

University of Hawai'i State of Hawai'i

**Financial and Compliance Audit
June 30, 2017**

University of Hawai'i
State of Hawai'i
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Year Ended June 30, 2017

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SECTION 1

COMPLIANCE REPORTS

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

To the Board of Regents
University of Hawai'i

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of the University of Hawai'i (the "University") as of and for the year ended June 30, 2017, and have issued our report thereon dated December 7, 2017. In that report, we indicated the extent of our reliance on the report of other auditors in the conduct of the audit.

Internal Control over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

The logo for Accuity LLP, featuring the word "Accuity" in a cursive script followed by "LLP" in a bold, sans-serif font.

Honolulu, Hawai'i
December 7, 2017

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

To the Board of Regents
University of Hawai'i

Report on Compliance for Each Major Federal Program

We have audited the University of Hawai'i's (the "University") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2017. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The University's consolidated financial statements include the operations of the Research Corporation of the University of Hawai'i (the "Research Corporation"), which received \$41,504 in federal awards which are not included in the attached schedule of expenditures of federal awards. The Research Corporation is a separate component unit of the University and is separately audited. The federal awards expended by the Research Corporation for the year ended June 30, 2017, which are outside the scope of this report, did not meet the audit requirements described in the *OMB Compliance Supplement*.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance, and which are described in the accompanying schedule of findings and questioned costs as Finding Nos. 2017-001 through 2017-006. Our opinion on each major federal program is not modified with respect to these matters. We also noted other matters that we will report to the Board of Regents and management of the University in our Internal Control and Business Issues Report.

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

Report on Internal Control over Compliance

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

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

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the consolidated financial statements of the University, as of and for the year ended June 30, 2017, and the related notes to the consolidated financial statements, which collectively comprise the University's basic financial statements. We issued our report thereon dated December 7, 2017, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards, prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America, is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards, as prepared on the cash basis of accounting, is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Accuity LLP

