UNIVERSITY of HAWAIʻI®
SYSTEM

2016 Annual Financial Report, Required Supplementary Information and Other Supplementary Information University of Hawaii State of Hawaii

University of Hawai‘i
State of Hawai‘i
Master Index
June 30, 2016 and 2015

CERTIFIED PUBLIC ACCOUNTANTS

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.

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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.

Accuity LLP

Honolulu, Hawai'i
December 15, 2016

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.

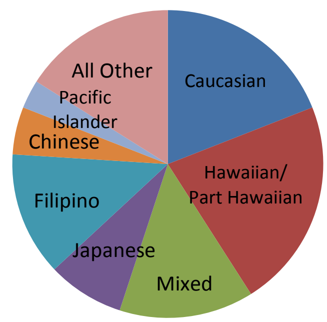
University of Hawai'i Quick Facts

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

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

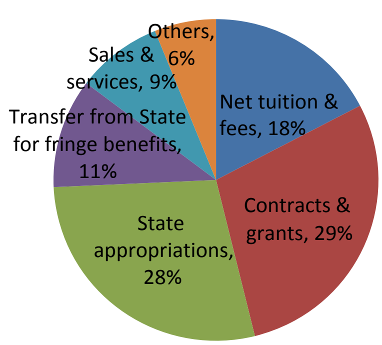
Residency	
Hawai'i	85%
Mainland	10%
Foreign	4%
Other	1%

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%



Total Revenues ($ in thousands)	Fiscal Year 2016	% of Total	Fiscal Year 2015	Fiscal Year 2014
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
Total	**$ 1,568,632**	**100%**	**$ 1,675,102**	**$ 1,711,175**

Fiscal Year 2016 Total Revenue



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.

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
Current assets								
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
Noncurrent assets								
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
Deferred outflows of resources								
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
Current liabilities	$ 266,951	7%	$ 270,047	7%	$ 263,583	8%	$ (3,096)	$ 6,464
Noncurrent liabilities								
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
Deferred inflows of resources								
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
Net position								
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 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.

- 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):

	2016	2015	2014
University of Hawai‘i	$ 103.8	$ 104.0	$ 133.7
Foundation	371.2	373.2	365.8
Total	$ 475.0	$ 477.2	$ 499.5

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.

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.

- **Hawai‘i Community College Pālamanui Campus** – The newest University of Hawai‘i campus, the $27.8 million Hawai‘i Community College Pālamanui opened on August 24, 2015. The community of Pālamanui, "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 Pālamanui 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.

- **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):

	2016	2015	2014
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	(1,584,989)	(1,542,118)	(374,346)
Total net position	$ 725,435	$ 842,421	$ 1,961,526

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.

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):

	2016	2015	2014
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
	$ 561,093	$ 644,743	$ 598,070

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):

	2016	2015	2014
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	$ 282,332	$ 198,569	$ 204,850

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
Revenues								
Operating								
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)
Nonoperating								
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)
Expenses								
Operating								
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)
Nonoperating (revenues) expenses								
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)
Other nonoperating activity								
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			
Net position								
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			

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.

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

				Increase (Decrease)	
	2016	2015	2014	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)
	$ 679	$ 4,659	$ 51,520	$ (3,980)	$ (46,861)

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.

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:

Time Period	Cigarette Stamp Tax
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 appropriations from the State of Hawaiʻi 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):

	2016	2015	2014	FY 16 vs 15 Change	FY 15 vs 14 Change
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	(494,440)	(495,313)	(514,970)	873	19,657
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	13,368	25,504	(14,397)	(12,136)	39,901
Cash					
Beginning of year	89,811	64,307	78,704	25,504	(14,397)
End of year	$ 103,179	$ 89,811	$ 64,307	$ 13,368	$ 25,504

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 Hawaiʻi of $25.8 million and $12.0 million due to the advance and repayment of funds to the State of Hawaiʻi 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.

Looking Forward

The University of Hawaiʻi is one of the most important economic engines in Hawaiʻi with a total estimated impact of $3.61 billion on Hawaiʻi's economy. In relation to this, the University is impacted by Hawaiʻi's economy in its enrollment and funding received from the State of Hawaiʻi and gift donors. Looking toward the future, Hawaiʻi'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. Hawaiʻi'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 Hawaiʻi, 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 Hawaiʻi 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:

- Hawaiʻi Graduation Initiative
- Hawaiʻi Innovation Initiative
- 21st 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 Hawaiʻi community colleges are the most affordable public, two-year institutions of higher education in the nation. Hawaiʻi 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 Hawaiʻi 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 Hawaiʻi at Hilo and at West Oʻahu.

