
<b>2016</b>							
U.S. Treasury	\$ 88,076	\$ 88,076	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. government agencies	121,536	-	-	121,536	-	-	-
Corporate bonds	560	-	29	117	232	182	-
Mutual bond funds	99,517	-	10,810	-	-	-	88,707
Total fixed income securities	<u>\$ 309,689</u>	<u>\$ 88,076</u>	<u>\$ 10,839</u>	<u>\$ 121,653</u>	<u>\$ 232</u>	<u>\$ 182</u>	<u>\$ 88,707</u>

	Fair Value	Credit Quality Rating					
		U.S. Govt-Exempt	AAA	AA	A	BBB	Not Rated
<b>2015</b>							
U.S. Treasury	\$ 62,153	\$ 62,153	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. government agencies	108,746	-	-	108,746	-	-	-
Corporate bonds	589	-	27	134	264	164	-
Mutual bond funds	106,767	-	17,097	-	-	-	89,670
Total fixed income securities	<u>\$ 278,255</u>	<u>\$ 62,153</u>	<u>\$ 17,124</u>	<u>\$ 108,880</u>	<u>\$ 264</u>	<u>\$ 164</u>	<u>\$ 89,670</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, 2016, 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	\$ 88,076	\$ 14,213	\$ 64,972	\$ 8,873	\$ 18
U.S. government agencies	121,536	39,431	68,085	4,434	9,586
Corporate bonds	560	59	307	194	-
Mutual bond funds	99,517	17,360	49,248	32,909	-
Total fixed income securities	<u>\$ 309,689</u>	<u>\$ 71,063</u>	<u>\$ 182,612</u>	<u>\$ 46,410</u>	<u>\$ 9,604</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, 2016 and 2015, the University's exposure to foreign currency risk expressed in U.S. dollars was not significant.

**3. Accounts Receivable**

The composition of accounts receivable, net of allowance for uncollectable receivables, of \$28,278 and \$29,005 at June 30, 2016 and 2015, respectively, is summarized as follows:

	2016	2015
U.S. government	\$ 49,258	\$ 55,652
State and local government	8,217	7,211
Private agencies	8,019	7,001
Student tuition and fees	10,147	7,185
Other	11,272	10,670
	<u>\$ 86,913</u>	<u>\$ 87,719</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 \$43,579 in 2016 and \$44,936 in 2015 and are reported in federal appropriations, grants and contracts revenue.

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, 2016 and 2015 is summarized as follows:

	<b>2016</b>	<b>2015</b>
<b>Student notes</b>		
Federal loan programs	\$ 17,036	\$ 18,181
State loan programs	7,901	7,999
University loan funds	68	68
Other notes receivable	52	43
Total student and other notes outstanding	<u>25,057</u>	<u>26,291</u>
Less: Allowance for uncollectible receivables	7,410	7,760
Total student and other notes receivable, net	<u>17,647</u>	<u>18,531</u>
<b>Contributions receivable</b>	45,211	48,066
Less: Allowance for uncollectible pledges	1,557	1,300
Less: Discount to present value	4,261	921
Total contributions receivable, net	<u>39,393</u>	<u>45,845</u>
Total student notes and contributions receivable, net	57,040	64,376
Less: Current portion, net	<u>16,972</u>	<u>16,221</u>
	<u>\$ 40,068</u>	<u>\$ 48,155</u>

The allowance for uncollectible receivables at June 30, 2016 and 2015 is comprised of:

	<b>2016</b>	<b>2015</b>
Federal Perkins loan program	\$ 4,035	\$ 4,393
State of Hawai'i Higher Education loans	3,333	3,305
Nursing/Health Profession loans	10	34
Short-term loans	32	28
	<u>\$ 7,410</u>	<u>\$ 7,760</u>

Payments on contributions receivable at June 30, 2016 are expected to be collected in:

Less than one year	\$ 16,012
One year to five years	<u>29,199</u>
	<u>\$ 45,211</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, 2016 and 2015, the University distributed \$2,484 and \$2,668 in student loans through the U.S. Department of Education Federal Perkins Loan Program, respectively, and \$156,333 and \$157,913 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 \$39,020 and \$39,960 at June 30, 2016 and 2015, 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, 2016 and 2015 are summarized below:

		<b>2016</b>	<b>2015</b>
University of Hawai'i Bookstore merchandise inventory	Lower of cost or market using the first-in, first-out retail inventory method.	\$ 7,121	\$ 8,396
University of Hawai'i Chemistry Stockroom	Cost applied on the first-in, first-out basis.	885	988
University of Hawai'i Facilities Management Warehouse	Cost applied on the first-in, first-out basis.	927	1,055
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.	699	758
University of Hawai'i other inventory	Lower of cost or market using the weighted average cost method.	618	568
		<u>\$ 10,250</u>	<u>\$ 11,765</u>

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**7. Capital Assets**

A summary of capital assets at June 30, 2016 and 2015 is as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Transfers</b>	<b>Ending Balance</b>
<b>2016</b>					
Nondepreciable capital assets					
Land	\$ 37,596	\$ 3,783	\$ -	\$ 3,975	\$ 45,354
Construction in progress	249,788	78,079	3,915	(141,080)	182,872
Total capital assets not being depreciated	<u>287,384</u>	<u>81,862</u>	<u>3,915</u>	<u>(137,105)</u>	<u>228,226</u>
Depreciable capital assets					
Land improvements	129,013	82	126	-	128,969
Infrastructure	174,376	1,034	-	42,874	218,284
Buildings	2,248,626	17,851	14,545	88,221	2,340,153
Equipment	377,355	13,194	14,114	6,010	382,445
Library materials	164,410	4,426	-	-	168,836
Total capital assets being depreciated	<u>3,093,780</u>	<u>36,587</u>	<u>28,785</u>	<u>137,105</u>	<u>3,238,687</u>
Less: Accumulated depreciation	<u>1,312,473</u>	<u>124,937</u>	<u>23,882</u>	<u>-</u>	<u>1,413,528</u>
Capital assets, net	<u>\$ 2,068,691</u>	<u>\$ (6,488)</u>	<u>\$ 8,818</u>	<u>\$ -</u>	<u>\$ 2,053,385</u>
<b>2015</b>					
Nondepreciable capital assets					
Land	\$ 36,211	\$ -	\$ -	\$ 1,385	\$ 37,596
Construction in progress	230,965	100,367	3,303	(78,241)	249,788
Total capital assets not being depreciated	<u>267,176</u>	<u>100,367</u>	<u>3,303</u>	<u>(76,856)</u>	<u>287,384</u>
Depreciable capital assets					
Land improvements	127,590	307	-	1,116	129,013
Infrastructure	170,432	624	-	3,320	174,376
Buildings	2,192,091	13,474	24,063	67,124	2,248,626
Equipment	383,343	13,368	24,652	5,296	377,355
Library materials	161,839	2,571	-	-	164,410
Total capital assets being depreciated	<u>3,035,295</u>	<u>30,344</u>	<u>48,715</u>	<u>76,856</u>	<u>3,093,780</u>
Less: Accumulated depreciation	<u>1,230,621</u>	<u>121,378</u>	<u>39,526</u>	<u>-</u>	<u>1,312,473</u>
Capital assets, net	<u>\$ 2,071,850</u>	<u>\$ 9,333</u>	<u>\$ 12,492</u>	<u>\$ -</u>	<u>\$ 2,068,691</u>

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 1,206 acres, or 22 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.