Honolulu, Hawai'i
December 7, 2017

SECTION 2

**SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS**

University of Hawai'i

State of Hawai'i

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2017

| | CFDA No. | Pass-Through Identifier | Passed Through to Subrecipients | Expenditures |
|--|----------|-------------------------------|---------------------------------|------------------|
| MAJOR PROGRAM – RESEARCH AND DEVELOPMENT | | | | |
| U.S Department of Agriculture | | | | |
| Agricultural Research Service | | | | |
| Agricultural Research – Basic and Applied Research | 10.001 | | | \$ 2,156,010 |
| Animal and Plant Health Inspection Service | | | | |
| Plant and Animal Disease, Pest Control, and Animal Care | 10.025 | | | 2,515,339 |
| Agricultural Marketing Service | | | | |
| Federal-State Marketing Improvement Program | 10.156 | | | 6,956 |
| National Institute of Food and Agriculture | | | | |
| Grants for Agricultural Research, Special Research Grants | 10.200 | | \$ 5,376 | |
| Cooperative Forestry Research | 10.202 | | 338,069 | |
| Payments to Agricultural Experiment Stations Under the Hatch Act | 10.203 | | 2,201,300 | |
| Animal Health and Disease Research | 10.207 | | 11,348 | |
| Agriculture and Food Research Initiative ("AFRI") | 10.310 | | \$ 731,845 | 2,186,783 |
| Biomass Research and Development Initiative | | | | |
| Competitive Grants Program ("BRDI") | 10.312 | | 1,286,942 | 2,545,700 |
| Cooperative Extension Service | 10.500 | | 234 | 7,288,810 |
| Forest Service | | | | |
| Forestry Research | 10.652 | | | 14,823 |
| Other | 10. | | | 431,998 |
| Natural Resources Conservation Service | | | | |
| Environmental Quality Incentives Program | 10.912 | | | 24,415 |
| Passed through from | | | | |
| State of Hawaii Dept. of Agriculture | 10.025 | 63859 | | 19,721 |
| State of Hawaii Dept. of Agriculture | 10.170 | various | | 85,785 |
| State of Hawaii Dept. of Land and Natural Resources | 10.664 | C62357 | | 167,449 |
| State of Hawaii Dept. of Land and Natural Resources | 10.676 | C71454 | | 4,137 |
| State of Hawaii Dept. of Land and Natural Resources | 10.680 | various | | 473,626 |
| University of California – Davis | 10.200 | 201502587-08-UHI-Kawate-FoodU | | 78,913 |
| University of California – Davis | 10.329 | SA-14-2309-25, AMDT 01 | | 9,101 |
| University of California – Riverside | 10.309 | S-000718 | | 52,529 |
| Colorado State University | 10.500 | G-06252-1, AMDT 2 | | 105,194 |
| Jun Innovations Inc | 10.212 | 2016-33610-25447-1 | | 34,351 |
| National Fish and Wildlife Foundation | 10.912 | various | | 34,838 |
| Oceanic Institute | 10.200 | various | | 110,204 |
| University of Tennessee | 10.310 | 8500049039 | | 71,573 |
| Utah State University | 10.215 | various | | 202,942 |
| | | | | <u>1,450,363</u> |
| | | | | 13,888,714 |
| U.S. Department of Commerce | | | | |
| National Oceanic and Atmospheric Administration ("NOAA") | | | | |
| Ocean Exploration | 11.011 | | | 22,920 |
| Integrated Ocean Observing System ("IOOS") | 11.012 | | | 367,146 |
| Sea Grant Support | 11.417 | | | 1,268,484 |
| Fisheries Development and Utilization Research Development Grants and Cooperative Agreements Program | 11.427 | | 28,210 | 133,739 |
| Climate and Atmospheric Research | 11.431 | | | 556,461 |
| NOAA Cooperative Institutes | 11.432 | | 14,065 | 13,912,125 |
| Unallied Industry Projects | 11.452 | | | 251,655 |
| Unallied Management Projects | 11.454 | | | 8,319 |
| Applied Meteorological Research | 11.468 | | | 123,162 |
| Unallied Science Program | 11.472 | | | 109,741 |
| Office of Coastal Management | 11.473 | | | 44,483 |
| Center for Sponsored Coastal Ocean Research – Coastal Ocean Program | 11.478 | | 59,557 | 143,689 |
| Coral Reef Conservation Program | 11.482 | | | 46,644 |
| Other | 11. | | | 162,404 |
| Passed through from | | | | |
| State of Hawaii Dept. of Defense | 11.467 | various | | 27,557 |
| State of Hawaii Dept. of Land and Natural Resources | 11.482 | various | | 192,929 |
| University of California – Los Angeles | 11.431 | 2095 G TA048, AMDT 1 | | 52,951 |
| East West Center | 11.431 | various | 9,830 | 282,896 |
| University of Maryland | 11.012 | various | | 129,056 |
| National Fish and Wildlife Foundation | 11.463 | various | | 53,375 |
| The Nature Conservancy | 11.463 | various | | 75,431 |
| University Corp for Atmospheric Research | 11.431 | various | | 74,566 |
| University Corp for Atmospheric Research | 11.467 | various | | 18,751 |
| Woods Hole Oceanographic Institute | 11.431 | various | | 84,826 |
| | | | | <u>992,338</u> |
| | | | | 18,143,310 |