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 Hawaiʻi remains high. The peak associated to the Great Recession is perceived to be anomalously high. Fall census headcount comparisons are as follows:

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

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.

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 CancerInstitute 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 Pālamanui 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 21st 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.

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.

Hawaiʻi 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 Hawaiʻi 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.

University of Hawai‘i
State of Hawai‘i
Consolidated Statements of Net Position
June 30, 2016 and 2015
(All dollars reported in thousands)

	2016	2015
Assets and Deferred Outflows of Resources		
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	11,462	12,916
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	18,890	19,541
Total noncurrent assets	2,917,134	3,012,774
Total assets	3,445,565	3,517,218
Deferred outflows of resources		
Deferred loss on refunding	11,383	5,251
Deferred outflows on net pension liability	163,699	134,848
Total deferred outflows of resources	175,082	140,099
Total assets and deferred outflows of resources	$ 3,620,647	$ 3,657,317
Liabilities, Deferred Inflows of Resources and Net Position		
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	7,229	9,138
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	17,144	16,819
Total noncurrent liabilities	2,516,897	2,393,687
Total liabilities	2,783,848	2,663,734
Deferred inflows of resources		
Deferred inflows on net pension liability	111,364	151,162
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	(1,584,989)	(1,542,118)
Total net position	725,435	842,421
Total liabilities, deferred inflows of resources and net position	$ 3,620,647	$ 3,657,317

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

University of Hawai‘i
State of Hawai‘i
Consolidated Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2016 and 2015
(All dollars reported in thousands)

	2016	2015
Operating revenues		
Student tuition and fees	$ 403,411	$ 392,471
Less: Scholarship allowances	131,105	129,811
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	2,211	2,568
Total operating revenues	799,535	791,343
Operating expenses		
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	36,205	32,762
Total operating expenses	1,660,553	1,653,892
Operating loss	(861,018)	(862,549)
Nonoperating revenues (expenses)		
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	(284)	516
Net nonoperating revenues before capital and endowment additions (deductions)	684,737	658,413
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	9,254	19,426
Total other revenues	59,295	197,823
Net nonoperating revenues	744,032	856,236
Change in net position	(116,986)	(6,313)
Net position		
Beginning of year	842,421	1,961,526
Adjustment for change in accounting principle (Note 1)	-	(1,112,792)
Beginning of year, as restated	842,421	848,734
End of year	$ 725,435	$ 842,421

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

University of Hawai‘i
State of Hawai‘i
Consolidated Statements of Cash Flows
Years Ended June 30, 2016 and 2015
(All dollars reported in thousands)

	2016	2015
Cash flows from operating activities		
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	(494,440)	(495,313)
Cash flows from noncapital financing activities		
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	560,769	538,775
Cash flows from capital and related financing activities		
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	(43,518)	(41,419)
Cash flows from investing activities		
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	(9,443)	23,461
Net increase in cash and cash equivalents	13,368	25,504
Cash and cash equivalents		
Beginning of year	89,811	64,307
End of year	$ 103,179	$ 89,811

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

University of Hawai‘i
State of Hawai‘i
Consolidated Statements of Cash Flows
Years Ended June 30, 2016 and 2015
(All dollars reported in thousands)

	2016	2015
Reconciliation of operating loss to net cash used in operating activities		
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	$ (494,440)	$ (495,313)
Supplemental information of noncash transactions		
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.

1. Organization and Summary of Significant Accounting Policies

Financial Reporting Entity

The accompanying consolidated financial statements of the University of Hawaiʻi (the "University") include the activities of the University of Hawaiʻi at Mānoa, University of Hawaiʻi at Hilo, University of Hawaiʻi at West Oʻahu, University of Hawaiʻi at Maui College, University of Hawaiʻi 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 Hawaiʻi (the "Research Corporation") and the University of Hawaiʻi 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 Hawaiʻi, 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 Hawaiʻi Foundation, 2444 Dole Street, Bachman Hall, Room 101, Honolulu, HI 96822.

Similarly, the University is fiscally dependent upon the State of Hawaiʻi (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.

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 of liability, either directly or indirectly.

- **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.

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.

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.

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.

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.

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.

(All dollars reported in thousands)

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.