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**8. Other Noncurrent Assets**

Other noncurrent assets at June 30, 2016 and 2015 were comprised of:

	<b>2016</b>	<b>2015</b>
Interest in beneficial trusts held by others	\$ 16,343	\$ 17,044
Prepaid bond insurance	295	317
Other	<u>2,252</u>	<u>2,180</u>
	<u>\$ 18,890</u>	<u>\$ 19,541</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, 2016 and 2015 were as follows:

	<b>2016</b>		<b>2015</b>	
	<b>Due from</b>	<b>Due to</b>	<b>Due from</b>	<b>Due to</b>
State appropriations for current operations	\$ 102		\$ 188	
State capital appropriations – noncurrent	<u>329,751</u>		<u>399,144</u>	
Total due from State of Hawai'i	<u>\$ 329,853</u>		<u>\$ 399,332</u>	
Imprest/petty cash advances		\$ 80		\$ 84
Advance		6,000		12,000
General obligation bonds – current		195		185
Employee fringe adjustments		<u>19</u>		<u>241</u>
Due to State of Hawai'i – current		6,294		12,510
General obligation bonds – noncurrent		<u>-</u>		<u>195</u>
Total due to State of Hawai'i		<u>\$ 6,294</u>		<u>\$ 12,705</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, 2016 is as follows:

	<b>Original Amount</b>	<b>Beginning Balance</b>	<b>Principal Repayment</b>	<b>Ending Balance</b>
<b>Series DB (interest rate, 2.80% to 5.25%)</b>				
Student Housing				
Mānoa	\$ 731	\$ 193	\$ 94	\$ 99
Hilo	143	38	18	20
Parking Structure Phase I	<u>425</u>	<u>112</u>	<u>54</u>	<u>58</u>
	<u>1,299</u>	<u>343</u>	<u>166</u>	<u>177</u>
<b>Series DG (interest rate, 5.00%)</b>				
Student Housing				
Mānoa	82	22	11	11
Hilo	16	3	2	1
Parking Structure Phase I	<u>47</u>	<u>12</u>	<u>6</u>	<u>6</u>
	<u>145</u>	<u>37</u>	<u>19</u>	<u>18</u>
	<u>\$ 1,444</u>	<u>\$ 380</u>	<u>\$ 185</u>	<u>\$ 195</u>

Activity related to amounts due to the State of Hawai'i for general obligation bonds for the year ended June 30, 2015 is as follows:

	<b>Original Amount</b>	<b>Beginning Balance</b>	<b>Principal Repayment</b>	<b>Ending Balance</b>
<b>Series DB (interest rate, 2.80% to 5.25%)</b>				
Student Housing				
Mānoa	\$ 731	\$ 282	\$ 89	\$ 193
Hilo	143	55	17	38
Parking Structure Phase I	<u>425</u>	<u>164</u>	<u>52</u>	<u>112</u>
	<u>1,299</u>	<u>501</u>	<u>158</u>	<u>343</u>
<b>Series DG (interest rate, 5.00%)</b>				
Student Housing				
Mānoa	82	32	10	22
Hilo	16	5	2	3
Parking Structure Phase I	<u>47</u>	<u>18</u>	<u>6</u>	<u>12</u>
	<u>145</u>	<u>55</u>	<u>18</u>	<u>37</u>
	<u>\$ 1,444</u>	<u>\$ 556</u>	<u>\$ 176</u>	<u>\$ 380</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:

	<b>Principal</b>	<b>Interest</b>
Series DB	September 1	March 1 and September 1
Series DG	July 1	January 1 and July 1

At June 30, 2016, principal and interest maturities on general obligation bonds were \$195 and \$0, respectively.

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 2.0 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, 2016 and 2015 is summarized as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
<b>2016</b>					
Bonds payable					
Revenue bonds payable	\$ 578,585	\$ 166,285	\$ 182,250	\$ 562,620	\$ 18,940
Other liabilities					
Workers' compensation	15,512	4,636	2,048	18,100	6,353
Accrued vacation	73,840	28,219	26,885	75,174	29,923
Net pension liability (Note 14)	1,089,882	148,576	93,894	1,144,564	-
Postemployment health care/life insurance benefits (Note 15)	650,805	117,052	45,100	722,757	-
Note payable	17,000	-	-	17,000	-
Total other liabilities	<u>1,847,039</u>	<u>298,483</u>	<u>167,927</u>	<u>1,977,595</u>	<u>36,276</u>
Total long-term liabilities	<u>\$ 2,425,624</u>	<u>\$ 464,768</u>	<u>\$ 350,177</u>	<u>\$ 2,540,215</u>	<u>\$ 55,216</u>
<b>2015</b>					
Bonds payable					
Revenue bonds payable	\$ 593,930	\$ -	\$ 15,345	\$ 578,585	\$ 17,115
Other liabilities					
Workers' compensation	14,268	4,404	3,160	15,512	5,586
Accrued vacation	72,832	26,803	25,795	73,840	29,222
Net pension liability (Note 14)	-	1,329,425	239,543	1,089,882	-
Postemployment health care/life insurance benefits (Note 15)	579,196	113,009	41,400	650,805	-
Note payable	17,000	-	-	17,000	-
Total other liabilities	<u>683,296</u>	<u>1,473,641</u>	<u>309,898</u>	<u>1,847,039</u>	<u>34,808</u>
Total long-term liabilities	<u>\$ 1,277,226</u>	<u>\$ 1,473,641</u>	<u>\$ 325,243</u>	<u>\$ 2,425,624</u>	<u>\$ 51,923</u>

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**Revenue Bonds Payable**

The University's revenue bonds payable at June 30, 2016 and 2015 is as follows:

	Series	Date Issued	Authorized	2016	2015
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	\$ 19,970	\$ 87,540
University Health & Wellness Center (interest rate, 3.5% to 5.0%)	Ref 2006A	October 25, 2006	133,810	20,590	123,140
Various acquisition and construction projects (interest rate, 2.5% to 6.0%)	2009A	April 15, 2009	100,000	87,340	89,820
University's Cancer Center (interest rate, 2.5% to 6.0%)	2010A-1, 2010A-2	October 7, 2010	138,640	124,590	127,600
Various construction projects (interest rate, 2.5% to 6.0%)	2010B-1, 2010B-2	October 7, 2010	154,090	142,490	145,830
Student Housing System at Mānoa and Telecommunications System (interest rate, 2.0% to 5.0%)	2012A(R)	February 22, 2012	8,575	3,245	4,655
Hilo College of Pharmacy and Law School Expansion and Modernization (interest rate, 1.0% to 4.7%)	2015A	September 24, 2015	8,575	8,575	-
Frear Hall Construction, Student Housing System at Mānoa, Food Service System and Student Housing System at Hilo (interest rate, 3.0% to 5.0%)	2015B(R)	September 24, 2015	47,010	47,010	-
Frear Hall Construction, Student Housing System at Mānoa, Food Service System and Student Housing System at Hilo (interest rate, 0.8% to 3.0%)	2015C(R)	September 24, 2015	17,585	15,945	-
University Health & Wellness Center (interest rate, 0.8% to 2.8%)	2015D(R)	September 24, 2015	25,715	25,465	-
University Health & Wellness Center (interest rate, 5.0%)	2015E(R)	April 20, 2016	67,400	67,400	-
			<u>\$ 801,400</u>	<u>\$ 562,620</u>	<u>\$ 578,585</u>