University of Hawai'i

State of Hawai'i

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2017

| | CFDA No. | Pass-Through Identifier | Passed Through to Subrecipients | Expenditures |
|---|----------|---------------------------|---------------------------------|-------------------|
| U.S. Department of Defense | | | | |
| Air Force | | | | |
| Air Force Defense Research Sciences Program | 12.800 | | 117,202 | 503,769 |
| Other | 12. | | 1,599,811 | <u>11,227,433</u> |
| | | | | 11,731,202 |
| Army | | | | |
| Basic and Applied Scientific Research | 12.300 | | | 807,409 |
| Military Medical Research and Development | 12.420 | | | 552,274 |
| Basic Scientific Research | 12.431 | | 24,676 | 275,181 |
| Legacy Resource Management Program | 12.632 | | | 168,825 |
| Research and Technology Development | 12.910 | | | 83,808 |
| Other | 12. | | 197,220 | <u>1,141,324</u> |
| | | | | 3,028,821 |
| Navy | | | | |
| Basic and Applied Scientific Research | 12.300 | | 2,921,548 | 15,990,164 |
| Science, Technology, Engineering & Mathematics ("STEM") | | | | |
| Education, Outreach and Workforce Program | 12.330 | | | 633,464 |
| Navy Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance | 12.335 | | | 120,402 |
| Other | 12. | | 625,736 | <u>2,164,967</u> |
| | | | 325,401 | 18,908,997 |
| National Geospatial Intelligence Agency | 12. | | | 662,722 |
| Washington Headquarters Services | | | | |
| Basic, Applied, and Advanced Research in Science and Engineering | 12.630 | | 8,000 | 10,341,655 |
| Legacy Resource Management Program | 12.632 | | | 15,422 |
| Other | 12. | | | <u>1,079,523</u> |
| | | | | 11,436,600 |
| U.S. Special Operations Command | 12. | | | 103,459 |
| Defense Intelligence Agency | 12. | | 31,250 | 165,309 |
| Pacific Command | 12. | | | 56,637 |
| OSA-East Contracts Team | 12. | | | 85,321 |
| Passed through from | | | | |
| University of Alaska – Fairbanks | 12. | various | | 181,972 |
| University of California – San Diego | 12. | S9000898/55022508, AMDT 3 | | 52,579 |
| CDM Smith Federal Programs Corporation | 12. | 6413-135-002-CS MOD 1 | | (2,542) |
| Henry M Jackson Foundation | 12.420 | 824437 | | 54,956 |
| University of London – Royal Holloway | 12.800 | PRIME # FA9550-14-1-0043 | | 94,443 |
| Massachusetts Institute of Technology | 12.431 | 5710003647 | | 8,766 |
| University of New Hampshire | 12. | 15-018 | | 52,200 |
| Sandia National Laboratories | 12. | PO 1767547 | | 16,905 |
| Spectrum Photonics Inc | 12. | SPI-SK2016-002 | | 143,001 |
| Tetra Tech Inc | 12. | 1116902 | | 14,445 |
| Vanderbilt University | 12.300 | 2782-018400 | | 63,843 |
| Wyle Laboratories, Inc | 12. | WCS00074-TAT 308 | | <u>(2,566)</u> |
| | | | | 678,002 |
| | | | | 46,857,070 |
| U.S Department of Housing and Urban Development | | | | |
| Passed through from | | | | |
| State of Hawaii Dept. of Human Services | 14.267 | DHS-16-HPO-3141 | | 40,845 |
| U.S Department of the Interior | | | | |
| Bureau of Land Management | | | | |
| Wildland Fire Research and Studies Program | 15.232 | | 27,503 | 119,718 |
| Fish and Wildlife Service | | | | |
| Fish and Wildlife Management Assistance | 15.608 | | | 5,851 |
| Coastal | 15.630 | | | 11,848 |
| Endangered Species Conservation – Recovery Implementation Funds | 15.657 | | 18,171 | 715,570 |
| Fish and Wildlife Coordination and Assistance Programs | 15.664 | | | 100,832 |
| Cooperative Landscape Conservation | 15.669 | | | 468,683 |
| Cooperative Ecosystem Studies Units | 15.678 | | | 113,874 |
| Other | 15. | | | <u>12,636</u> |
| | | | | 1,429,294 |
| U.S. Geological Survey | | | | |
| Assistance to State Water Resources Research Institutes | 15.805 | | | 232,344 |
| U.S. Geological Survey – Research and Data Collection | 15.808 | | | 1,434,934 |
| Volcano Hazards Program Research and Monitoring | 15.818 | | | 215,779 |
| National Climate Change and Wildlife Science Center | 15.820 | | 208,614 | <u>1,608,739</u> |
| | | | | 3,491,796 |
| National Park Service | | | | |
| Natural Resource Stewardship | 15.944 | | | 19,921 |
| Cooperative Research and Training Programs – Resources of the National Park System | 15.945 | | 24,346 | 1,068,642 |
| National Park Service Conservation, Protection, Outreach and Education | 15.954 | | | <u>2,360</u> |
| | | | | 1,090,923 |