	2015 As Previously Reported	Reclassifications	2015 Revised
Operating revenues			
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)
Nonoperating revenues			
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
Cash flows from operating activities			
Net cash used in operating activities	(499,853)	4,540	(495,313)
Cash flows from noncapital financing activities			
Net cash provided by noncapital financing activities	538,045	730	538,775
Cash flows from capital and related financing activities			
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.

(All dollars reported in thousands)

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 Hawaiʻi Uniform Prudent Management of Institutional Funds Act ("HUPMIFA"), established under Hawaiʻi Revised Statute §517E, was enacted by the State of Hawaiʻi 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

(All dollars reported in thousands)

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

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

(All dollars reported in thousands)

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

(All dollars reported in thousands)

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

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
2016					
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	63,325	-	-	2,375	60,950
Total investments	$ 773,742	$ 275,413	$ 90,247	$ 8,815	$ 399,267
2015					
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	59,868	-	-	1,631	58,237
Total investments	$ 762,484	$ 246,397	$ 79,109	$ 7,846	$ 429,132

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.

(All dollars reported in thousands)

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:

		Credit Quality Rating					
	Fair Value	U.S. Govt-Exempt	AAA	AA	A	BBB	Not Rated
2016							
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	$ 309,689	$ 88,076	$ 10,839	$ 121,653	$ 232	$ 182	$ 88,707

		Credit Quality Rating					
	Fair Value	U.S. Govt-Exempt	AAA	AA	A	BBB	Not Rated
2015							
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	$ 278,255	$ 62,153	$ 17,124	$ 108,880	$ 264	$ 164	$ 89,670

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.

(All dollars reported in thousands)

At June 30, 2016, the composition of the University's fixed income investments and maturities are summarized below:

		Investment Maturities (in Years)			
	Fair Value	**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	$ 309,689	$ 71,063	$ 182,612	$ 46,410	$ 9,604

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
	$ 86,913	$ 87,719

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.

(All dollars reported in thousands)

5. Notes and Contributions Receivable

The composition of notes and contributions receivable at June 30, 2016 and 2015 is summarized as follows:

	2016	2015
Student notes		
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	25,057	26,291
Less: Allowance for uncollectible receivables	7,410	7,760
Total student and other notes receivable, net	17,647	18,531
Contributions receivable	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	39,393	45,845
Total student notes and contributions receivable, net	57,040	64,376
Less: Current portion, net	16,972	16,221
	$ 40,068	$ 48,155

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

	2016	2015
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
	$ 7,410	$ 7,760

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	29,199
	$ 45,211

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.

(All dollars reported in thousands)

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:

		2016	2015
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
		$ 10,250	$ 11,765

(All dollars reported in thousands)

7. Capital Assets

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

	Beginning Balance	Additions	Deductions	Transfers	Ending Balance
2016					
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	287,384	81,862	3,915	(137,105)	228,226
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	3,093,780	36,587	28,785	137,105	3,238,687
Less: Accumulated depreciation	1,312,473	124,937	23,882	-	1,413,528
Capital assets, net	$ 2,068,691	$ (6,488)	$ 8,818	$ -	$ 2,053,385
2015					
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	267,176	100,367	3,303	(76,856)	287,384
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	3,035,295	30,344	48,715	76,856	3,093,780
Less: Accumulated depreciation	1,230,621	121,378	39,526	-	1,312,473
Capital assets, net	$ 2,071,850	$ 9,333	$ 12,492	$ -	$ 2,068,691

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.

(All dollars reported in thousands)

8. Other Noncurrent Assets

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

	2016	2015
Interest in beneficial trusts held by others	$ 16,343	$ 17,044
Prepaid bond insurance	295	317
Other	2,252	2,180
	$ 18,890	$ 19,541

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:

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

(All dollars reported in thousands)

10. Due to the State of Hawaiʻi for General Obligation Bonds

Activity related to amounts due to the State of Hawaiʻi for general obligation bonds for the year ended June 30, 2016 is as follows:

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

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

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

(All dollars reported in thousands)

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

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

At June 30, 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.

(All dollars reported in thousands)

11. Long-Term Liabilities

Long-term liability activity for the years ended June 30, 2016 and 2015 is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
2016					
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	1,847,039	298,483	167,927	1,977,595	36,276
Total long-term liabilities	$ 2,425,624	$ 464,768	$ 350,177	$ 2,540,215	$ 55,216
2015					
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	683,296	1,473,641	309,898	1,847,039	34,808
Total long-term liabilities	$ 1,277,226	$ 1,473,641	$ 325,243	$ 2,425,624	$ 51,923

(All dollars reported in thousands)

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	-
			$ 801,400	$ 562,620	$ 578,585

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, 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).