In September 2015, the University issued \$166,285 in Series 2015A (\$8,575, taxable new money), 2015B(R) (\$47,010, tax-exempt refunding), 2015C(R) (\$17,585, taxable refunding), 2015D(R) (\$25,715, taxable refunding), and 2015E(R) (\$67,400, tax-exempt forward delivery refunding) bonds (collectively, the "Series 2015 Bonds") for the purpose of financing the costs of University projects and refunding previously issued bonds. All Series 2015 bonds were delivered on September 24, 2015 with the exception of the forward delivery Series 2015E(R) bonds which were delivered on April 20, 2016. Total premium for the Series 2015 Bonds approximated \$13,698. The University projects include the UH Mānoa Law School Expansion and Modernization Project and the UH Hilo College of Pharmacy Project.

The proceeds of the Series 2015B(R), 2015C(R), 2015D(R) and 2015E(R) bonds were deposited into an irrevocable trust with an escrow agent to provide for a portion of the future debt service payments on the Series 2006A University Revenue Bonds and the Refunding Series 2006A University Bonds. Accordingly, the trust account assets and liabilities relating to the defeased bonds are not recorded in the consolidated financial statements of the University. On June 30,

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2016, \$163,245 of bonds outstanding from the Series 2006A University Revenue Bonds and the Refunding Series 2006A University Bonds were considered defeased. The defeasance resulted in an accounting gain of \$15,080 and an economic gain (difference between the present values of the debt service payment on the old and new debt) of \$9,573. The coupon interest rates for the Series 2015 Bonds range from 0.811 percent to 5.000 percent (first interest payment due on April 1, 2016) with the last maturity on October 1, 2044.

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 of \$27. The coupon interest rates for the Series 2012A(R) bonds range from two percent to five 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 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 to 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, Series 2015D(R) and 2015E(R) 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 \$9,549 and \$9,924 in 2016 and 2015, respectively.

The revenue bonds are paid from certain unrestricted revenues in annual installments, including semi-annual interest payments ranging from \$12 to \$13,688 with the final payment due in October 2044. Series 2006A, 2009A, 2010, 2012A(R) and Series 2015 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, 2012A(R) and Series 2015 bonds, interest and premiums (if any).

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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.

At June 30, 2016, future maturities of revenue bonds are as follows:

	<b>Principal</b>	<b>Interest</b>
<b>Year ending June 30,</b>		
2017	\$ 18,940	\$ 27,200
2018	19,115	26,739
2019	18,360	26,155
2020	18,745	25,533
2021	19,375	24,864
2022–2026	108,485	110,723
2027–2031	130,180	81,589
2032–2036	128,075	46,734
2037–2041	99,435	14,034
2042-2045	1,910	184
	<u>\$ 562,620</u>	<u>\$ 383,755</u>

**Bond Premiums**

Activity related to the premiums on general obligation and revenue bonds for the years ended June 30, 2016 and 2015 is as follows:

	<b>Series</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
<b>2016</b>					
John A. Burns School of Medicine	Ref 2006A	\$ 1,183	\$ -	\$ 992	\$ 191
University's Cancer Center	2010A	715	-	263	452
Various construction projects	2010B	1,074	-	366	708
Student Housing	2015B(R)	-	5,639	196	5,443
John A. Burns School of Medicine	2015E(R)	-	8,059	99	7,960
		<u>\$ 2,972</u>	<u>\$ 13,698</u>	<u>\$ 1,916</u>	<u>\$ 14,754</u>
<b>2015</b>					
John A. Burns School of Medicine	Ref 2006A	\$ 1,256	\$ -	\$ 73	\$ 1,183
University's Cancer Center	2010A	1,030	-	315	715
Various construction projects	2010B	1,511	-	437	1,074
General obligation	DB	4	-	4	-
General obligation	DG	1	-	1	-
		<u>\$ 3,802</u>	<u>\$ -</u>	<u>\$ 830</u>	<u>\$ 2,972</u>

**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.

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The Note bears interest at the rate of 1.5 percent 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 April 22, 2018, at which time the unpaid principal will be due. As of June 30, 2016 and 2015, \$17,000 remained outstanding.

**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, 2017. 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, 2016 and 2015. At June 30, 2016 and 2015, 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:

	<b>Lease Amount</b>
<b>Year ending June 30,</b>	
2017	\$ 2,550
2018	2,051
2019	1,202
2020	1,029
2021	555
2022–2026	342
2027–2031	334
Thereafter	1,734
	<u>\$ 9,797</u>

Rent expense for outside space for the years ended June 30, 2016 and 2015 approximated \$7,904 and \$7,540, respectively.

**14. Employee Benefits**

**Employees' Retirement System**  
**General Information on the Pension Plan**

***Plan Description***

Generally, all full-time employees of the University are required to be members of the Employees' Retirement System of the State of Hawai'i ("ERS"), a cost-sharing multiple-employer defined benefit pension plan that administers the University's pension benefits program. Benefits, eligibility and contribution requirements are governed by HRS Chapter 88 and can be amended through legislation. The ERS issues publicly available annual financial reports that can be obtained at ERS's website: <http://www.ers.ehawaii.gov>.

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***Benefits Provided***

The ERS Pension Trust is comprised of three pension classes for membership purposes and considered to be a single plan for accounting purposes since all assets of the ERS may legally be used to pay the benefits of any of the ERS members or beneficiaries. The ERS provides retirement, disability and death benefits with three membership classes known as the noncontributory, contributory and hybrid retirement classes. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25 percent or 2.00 percent) multiplied by the average final compensation multiplied by years of credited service. Average final compensation for members hired prior to July 1, 2012 is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for members hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for members hired prior to January 1, 1971. For members hired after June 30, 2012, average final compensation is an average of the highest salaries during any five years of credited service excluding any salary paid in lieu of vacation.

Each retirees' original retirement allowance is increased on each July 1 beginning the calendar year after retirement. Retirees first hired as members prior to July 1, 2012 receive a 2.5 percent increase each year of their original retirement allowance without a ceiling. Retirees first hired as members after June 30, 2012 receive a 1.5 percent increase each year of their original retirement allowance without a ceiling. The annual increase is not compounded.