(All dollars reported in thousands)

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:

	Principal	Interest
Year ending June 30,		
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
	$ 562,620	$ 383,755

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:

	Series	Beginning Balance	Additions	Reductions	Ending Balance
2016					
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
Total bond premiums		$ 2,972	$ 13,698	$ 1,916	$ 14,754
2015					
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	-
Total bond premiums		$ 3,802	$ -	$ 830	$ 2,972

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.

(All dollars reported in thousands)

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:

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

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*.

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.

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.

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.

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.

(All dollars reported in thousands)

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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
2016		
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	125,961	-
Total deferred inflows and outflows of resources	$ 163,699	$ 111,364
2015		
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	120,989	-
Total deferred inflows and outflows of resources	$ 134,848	$ 151,162

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:

Year ending June 30,	
2017	$ 25,553
2018	25,553
2019	25,553
2020	(5,947)
2021	2,914
	$ 73,626

(All dollars reported in thousands)

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:

	2016	2015
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:

	Target Allocation	Long-Term Expected Real Rate of Return
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	100.0%	

* 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.

(All dollars reported in thousands)

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:

	1% Decrease (6.65%)	Discount Rate (7.65%)	1% Increase (8.65%)
2016			
The University's proportionate share of the net pension liability	$ 1,440,967	$ 1,144,564	$ 848,162

	1% Decrease (6.75%)	Discount Rate (7.75%)	1% Increase (8.75%)
2015			
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*.

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.

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.

(All dollars reported in thousands)

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	(35,563)
Annual OPEB cost	117,052
Contributions made	(45,100)
Increase in net OPEB obligation	71,952
Net OPEB obligation	
Beginning of year	650,805
End of year	$ 722,757
Actuarial accrued liability ("AAL") July 1, 2015	$ 1,262,765
Funded OPEB plan assets	(30,076)
Unfunded actuarial accrued liability ("UAAL") July 1, 2015	$ 1,232,689
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

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
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

(All dollars reported in thousands)

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.

(All dollars reported in thousands)

16. Other Noncurrent Liabilities

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

	2016	2015
Liabilities under split interest agreements	$ 10,565	$ 9,999
Amounts held for others	3,369	3,645
Other	3,210	3,175
	$ 17,144	$ 16,819

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.

(All dollars reported in thousands)

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

General appropriations	
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	17,562
Total general appropriations	$ 441,373
Capital appropriations	
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	(45,788)
Total capital appropriations	$ 16,547

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

General appropriations	
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	8,701
Total general appropriations	$ 413,148
Capital appropriations	
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	(2,478)
Total capital appropriations	$ 161,822

(All dollars reported in thousands)

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				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Assets and Deferred Outflows of Resources					
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
Liabilities, Deferred Inflows of Resources and Net Position					
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
Net position					
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

(All dollars reported in thousands)

	2015				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Assets and Deferred Outflows of Resources					
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	3,047,284	45,392	494,251	(69,709)	3,517,218
Deferred outflows of resources	140,099	-	-	-	140,099
Total deferred outflows of resources	140,099	-	-	-	140,099
Total assets and deferred outflows of resources	$ 3,187,383	$ 45,392	$ 494,251	$ (69,709)	$ 3,657,317
Liabilities, Deferred Inflows of Resources and Net Position					
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	2,638,510	34,997	19,911	(29,684)	2,663,734
Deferred inflows of resources	151,162	-	-	-	151,162
Total deferred inflows of resources	151,162	-	-	-	151,162
Net position					
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	(1,553,285)	8,638	2,594	(65)	(1,542,118)
Total net position	397,711	10,395	474,340	(40,025)	842,421
Total liabilities, deferred inflows of resources and net position	$ 3,187,383	$ 45,392	$ 494,251	$ (69,709)	$ 3,657,317

(All dollars reported in thousands)

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

	2016				
	University	**Research Corporation**	**Foundation**	**Consolidation Adjustments**	**Total**
Operating revenues					
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	807,896	6,738	6,438	(21,537)	799,535
Operating expenses					
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	1,619,869	6,629	58,025	(23,970)	1,660,553
Operating income (loss)	(811,973)	109	(51,587)	2,433	(861,018)
Nonoperating activity					
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	708,429	107	39,095	(3,599)	744,032
Increase (decrease) in net position	(103,544)	216	(12,492)	(1,166)	(116,986)
Net position					
Beginning of year	397,711	10,395	474,340	(40,025)	842,421
Adjustment for change in accounting principle	-	-	-	-	-
Beginning of year, as restated	397,711	10,395	474,340	(40,025)	842,421
End of year	$ 294,167	$ 10,611	$ 461,848	$ (41,191)	$ 725,435