Noncontributory Class

- Retirement Benefits – General employees' retirement benefits are determined as 1.25 percent of average final compensation multiplied by the years of credited service. Employees with 10 years of credited service are eligible to retire at age 62. Employees with 30 years of credited service are eligible to retire at age 55.
- Disability Benefits – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35 percent of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 12.5 percent of average final compensation.
- Death Benefits – For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a monthly benefit of 30 percent of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. Additional benefits are payable to surviving dependent children up to age 18. If there is no spouse/reciprocal beneficiary or dependent children, no benefit is payable.

Ordinary death benefits are available to employees who were active at time of death with at least ten years of credited service. The surviving spouse/reciprocal beneficiary (until remarriage/reentry into a new reciprocal beneficiary relationship) and dependent children (up to age 18) receive a benefit equal to a percentage of the member's accrued maximum allowance unreduced for age or, if the member was eligible for retirement at the time of death, the surviving spouse/reciprocal beneficiary receives 100 percent joint and survivor lifetime pension and the dependent children receive a percentage of the member's accrued maximum allowance unreduced for age.

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Contributory Class for Members Hired prior to July 1, 2012

- Retirement Benefits – General employees' retirement benefits are determined as two percent of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 55.
- Disability Benefits – Members are eligible for service-related disability benefits regardless of length of service and receive a one-time payment of the member's contributions and accrued interest plus a lifetime pension of 50 percent of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined as 1.75 percent of average final compensation multiplied by the years of credited service but are payable immediately, without an actuarial reduction, and at a minimum of 30 percent of average final compensation.
- Death Benefits – For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50 percent of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least one year of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage of the salary earned in the 12 months preceding death, or 50 percent Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least 10 years of service and designated one beneficiary, or 100 percent Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Contributory Class for Members Hired After June 30, 2012

- Retirement Benefits – General employees' retirement benefits are determined as 1.75 percent of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 60.
- Disability and Death Benefits – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 50 percent of their average final compensation plus refund of contributions and accrued interest. Ten years of credited service is required for ordinary disability.

Death benefits for contributory members hired after June 30, 2012 are generally the same as those for contributory members hired June 30, 2012 and prior.

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Hybrid Class for Members Hired Prior to July 1, 2012

- Retirement Benefits – General employees' retirement benefits are determined as two percent of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 62. General employees with 30 years of credited service are eligible to retire at age 55.
- Disability Benefits – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35 percent of their average final compensation plus refund of their contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25 percent of average final compensation.
- Death Benefits – For service-connected deaths, the designated surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50 percent of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least five years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage multiplied by 150 percent, or 50 percent Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least 10 years of service and designated one beneficiary, or 100 percent Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Hybrid Class for Members Hired After June 30, 2012

- Retirement Benefits – General employees' retirement benefits are determined as 1.75 percent of average final compensation multiplied by the years of credited service. General employees with 10 years of credited service are eligible to retire at age 65. Employees with 30 years of credited service are eligible to retire at age 60.
- Disability and Death Benefits – Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least 10 years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage multiplied by 50 percent Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least 10 years of service and designated one beneficiary, or 100 percent Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

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***Contributions***

Contributions are governed by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rates for fiscal years 2016 and 2015 were 17.00 percent and 16.50 percent, respectively. Contributions to the pension plan from the University for the years ended June 30, 2016 and 2015 were \$97,394 and \$93,949, respectively.

The University is required to make all contributions for noncontributory members. Contributory members hired prior to July 1, 2012 are required to contribute 7.8 percent of their salary. Hybrid members hired prior to July 1, 2012 are required to contribute 6.0 percent of their salary. Hybrid members hired after June 30, 2012 are required to contribute 8.0 percent of their salary.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

At June 30, 2016 and 2015, the University reported a liability of \$1,144,564 and \$1,089,882, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and 2014, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The University's proportion of the net pension liability was based on a projection of the University's long-term share of contributions to the pension plan relative to projected contributions of all participants, actuarially determined. At June 30, 2015 and 2014, the University's proportion was 13.11 percent and 13.59 percent, respectively, which was a decrease of 0.48 percent and an increase of 0.16 percent from its proportion measured as of June 30, 2014 and 2013, respectively.

There were no changes in other assumptions and inputs that affected the measurement of the total pension liability since the prior measurement date other than the investment return assumption. Fiscal year 2016 was the first year of the three-year phase-in of the investment return assumption. The investment return rate decreased beginning in fiscal year 2016 to 7.65 percent and will continue to decrease to 7.55 percent in fiscal year 2017 and to 7.50 percent in fiscal year 2018 and will remain at 7.5 percent thereafter. There were no other changes between the measurement date, June 30, 2015, and the reporting date, June 30, 2016, that are expected to have a significant effect on the proportionate share of the net pension liability.

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For the years ended June 30, 2016 and 2015, the University recognized pension expense of \$84,899 and \$87,780, respectively. At June 30, 2016 and 2015, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
<b>2016</b>		
Difference between expected and actual experience	\$ 10,720	\$ 32,030
Net difference between projected and actual investment earnings on pension plan investments	-	39,056
Change in assumptions	27,018	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	40,278
Contributions subsequent to the measurement date	<u>125,961</u>	<u>-</u>
Total deferred inflows and outflows of resources	<u>\$ 163,699</u>	<u>\$ 111,364</u>
<b>2015</b>		
Difference between expected and actual experience	\$ 13,859	\$ -
Net difference between projected and actual investment earnings on pension plan investments	-	126,487
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	24,675
Contributions subsequent to the measurement date	<u>120,989</u>	<u>-</u>
Total deferred inflows and outflows of resources	<u>\$ 134,848</u>	<u>\$ 151,162</u>

The \$125,961 reported as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. The \$120,989 reported as deferred outflows of resources resulting in the University's contributions subsequent to the measurement date was recognized as a reduction of net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ending June 30,</b>	
2017	\$ 25,553
2018	25,553
2019	25,553
2020	(5,947)
2021	<u>2,914</u>
	<u>\$ 73,626</u>

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**Actuarial Assumptions**

The total pension liability in the June 30, 2015 and 2014 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<b>2016</b>	<b>2015</b>
Inflation	3.00 %	3.00 %
Payroll growth rate	3.50 %	3.50 %
Investment rate of return	7.65 %	7.75 %

The same rates were applied to all periods. There were no changes to ad hoc postemployment benefits including Cost-of-Living Adjustments.

Postretirement mortality rates are based on Client Specific Tables and the 1994 U.S. Group Annuity Mortality Static Tables. Pre-retirement mortality rates are based on custom tables with RP-2000 rates.

The actuarial assumptions used in the June 30, 2015 and 2014 valuations were based on the most recent experience study dated December 20, 2010. Between experience studies, the ERS Board of Trustees elected to lower the investment return assumption effective with the June 30, 2015 valuation.

The long-term expected rate of return on pension plan investments was determined using a "top down approach" of the Bespoke Client-Constrained Simulation-based Optimization Model (a statistical technique known as "re-sampling with a replacement" that directly keys in on specific plan-level risk factors as stipulated by the ERS Board of Trustees) in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Domestic equity	30.0%	8.5%
International equity	26.0%	9.3%
Total fixed-income	20.0%	3.1%
Real estate	7.0% *	9.2%
Private equity	7.0% *	11.9%
Real return	5.0% *	6.7%
Covered calls	5.0%	7.7%
Total	<u>100.0%</u>	

\* The real estate, private equity and real return targets will be the percentage actually invested up to 7.0 percent, 7.0 percent and 5.0 percent, respectively, of the total fund. Changes in the real estate, private equity and real return targets will be offset by an equal percentage change in the large cap domestic equity target.

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**Discount Rate**

The discount rate used to measure the net pension liability was 7.65 percent and 7.75 percent for the June 30, 2015 and 2014 measurement date, respectively. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the University will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the University's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate**

The following presents the University's proportionate share of the net pension liability, calculated using the discount rate of 7.65 percent and 7.75 percent, for the measurement date June 30, 2015 and 2014, respectively, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.65 percent and 6.75 percent, respectively) or one percentage point higher (8.65 percent and 8.75 percent, respectively) than the current rate:

	<b>1% Decrease (6.65%)</b>	<b>Discount Rate (7.65%)</b>	<b>1% Increase (8.65%)</b>
<b>2016</b>			
The University's proportionate share of the net pension liability	\$ 1,440,967	\$ 1,144,564	\$ 848,162
	<b>1% Decrease (6.75%)</b>	<b>Discount Rate (7.75%)</b>	<b>1% Increase (8.75%)</b>
<b>2015</b>			
The University's proportionate share of the net pension liability	\$ 1,381,405	\$ 1,089,882	\$ 798,360

**Pension Plan Fiduciary Net Position**

The pension plan's fiduciary net position is determined on the same basis used by the pension plan. The ERS financial statements are prepared using the accrual basis of accounting under which expenses are recorded when the liability is incurred, and revenues are recorded in the accounting period in which they are earned and become measurable. 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. Investment purchases and sales are recorded as of their trade date. Administrative expenses are financed exclusively with investment income.

There were no significant changes after the report measurement date. Detailed information about the pension plan's fiduciary net position is available in the separately issued ERS financial report. ERS's complete financial statements are available at <http://www.ers.ehawaii.gov>.

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***Payable to the Pension Plan***

At June 30, 2016, the amount payable to the ERS was \$1,184.

**Other Benefits**

The State absorbs the fringe benefit cost for employees paid from State and federal appropriations. In fiscal years 2015 and 2014, 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 \$195,332 and \$179,007 for fiscal years 2016 and 2015, 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, 2016 and 2015, accumulated sick leave approximated \$454,343 and \$443,641, 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 2016 and 2015 were \$2,480 and \$2,377, respectively. Temporary wage loss payments for fiscal years 2016 and 2015 amounted to \$1,073 and \$795, respectively.

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**15. Postemployment Health Care and Life Insurance Benefits**

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.

**Plan Description**

The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH 2001, 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. 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 an annual financial report that is available to the public. The report may be obtained by writing to:

Hawai'i Employer-Union Health Benefits Trust Fund  
P.O. Box 2121  
Honolulu, Hawai'i 96805-2121

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 10 years of credited service. A retiree can 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 employees retiring with at least 15 years, but fewer than 25 years of service, the State pays 75 percent of the base monthly contribution. For employees retiring with at least 25 years of service, the State pays 100 percent of the base monthly contribution. Retirees in this category can 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 employees retiring with at least 25 years of service, the State pays 100 percent of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can 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 30 years. The following table presents the annual OPEB cost, contributions made, the net OPEB liability, and the funding status for the University for the fiscal year ended June 30, 2016:

Annual required contribution	\$ 107,059
Interest on net OPEB obligation	45,556
Adjustment to annual required contribution	<u>(35,563)</u>
Annual OPEB cost	117,052
Contributions made	<u>(45,100)</u>
Increase in net OPEB obligation	71,952
Net OPEB obligation	
Beginning of year	<u>650,805</u>
End of year	<u>\$ 722,757</u>
Actuarial accrued liability ("AAL") July 1, 2015	\$ 1,262,765
Funded OPEB plan assets	<u>(30,076)</u>
Unfunded actuarial accrued liability ("UAAL") July 1, 2015	<u>\$ 1,232,689</u>
Funded ratio	2.4%
Covered payroll	\$ 572,907
UAAL as percentage of covered payroll	215.2%

The University remitted \$68,184 and \$57,438 in State assessed OPEB contributions for the years ended June 30, 2016 and 2015, respectively. The University's actuarially determined minimum OPEB contribution was \$45,100 and \$41,400 for the years ended June 30, 2016 and 2015, 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.

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year 2016 and the preceding years were as follows:

**OPEB Summary**

<b>Fiscal Year Ending</b>	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
June 30, 2016	\$117,052	38.5%	\$722,757
June 30, 2015	\$113,009	36.6%	\$650,805
June 30, 2014	\$106,832	39.3%	\$579,196

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**Funded Status**

Actuarial valuations of an ongoing plan 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 and the healthcare cost trend. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the consolidated 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:

Actuarial valuation date	July 1, 2015	July 1, 2013
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level percent, closed	Level percent, closed
Remaining amortization period	28 years	30 years
Asset valuation method	Market	Market
Actuarial assumptions		
Investment rate of return	7.0%	7.0%
Projected salary increases	3.5%	3.5%
Healthcare inflation rates		
PPO	9.0% initial, 5.0% after 8 years	9.0% initial, 5.0% after 10 years
HMO	7.0% initial, 5.0% after 8 years	7.5% initial, 5.0% after 10 years
Dental	4.0%	4.0%
Vision	3.0%	3.0%
Medicare Part B	3.0% initial, 5.0% after 2 years	5.0%

The July 1, 2013 actuarial valuation was used to determine the amounts reported in the University's consolidated financial statements for the years ended June 30, 2016 and 2015. The information on the funded status of the plan is from the July 1, 2015 valuation, the most recent valuation.

Effective July 1, 2016, the active contracts for medical, prescription drug, dental, vision, supplemental medical drug, and life insurance were extended through June 30, 2017.

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**16. Other Noncurrent Liabilities**

Other noncurrent liabilities at June 30, 2016 and 2015 are comprised of:

	<b>2016</b>	<b>2015</b>
Liabilities under split interest agreements	\$ 10,565	\$ 9,999
Amounts held for others	3,369	3,645
Other	<u>3,210</u>	<u>3,175</u>
	<u>\$ 17,144</u>	<u>\$ 16,819</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 Sessions 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 State Legislature specifies the lapse date and any other particular conditions relating to terminating the authorizations for other appropriations.

Act 124, SLH 2016 Section 39, provided \$106,789 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, 2016.

Act 122, SLH 2014 Section 35, provided \$106,110 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, 2015.

The net amount of the University's State general and capital appropriations for the years ended June 30, 2016 and 2015 were \$441,373 and \$16,547 and \$413,148 and \$161,822, respectively.