(All dollars reported in thousands)

	2015				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Operating revenues					
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	794,904	6,509	8,796	(18,866)	791,343
Operating expenses					
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	1,619,147	6,131	54,856	(26,242)	1,653,892
Operating income (loss)	(824,243)	378	(46,060)	7,376	(862,549)
Nonoperating activity					
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	810,114	(161)	84,285	(38,002)	856,236
Increase (decrease) in net position	(14,129)	217	38,225	(30,626)	(6,313)
Net position					
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	411,840	10,178	436,115	(9,399)	848,734
End of year	$ 397,711	$ 10,395	$ 474,340	$ (40,025)	$ 842,421

Condensed Consolidating Statements of Cash Flows

	2016			
	University	Research Corporation	Foundation	Total
Net cash provided by (used in)				
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	24,057	(7,817)	(2,872)	13,368
Cash and cash equivalent balances				
Beginning of year	47,428	30,974	11,409	89,811
End of year	$ 71,485	$ 23,157	$ 8,537	$ 103,179

(All dollars reported in thousands)

	2015			
	University	Research Corporation	Foundation	Total
Net cash provided by (used in)				
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
Cash and cash equivalent balances				
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

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.

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;

- 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.

- 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

(All dollars reported in thousands)

Net Pension Liability

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

Fiscal Year Ending	Proportionate Share of the Net Pension Liability as a Percentage	Proportionate Share of the Net Pension Liability as an Amount (a)	Annual Covered Payroll (b)	Proportion of the Net Pension Liability as a Percentage of Covered Payroll (a) / (b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
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

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a) - (b)	Covered Annual Payroll (c)	Contributions as a Percentage of Covered Payroll (a) / (c)
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.

(All dollars reported in thousands)

Postemployment Benefits Other than Pensions

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress

Actuarial Valuation Date	**Actuarial Value of Assets** (a)	**Actuarial Accrued Liability** (b)	**Unfunded Actuarial Accrued Liability** (b) - (a)	**Funded Ratio** (a) / (b)	**Annual Covered Payroll** (c)	**UAAL as a Percentage of Covered Payroll** (b) - (a) / (c)
July 1, 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%

Other Supplementary Information

Accuity LLP
CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditors on Supplemental Information

To the Board of Regents
University of Hawai'i

We have audited the consolidated financial statements of the University of Hawai'i as of and for the years ended June 30, 2016 and 2015, and our report thereon dated December 15, 2016, which expressed an unmodified opinion, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplemental information (Schedules I, II, III, IV, V, VI, VII, VIII, IX and X) included hereinafter is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated 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 consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Accuity LLP

Honolulu, Hawai'i
December 15, 2016

999 Bishop Street, Suite 1900
Honolulu, Hawaii 96813
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University of Hawaiʻi
State of Hawaiʻi
Condensed Statements of Net Position
Condensed Statements of Revenues, Expenses and Changes in Net Position
Current Unrestricted Funds Excluding General Fund and University Bond System
As of and for the Years Ended June 30, 2016 and 2015

(All dollars reported in thousands) **Schedule I**

	2016	2015
Condensed statements of net position		
Assets		
Current assets	$ 277,045	$ 264,216
Noncurrent assets	2,252	2,181
Total assets	$ 279,297	$ 266,397
Liabilities		
Current liabilities	$ 85,267	$ 91,573
Noncurrent liabilities	14,340	18,742
Total liabilities	99,607	110,315
Net position		
Unrestricted	179,690	156,082
Total net position	179,690	156,082
Total liabilities and net position	$ 279,297	$ 266,397
Condensed statements of revenues, expenses and changes in net position		
Operating revenues	$ 374,434	$ 371,244
Operating expenses	346,624	401,395
Operating income (loss)	27,810	(30,151)
Nonoperating revenues and transfers	49,118	56,837
Nonoperating expenses and transfers	53,320	25,960
Change in net position	23,608	726
Net position		
Beginning of year	156,082	155,356
End of year	$ 179,690	$ 156,082

1. Basis of Presentation

The accompanying condensed statements of net position and related condensed statements of revenues, expenses and changes in net position present the financial position and results of operations of certain of the University's Special and Revolving Funds, which are pledged as collateral on the Refunding Series 2006A University Bonds, and are presented on the accrual basis of accounting. The financial information of the Research Corporation of the University of Hawaiʻi and the University of Hawaiʻi Foundation is not reflected in this schedule.