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Net general and capital appropriations for the year ended June 30, 2016 were as follows:

<b>General appropriations</b>	
Act 119, SLH 2015, Appropriation Warrant No. 10	\$ 427,575
Act 104, SLH 2015, Appropriation Warrant No. 69	500
Act 105, SLH 2015, Appropriation Warrant No. 70	350
Total funds lapsed	(2)
Executive restriction	(4,612)
Collective bargaining adjustment	<u>17,562</u>
Total general appropriations	<u>\$ 441,373</u>
<b>Capital appropriations</b>	
Sections 39 & 71 of Act 134, SLH 2013, Amended by Act 122 SLH 2014	\$ 10,405
Sections 47 & 83 of Act 119, SLH 2015	51,930
Total funds lapsed	<u>(45,788)</u>
Total capital appropriations	<u>\$ 16,547</u>

Net general and capital appropriations for the year ended June 30, 2015 were as follows:

<b>General appropriations</b>	
Act 134, SLH 2013, Amended by Act 122, SLH 2014 Appropriation Warrant No. 35	\$ 409,656
Act 122, SLH 2014, Appropriation Warrant No. 117	200
Total funds lapsed	(34)
Executive restriction	(5,375)
Collective bargaining adjustment	<u>8,701</u>
Total general appropriations	<u>\$ 413,148</u>
<b>Capital appropriations</b>	
Sections 39 & 71 of Act 134, SLH 2013, Amended by Act 122 SLH 2014	\$ 90,500
Sections 39 of Act 134, SLH 2013, Amended by Act 122, SLH 2014	73,800
Total funds lapsed	<u>(2,478)</u>
Total capital appropriations	<u>\$ 161,822</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, 2016 and 2015:

**Condensed Consolidating Statements of Net Position**

	2016				Total
	University	Research Corporation	Foundation	Consolidation Adjustments	
<b>Assets and Deferred Outflows of Resources</b>					
Current assets	\$ 468,113	\$ 34,760	\$ 25,558	\$ -	\$ 528,431
Interdepartmental receivables	24,967	10,342	39,020	(74,329)	-
Capital assets, net	2,049,087	2,021	2,277	-	2,053,385
Other assets	450,764	-	412,985	-	863,749
Total assets	2,992,931	47,123	479,840	(74,329)	3,445,565
Deferred outflows of resources	175,082	-	-	-	175,082
Total deferred outflows of resources	175,082	-	-	-	175,082
Total assets and deferred outflows of resources	\$ 3,168,013	\$ 47,123	\$ 479,840	\$ (74,329)	\$ 3,620,647
<b>Liabilities, Deferred Inflows of Resources and Net Position</b>					
Current liabilities	\$ 237,548	\$ 28,057	\$ 1,346	\$ -	\$ 266,951
Interdepartmental payables	26,637	3,790	2,711	(33,138)	-
Noncurrent liabilities	2,498,297	4,665	13,935	-	2,516,897
Total liabilities	2,762,482	36,512	17,992	(33,138)	2,783,848
Deferred inflows of resources	111,364	-	-	-	111,364
Total deferred inflows of resources	111,364	-	-	-	111,364
<b>Net position</b>					
Net investment in capital assets	1,500,637	2,021	2,277	-	1,504,935
Restricted					
Nonexpendable	10,493	-	272,923	(39,020)	244,396
Expendable	370,406	-	190,687	-	561,093
Unrestricted	(1,587,369)	8,590	(4,039)	(2,171)	(1,584,989)
Total net position	294,167	10,611	461,848	(41,191)	725,435
Total liabilities, deferred inflows of resources and net position	\$ 3,168,013	\$ 47,123	\$ 479,840	\$ (74,329)	\$ 3,620,647

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	<b>2015</b>				
	<b>University</b>	<b>Research Corporation</b>	<b>Foundation</b>	<b>Consolidation Adjustments</b>	<b>Total</b>
<b>Assets and Deferred Outflows of Resources</b>					
Current assets	\$ 436,106	\$ 39,487	\$ 28,851	\$ -	\$ 504,444
Interdepartmental receivables	25,601	4,148	39,960	(69,709)	-
Capital assets, net	2,064,651	1,757	2,283	-	2,068,691
Other assets	520,926	-	423,157	-	944,083
Total assets	<u>3,047,284</u>	<u>45,392</u>	<u>494,251</u>	<u>(69,709)</u>	<u>3,517,218</u>
Deferred outflows of resources	140,099	-	-	-	140,099
Total deferred outflows of resources	<u>140,099</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>140,099</u>
Total assets and deferred outflows of resources	<u>\$ 3,187,383</u>	<u>\$ 45,392</u>	<u>\$ 494,251</u>	<u>\$ (69,709)</u>	<u>\$ 3,657,317</u>
<b>Liabilities, Deferred Inflows of Resources and Net Position</b>					
Current liabilities	\$ 240,491	\$ 28,261	\$ 1,295	\$ -	\$ 270,047
Interdepartmental payables	22,508	2,204	4,972	(29,684)	-
Noncurrent liabilities	2,375,511	4,532	13,644	-	2,393,687
Total liabilities	<u>2,638,510</u>	<u>34,997</u>	<u>19,911</u>	<u>(29,684)</u>	<u>2,663,734</u>
Deferred inflows of resources	151,162	-	-	-	151,162
Total deferred inflows of resources	<u>151,162</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>151,162</u>
<b>Net position</b>					
Net investment in capital assets	1,499,861	1,757	2,284	-	1,503,902
Restricted					
Nonexpendable	10,493	-	265,361	(39,960)	235,894
Expendable	440,642	-	204,101	-	644,743
Unrestricted	<u>(1,553,285)</u>	<u>8,638</u>	<u>2,594</u>	<u>(65)</u>	<u>(1,542,118)</u>
Total net position	<u>397,711</u>	<u>10,395</u>	<u>474,340</u>	<u>(40,025)</u>	<u>842,421</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 3,187,383</u>	<u>\$ 45,392</u>	<u>\$ 494,251</u>	<u>\$ (69,709)</u>	<u>\$ 3,657,317</u>

**University of Hawai'i**  
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**Condensed Consolidating Statements of Revenues, Expenses  
and Changes in Net Position**