2. Employee Benefits

In accordance with University policy, the University’s liability for other postemployment benefits (“OPEB”) is not allocated internally to individual departments and funds. Accordingly, no liability for OPEB is reflected in this schedule.

In accordance with University policy, the University's liability for pension benefits, deferred outflows and deferred inflows of resources related to pensions (“pension benefits”) are not allocated internally to individual departments and funds. Accordingly, pension benefits are not reflected in this schedule.

University of Hawai‘i
State of Hawai‘i
Schedules of Series 2002A University Bond Proceeds Activity
Years Ended June 30, 2016 and 2015
(All dollars reported in thousands) **Schedule II**

	2016	2015
Beginning balance	$ 5,516	$ 5,622
Additions		
Interest and investment income	7	3
Total additions	7	3
Deductions		
Payments – building, construction in progress, other	-	104
Management fees	4	5
Total deductions	4	109
Ending balance	$ 5,519	$ 5,516

1. Basis of Presentation

The accompanying schedules of Series 2002A University Bond proceeds activity present the sources and uses of bond proceeds associated with the construction of the John A. Burns School of Medicine facility at Kaka‘ako. The financial information of the Research Corporation of the University of Hawai‘i and the University of Hawai‘i Foundation is not reflected in this schedule.

2. Refinancing

In October 2006, the University refinanced a majority of the outstanding Series 2002A University Bonds through the issuance of Refunding Series 2006A University Bonds and in September 2015, sold Series 2015D(R) and 2015E(R) revenue bonds to refinance a portion of the outstanding Refunding Series 2006A University Bonds. The Series 2015D(R) revenue bonds were delivered on September 24, 2015 and the forward delivery Series 2015E revenue bonds were delivered on April 20, 2016. Proceeds from the State’s settlement agreement with tobacco companies are expected to be utilized to service the debt.

University of Hawai‘i
State of Hawai‘i
Condensed Statements of Net Position
Condensed Statements of Revenues, Expenses and Changes in Net Position
Current Unrestricted Funds Excluding General Fund
As of and for the Years Ended June 30, 2016 and 2015
(All dollars reported in thousands) **Schedule III**

	2016	2015
Condensed statements of net position		
Assets		
Current assets	$ 312,210	$ 297,976
Noncurrent assets	2,252	2,181
Total assets	$ 314,462	$ 300,157
Liabilities		
Current liabilities	$ 100,843	$ 107,977
Noncurrent liabilities	15,364	19,818
Total liabilities	116,207	127,795
Net position		
Unrestricted	198,255	172,362
Total net position	198,255	172,362
Total liabilities and net position	$ 314,462	$ 300,157
Condensed statements of revenues, expenses and changes in net position		
Operating revenues	$ 450,135	$ 445,010
Operating expenses	401,007	453,782
Operating income (loss)	49,128	(8,772)
Nonoperating revenues and transfers	49,488	56,956
Nonoperating expenses and transfers	72,723	44,994
Change in net position	25,893	3,190
Net position		
Beginning of year	172,362	169,172
End of year	$ 198,255	$ 172,362

1. Basis of Presentation

The accompanying condensed statements of net position and related condensed statements of revenues, expenses and changes in net position present the financial position and results of operations of certain of the University’s Special and Revolving Funds, which are pledged as collateral on the University’s Series 2006A, 2009A, 2010A, 2010B, 2012A(R), 2015A, 2015B(R), 2015C(R), 2015D(R) and 2015E(R) revenue bonds, and are presented on the accrual basis of accounting. The financial information of the Research Corporation of the University of Hawai‘i and the University of Hawai‘i Foundation is not reflected in this schedule.

2. Employee Benefits

In accordance with University policy, the University’s liability for other postemployment benefits (“OPEB”) is not allocated internally to individual departments and funds. Accordingly, no liability for OPEB is reflected in this schedule.

In accordance with University policy, the University’s liability for pension benefits, deferred outflows and deferred inflows of resources related to pensions (“pension benefits”) are not allocated internally to individual departments and funds. Accordingly, pension benefits are not reflected in this schedule.

University of Hawai‘i
State of Hawai‘i
Schedules of Series 2006A Revenue Bond Proceeds Activity
Years Ended June 30, 2016 and 2015
(All dollars reported in thousands) **Schedule IV**

	2016	2015
Beginning balance	$ 4,074	$ 4,106
Additions		
Interest and investment income	7	3
Total additions	7	3
Deductions		
Payments – building, construction in progress, other	60	32
Management fees	3	3
Total deductions	63	35
Ending balance	$ 4,018	$ 4,074

1. Basis of Presentation

The accompanying schedules of Series 2006A revenue bond proceeds activity present the sources and uses of bond proceeds associated with the construction of the Frear Hall dormitory at the Mānoa campus and repair and maintenance of various housing projects on the Mānoa and Hilo campuses. The financial information of the Research Corporation of the University of Hawai‘i and the University of Hawai‘i Foundation is not reflected in this schedule.

2. Refinancing

In September 2015, the University refinanced a portion of the outstanding Series 2006A revenue bonds through the issuance of Series 2015B(R) and 2015C(R) revenue bonds.

University of Hawai‘i
State of Hawai‘i
Schedules of Series 2009A Revenue Bond Proceeds Activity
Years Ended June 30, 2016 and 2015
(All dollars reported in thousands) **Schedule V**

	2016	2015
Beginning balance	$ 2,247	$ 8,571
Additions		
Interest and investment income	2	5
Total additions	2	5
Deductions		
Payments – building, construction in progress, other	695	6,325
Management fees	1	4
Total deductions	696	6,329
Ending balance	$ 1,553	$ 2,247

1. Basis of Presentation

The accompanying schedules of Series 2009A revenue bond proceeds activity present the sources and uses of bond proceeds associated with the financing of costs of certain University projects. The financial information of the Research Corporation of the University of Hawai‘i and the University of Hawai‘i Foundation is not reflected in this schedule.

University of Hawai‘i
State of Hawai‘i
Schedules of Series 2010A Revenue Bond Proceeds Activity
Years Ended June 30, 2016 and 2015
(All dollars reported in thousands) **Schedule VI**

	2010A-1	2010A-2
Balance at June 30, 2014	$ 111	$ 24,749
Additions		
Interest and investment income	-	15
Total additions	-	15
Deductions		
Payments − building, construction in progress, other	-	20,423
Transfers to State	-	-
Management fees	-	9
Total deductions	-	20,432
Balance at June 30, 2015	111	4,332
Additions		
Interest and investment income	-	6
Total additions	-	6
Deductions		
Payments − building, construction in progress, other	-	1,031
Management fees	-	3
Total deductions	-	1,034
Balance at June 30, 2016	$ 111	$ 3,304

1. Basis of Presentation

The accompanying schedules of Series 2010A-1 and Series 2010A-2 revenue bond proceeds activity present the sources and uses of the bond proceeds associated with construction and maintenance of the University’s Cancer Center. The financial information of the Research Corporation of the University of Hawai‘i and the University of Hawai‘i Foundation is not reflected in these schedules.

University of Hawaiʻi
State of Hawaiʻi
Schedules of Series 2010B Revenue Bond Proceeds Activity
Years Ended June 30, 2016 and 2015
(All dollars reported in thousands) **Schedule VII**

	2010B-1	2010B-2
Balance at June 30, 2014	$ 11,329	$ 4,669
Additions		
Interest and investment income	6	2
Total additions	6	2
Deductions		
Payments – building, construction in progress, other	1,307	620
Management fees	8	4
Total deductions	1,315	624
Balance at June 30, 2015	10,020	4,047
Additions		
Interest and investment income	15	6
Total additions	15	6
Deductions		
Payments – building, construction in progress, other	3,853	1,224
Management fees	8	3
Total deductions	3,861	1,227
Balance at June 30, 2016	$ 6,174	$ 2,826

1. Basis of Presentation

The accompanying schedules of Series 2010B-1 and Series 2010B-2 revenue bond proceeds activity present the sources and uses of the bond proceeds associated with 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 West Oʻahu campus, various energy conservation/efficiency projects on the community college campuses on Oʻahu and Maui, and the financing of costs of renovation and construction of other University projects. The financial information of the Research Corporation of the University of Hawaiʻi and the University of Hawaiʻi Foundation is not reflected in these schedules.

University of Hawaiʻi
State of Hawaiʻi
Schedules of Series 2015A Revenue Bond Proceeds Activity
Years Ended June 30, 2016
(All dollars reported in thousands) **Schedule VIII**

Beginning balance	$ -
Additions	
Bond Proceeds	8,575
Interest and investment income	9
Total additions	8,584
Deductions	
Payments – building, construction in progress, other	73
Management fees	4
Total deductions	77
Ending balance	$ 8,507

1. Basis of Presentation

The accompanying schedules of Series 2015A revenue bond proceeds activity present the sources and uses of bond proceeds associated with the UH Mānoa Law School Expansion and Modernization Project and the UH Hilo College of Pharmacy Project. The financial information of the Research Corporation of the University of Hawaiʻi and the University of Hawaiʻi Foundation is not reflected in this schedule.