	2016				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
<b>Operating revenues</b>					
Student tuition and fees, net	\$ 273,043	\$ -	\$ -	\$ (737)	\$ 272,306
Federal appropriations, grants and contracts	322,266	-	-	-	322,266
State and local grants and contracts	31,957	2,129	-	(1,255)	32,831
Nongovernmental sponsored programs	47,070	-	-	(11,936)	35,134
Sales and services of educational departments, other	33,809	4,609	4,954	(7,609)	35,763
Auxiliary enterprises	99,024	-	-	-	99,024
Other operating revenues	727	-	1,484	-	2,211
Total operating revenues	<u>807,896</u>	<u>6,738</u>	<u>6,438</u>	<u>(21,537)</u>	<u>799,535</u>
<b>Operating expenses</b>					
Depreciation	124,553	319	65	-	124,937
Other operating expenses	1,495,316	6,310	57,960	(23,970)	1,535,616
Total operating expenses	<u>1,619,869</u>	<u>6,629</u>	<u>58,025</u>	<u>(23,970)</u>	<u>1,660,553</u>
Operating income (loss)	(811,973)	109	(51,587)	2,433	(861,018)
<b>Nonoperating activity</b>					
Nonoperating revenues (expenses)	483,129	107	30,779	(3,491)	510,524
Capital contributions and additions to permanent and term endowments	21,003	-	8,316	(108)	29,211
Transfers	204,297	-	-	-	204,297
Total nonoperating activity	<u>708,429</u>	<u>107</u>	<u>39,095</u>	<u>(3,599)</u>	<u>744,032</u>
Increase (decrease) in net position	(103,544)	216	(12,492)	(1,166)	(116,986)
<b>Net position</b>					
Beginning of year	397,711	10,395	474,340	(40,025)	842,421
Adjustment for change in accounting principle	-	-	-	-	-
Beginning of year, as restated	<u>397,711</u>	<u>10,395</u>	<u>474,340</u>	<u>(40,025)</u>	<u>842,421</u>
End of year	<u>\$ 294,167</u>	<u>\$ 10,611</u>	<u>\$ 461,848</u>	<u>\$ (41,191)</u>	<u>\$ 725,435</u>

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	2015				Total
	University	Research Corporation	Foundation	Consolidation Adjustments	
<b>Operating revenues</b>					
Student tuition and fees, net	\$ 263,247	\$ -	\$ -	\$ (587)	\$ 262,660
Federal appropriations, grants and contracts	325,531	-	-	-	325,531
State and local grants and contracts	28,297	2,125	-	(1,389)	29,033
Nongovernmental sponsored programs	45,729	-	-	(9,493)	36,236
Sales and services of educational departments, other	32,318	4,384	6,844	(7,383)	36,163
Auxiliary enterprises	99,166	-	-	(14)	99,152
Other operating revenues	616	-	1,952	-	2,568
Total operating revenues	<u>794,904</u>	<u>6,509</u>	<u>8,796</u>	<u>(18,866)</u>	<u>791,343</u>
<b>Operating expenses</b>					
Depreciation	121,126	216	36	-	121,378
Other operating expenses	1,498,021	5,915	54,820	(26,242)	1,532,514
Total operating expenses	<u>1,619,147</u>	<u>6,131</u>	<u>54,856</u>	<u>(26,242)</u>	<u>1,653,892</u>
Operating income (loss)	(824,243)	378	(46,060)	7,376	(862,549)
<b>Nonoperating activity</b>					
Nonoperating revenues (expenses)	457,576	91	34,258	(2,381)	489,544
Capital contributions and additions to permanent and term endowments	166,269	(2)	50,027	(35,871)	180,423
Transfers	186,269	(250)	-	250	186,269
Total nonoperating activity	<u>810,114</u>	<u>(161)</u>	<u>84,285</u>	<u>(38,002)</u>	<u>856,236</u>
Increase (decrease) in net position	(14,129)	217	38,225	(30,626)	(6,313)
<b>Net position</b>					
Beginning of year	1,524,632	10,178	436,115	(9,399)	1,961,526
Adjustment for change in accounting principle	(1,112,792)	-	-	-	(1,112,792)
Beginning of year, as restated	<u>411,840</u>	<u>10,178</u>	<u>436,115</u>	<u>(9,399)</u>	<u>848,734</u>
End of year	<u>\$ 397,711</u>	<u>\$ 10,395</u>	<u>\$ 474,340</u>	<u>\$ (40,025)</u>	<u>\$ 842,421</u>

**Condensed Consolidating Statements of Cash Flows**

	2016			
	University	Research Corporation	Foundation	Total
<b>Net cash provided by (used in)</b>				
Operating activities	\$ (482,355)	\$ (4,338)	\$ (7,747)	\$ (494,440)
Noncapital financing activities	553,040	-	7,729	560,769
Capital and related financing activities	(42,935)	(583)	-	(43,518)
Investing activities	(3,693)	(2,896)	(2,854)	(9,443)
Total change in cash	<u>24,057</u>	<u>(7,817)</u>	<u>(2,872)</u>	<u>13,368</u>
<b>Cash and cash equivalent balances</b>				
Beginning of year	<u>47,428</u>	<u>30,974</u>	<u>11,409</u>	<u>89,811</u>
End of year	<u>\$ 71,485</u>	<u>\$ 23,157</u>	<u>\$ 8,537</u>	<u>\$ 103,179</u>

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	<b>2015</b>			
	<b>University</b>	<b>Research Corporation</b>	<b>Foundation</b>	<b>Total</b>
<b>Net cash provided by (used in)</b>				
Operating activities	\$ (490,480)	\$ (5,474)	\$ 641	\$ (495,313)
Noncapital financing activities	532,159	(250)	6,866	538,775
Capital and related financing activities	(40,717)	(702)	-	(41,419)
Investing activities	23,320	89	52	23,461
Total change in cash	24,282	(6,337)	7,559	25,504
<b>Cash and cash equivalent balances</b>				
Beginning of year	23,146	37,311	3,850	64,307
End of year	\$ 47,428	\$ 30,974	\$ 11,409	\$ 89,811

**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 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 Uniform Guidance. 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 re-conveyed 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 \$217,163 and \$165,506 as of June 30, 2016 and 2015.

**Collective Bargaining Agreements**

The Hawaii State Constitution under Article XIII, Section 2, grants public employees in the State the right to organize for the purpose of collective bargaining as provided by law. Chapter 89, Hawai'i Revised Statutes ("HRS"), provides for 14 recognized bargaining units for all public employees throughout the State, including State, county and municipal employees. Each bargaining unit is represented by an employee organization otherwise known as the exclusive bargaining representative of all employees within each unit which negotiates with the public employer. For the purpose of negotiating a collective bargaining agreement, the public employer of an appropriate bargaining unit are statutorily defined by law under HRS, §89-6. In bargaining units with employees in multiple jurisdictions (i.e., State, Counties, Judiciary and Hawaii Health Systems Corporation), the public employer includes the Governor and an employer representative from each applicable jurisdiction to include the Mayors, the Chief Justice, the Hawaii Health Systems Corporation board, the President of the University, the Superintendent of Education, the Board of the University, and the Board of Education. In the case of the University's bargaining unit 7 and 8 employees, the public employers are the Governor, the Board and the President of the University.

Decisions by the employer representatives of the State and county employees are determined by simple majority vote with the Governor having varying numbers of votes depending on the bargaining unit involved. Decisions by the public employer of Board-appointed employees (Units 7 and 8) are determined by simple majority vote with the Governor having three votes, the Board having two votes, and the University President having one vote. By statute, statutory impasse is declared by the Hawaii Labor Relations Board on February 1st in the final year of any contract if there is no resolution by January 31st, and the parties may attempt to resolve the impasse through voluntary mediation and mandatory mediation. If the impasse is not resolved through mediation, for Units 2, 3, 4, 6, 8, 9, 10, 11, 12, 13 and 14, it shall be submitted to a three member arbitration panel (i.e., interest arbitration) as these bargaining units do not have the right to strike. The bargaining units that do have the right to strike (i.e., Units 1, 5 and 7) are still able to mutually agree to other impasse processes and procedures, including the possibility of entering into interest arbitration. Although the statute characterizes arbitration decisions as "final and binding," it also provides that all cost items are subject to appropriations by the appropriate legislative bodies.