University of Hawai‘i
State of Hawai‘i
Condensed Statements of Net Position
Condensed Statements of Revenues, Expenses and Changes in Net Position
University Bond System
As of and for the Years Ended June 30, 2016 and 2015
(All dollars reported in thousands) **Schedule IX**

	2016	2015
Condensed statements of net position		
Assets and deferred outflows of resources		
Current assets	$ 97,701	$ 91,231
Capital assets, net	541,344	495,191
Other assets	26,492	24,830
Total assets	665,537	611,252
Deferred outflows of resources	10,534	2
Total deferred outflows of resources	10,534	2
Total assets and deferred outflows of resources	$ 676,071	$ 611,254
Liabilities		
Current liabilities	$ 34,124	$ 32,586
Noncurrent liabilities	543,515	446,197
Total liabilities	577,639	478,783
Net position		
Net investment in capital assets	23,234	62,467
Restricted expendable	1,037	1,037
Unrestricted	74,161	68,967
Total net position	98,432	132,471
Total liabilities and net position	$ 676,071	$ 611,254
Condensed statements of revenues, expenses and changes in net position		
Operating revenues		
Bookstores	$ 22,936	$ 24,418
Room and other rentals	33,487	32,462
Parking	6,305	6,689
Telecommunications	3,312	3,496
Other operating revenues	9,661	10,074
Total operating revenues	75,701	77,139
Operating expenses (including $30,602 and $23,779 in depreciation expense in 2016 and 2015, respectively)	(88,941)	(84,261)
Operating loss	(13,240)	(7,122)
Nonoperating revenues	32,474	27,649
Nonoperating expenses	(53,273)	(21,705)
Change in net position	(34,039)	(1,178)
Net position		
Beginning of year	132,471	133,649
End of year	$ 98,432	$ 132,471

University of Hawai‘i
State of Hawai‘i
Condensed Statements of Cash Flows
University Bond System
As of and for the Years Ended June 30, 2016 and 2015
(All dollars reported in thousands) **Schedule X**

	2016	2015
Condensed statements of cash flows		
Net cash flows provided by operating activities	$ 18,074	$ 16,392
Net cash flows provided by non-capital financing activities	3,738	1,469
Net cash flows used in capital and related financing activities	(13,276)	(38,286)
Net cash flows provided by investing activities	203	202
Net decrease in cash and cash equivalents	8,739	(20,223)
Cash and cash equivalents		
Beginning of year	99,089	119,312
End of year	$ 107,828	$ 99,089

1. Reporting Entity

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

The University Bond System’s outstanding debt was issued pursuant to the bond resolution adopted in November 2001 and as amended and supplemented by supplemental resolutions adopted in November 2006, February 2009, August 2010 and January 2012. The bond resolutions established a network of the University consisting of the University Bond System and any University purpose which, at the election of the Board, is included in the network pursuant to a supplemental resolution. The bond resolutions provide that all revenues collected or received from the Network be used to support the Network (which includes the University projects of the University Bond System) and bond related expenses.

On August 20, 2015, the University of Hawai‘i Board of Regents adopted a supplemental resolution authorizing the issuance of University Revenue Bonds. The University, in September 2015, sold $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. The 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. The Series 2015B(R) and 2015C(R) bonds were issued to refund a portion of the Series 2006A University Revenue Bonds and the Series 2015D(R) and 2015E(R) bonds to refund a portion of the Refunding Series 2006A University Bonds issued under a different bond resolution.

2. Basis of Presentation

The accompanying condensed statements of net position and related condensed statements of revenues, expenses and changes in net position and condensed statement of cash flows present the financial position and results of operations of the University Bond System, and are presented on the accrual basis of accounting.

3. Employee Benefits

In accordance with University policy, the University's liability for other postemployment benefits ("OPEB") is not allocated internally to individual departments and funds. Accordingly, no liability for OPEB is reflected in these schedules.

In accordance with University policy, the University's liability for pension benefits, deferred outflows and deferred inflows of resources related to pensions ("pension benefits") are not allocated internally to individual departments and funds. Accordingly, pension benefits are not reflected in these schedules.