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Depending on the nature of their positions, most employees working at the University are included in a bargaining unit as defined in HRS §89-6(a). The University is responsible for properly administering the eight CBAs associated with the aforementioned bargaining units and further defined as follows:

- Unit 1 (nonsupervisory employees in blue collar positions)
- Unit 2 (supervisory employees in blue collar positions)
- Unit 3 (nonsupervisory employees in white collar positions)
- Unit 4 (supervisory employees in white collar positions)
- Unit 7 (faculty of the University and the community college system)
- Unit 8 (personnel of the University and the community college system, other than faculty)
- Unit 9 (registered professional nurses) or Unit 10 (institutional health and correctional workers)
- Civil service personnel working at the University are included in BUs 1, 2, 3, 4, 9 and 10. Non-civil service personnel such as faculty members and administrative, professional and technical ("APT") staff are Board appointees and are included in BUs 7 and 8, respectively. Employees in executive/managerial positions, as well as certain other personnel designated as excluded from collective bargaining pursuant to HRS, §89-6(f) and whose responsibilities concern confidential matters affecting employee-employer relations, are not represented by any union. Wages, hours, and other terms and conditions of employment for these personnel are provided by law or action of the Board, as applicable. Some employees (e.g., certain contractual hires) are not parties to any recognized bargaining unit.

The Board, as a public employer, is mandated by Chapter 89, HRS, to negotiate 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. In assessing the University's responsibilities to negotiate and administer CBAs, below are several considerations in regards to litigation, contingent liabilities and commitments:

- The Board must participate with exclusive representatives in good-faith negotiations over the issue of wages, hours and conditions of work to the extent mandated by HRS §89-9[a], for University personnel included in the applicable bargaining units;

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- 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 Board 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 bargaining units are applicable to most civil service personnel working for the State;
- CBAs for faculty members (BU 7) are negotiated by and between the Governor, the University President, and the Board with the University of Hawai'i Professional Assembly who is the exclusive representative for Faculty members. APT personnel (BU 8) are negotiated by and between the Governor, the University President, and the Board 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 Board appointees, specifically APT personnel and faculty members of the University;
- 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 bargaining units 2, 3, 4, 8 or 9, the Board, 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 so-called "most-favored nations clause" into particular agreements;
- Improper administration, disputes regarding CBA interpretation, or a lack of adherence to CBAs could result in litigation and associated costs

The current status of the collective bargaining agreements is as follows:

- 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 for Unit 7 faculty 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 provided for a four percent across the board pay increase in each of the two years, increased the minimum salaries to faculty members paid by rank, and negotiated EUTF contributions. The total cost was subject to legislative appropriations and was funded.

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- Interest arbitration proceedings were completed in July 2015 with the Hawaii Government Employees Association (“HGEA”) for Unit 8 APT employees of the University for a successor agreement beyond July 1, 2015. The arbitration award and decision dated December 1, 2015 covered the period July 1, 2015 to June 30, 2017. The award and decision provided an across the board increase of four percent effective July 1, 2015 and four percent effective July 1, 2016, one time lump sum bonuses paid to eligible employees, and other terms and conditions.
- The University’s employees in Units 1 and 10 are working under a four-year (4) contract that covers the period July 1, 2013 to July 1, 2017. Negotiations for Units 2, 3, 4, and 9 were completed and resulted in ratified and agreed upon successor bargaining contracts for the period July 1, 2015 to June 30, 2017. The aforementioned CBAs stipulated step movements and 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 parties recently entered in negotiations over successor agreements for Units 1, 2, 3, 4, 7, 8, 9 and 10. Impasse has been declared for certain units at this point in time.

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

**University of Hawai'i**  
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**Schedule of Proportionate Share of the Net Pension Liability (Unaudited)**  
**Schedule of Contributions (Unaudited)**  
**Year Ended June 30, 2016**  
*(All dollars reported in thousands)*

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**Net Pension Liability**

**REQUIRED SUPPLEMENTARY INFORMATION**  
**Schedule of Proportionate Share of the Net Pension Liability**

<b>Fiscal Year Ending</b>	<b>Proportionate Share of the Net Pension Liability as a Percentage</b>	<b>Proportionate Share of the Net Pension Liability as an Amount (a)</b>	<b>Annual Covered Payroll (b)</b>	<b>Proportion of the Net Pension Liability as a Percentage of Covered Payroll (a) / (b)</b>	<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>
June 30, 2016	13.11%	\$1,144,564	\$572,907	200%	63.42%
June 30, 2015	13.60%	\$1,089,882	\$564,736	193%	63.92%
June 30, 2014	13.75%	\$1,227,787	\$550,758	223%	57.96%

**REQUIRED SUPPLEMENTARY INFORMATION**  
**Schedule of Contributions**

<b>Fiscal Year Ending</b>	<b>Statutorily Required Contribution (a)</b>	<b>Contributions in Relation to the Statutorily Required Contribution (b)</b>	<b>Contribution Deficiency (Excess) (a) - (b)</b>	<b>Covered Annual Payroll (c)</b>	<b>Contributions as a Percentage of Covered Payroll (a) / (c)</b>
June 30, 2016	\$97,394	\$97,394	\$0	\$572,907	17.00%
June 30, 2015	\$93,949	\$93,949	\$0	\$564,736	16.64%
June 30, 2014	\$88,381	\$88,381	\$0	\$550,758	16.05%

**1. Changes of Benefit Terms**

There were no changes of benefit terms in 2016, 2015 or 2014.

**2. Changes of Assumptions**

The investment return assumption decreased beginning in fiscal year 2016 from 7.75 percent to 7.65 percent. There were no changes of assumptions in 2015 or 2014.

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**Schedule of Funding Progress (Unaudited)**  
**Year Ended June 30, 2016**  
*(All dollars reported in thousands)*

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**Postemployment Benefits Other than Pensions**

**REQUIRED SUPPLEMENTARY INFORMATION**  
**Schedule of Funding Progress**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (b)</b>	<b>Unfunded Actuarial Accrued Liability (b) - (a)</b>	<b>Funded Ratio (a) / (b)</b>	<b>Annual Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll (b) - (a) / (c)</b>
July 1, 2015	\$30,076	\$1,262,765	\$1,232,689	2%	\$572,907	215.2%
July 1, 2013	\$0	\$1,185,790	\$1,185,790	0%	\$550,758	215.3%
July 1, 2011	\$0	\$1,860,680	\$1,860,680	0%	\$503,900	369.3%
July 1, 2009	\$0	\$1,849,949	\$1,849,949	0%	\$495,498	373.4%