University of Hawai'i State of Hawai'i Schedule of Expenditures of Federal Awards Year Ended June 30, 2017

| | CFDA No. | Pass-Through Identifier | Passed Through to Subrecipients | Expenditures |
|--|-------------|-----------------------------|---------------------------------------|------------------|
| Passed through from | | | | |
| State of Hawaii Dept. of Land and Natural Resources | 15.605 | various | 16,762 | 630,317 |
| State of Hawaii Dept. of Land and Natural Resources | 15.608 | C70668 | | 5,163 |
| State of Hawaii Dept. of Land and Natural Resources | 15.611 | various | | 372,799 |
| State of Hawaii Dept. of Land and Natural Resources | 15.614 | C51945 | | 140,711 |
| State of Hawaii Dept. of Land and Natural Resources | 15.615 | various | | 1,231,604 |
| State of Hawaii Dept. of Land and Natural Resources | 15.630 | C71806 | | 3,876 |
| State of Hawaii Dept. of Land and Natural Resources | 15.634 | various | | 738,080 |
| State of Hawaii Dept. of Land and Natural Resources | 15.657 | various | | 117,025 |
| State of Hawaii Dept. of Land and Natural Resources | 15.944 | various | | 32,637 |
| America View | 15.815 | AV13-HI01 | | 16,634 |
| American Bird Conservancy | 15.663 | various | | 164,883 |
| Government of American Samoa | 15.634 | C00044 | | 725 |
| Howard University | 15.657 | 0008493-1000045017 | | 4,836 |
| Institute for Wildlife Studies | 15.945 | various | | 29,232 |
| Malama Kahalawai Inc | 15.631 | ----- | | 4,264 |
| National Fish and Wildlife Foundation | 15.663 | various | | 25,820 |
| Commonwealth of the Northern Mariana Islands | 15.615 | 588323-OC, CO 1 | | 84 |
| Tri-Isle Resource Conservation | 15.000 | G16PX00146 | | 5,877 |
| Ulupalakua Ranch | 15.631 | MORDEN 20170424(F17AC00018) | | 17,744 |
| | | | | <u>3,542,311</u> |
| | | | | 9,674,042 |
| U.S. Department of Justice | | | | |
| National Institute of Justice | | | | |
| National Institute of Justice Research, Evaluation, and Development Project Grants | 16.560 | | | 104 |
| Office of Juvenile Justice and Delinquency Prevention Reduction and Prevention of Children's Exposure to Violence | 16.730 | | 143 | <u>143</u> |
| | | | | 247 |
| U.S. Department of Transportation | | | | |
| Federal Aviation Administration | | | | |
| Air Transportation Centers of Excellence | 20.109 | | | 62,929 |
| Federal Highway Administration Other | 20. | | | 19,845 |
| Passed through from | | | | |
| State of Hawaii Dept. of Land and Natural Resources | 20.219 | C71454 | | 2,137 |
| State of Hawaii Dept. of Transportation | 20.205 | various | | 382,775 |
| State of Hawaii Dept. of Transportation | 20. | various | | 160,684 |
| University of Central Florida | 20.701 | 20126116 | | 132,543 |
| Michigan State University | 20.701 | RC103194UHM | | 22,058 |
| University of New Mexico | 20.701 | 456486-8737 | | 56,885 |
| Oregon State University | 20.761 | T0013G-J | | 149 |
| SWCA Incorporated | 20.205 | various | | 129,652 |
| | | | | <u>886,883</u> |
| | | | | 969,657 |
| National Aeronautics and Space Administration | | | | |
| Goddard | | | | |
| Science | 43.001 | | 376,029 | 13,399,876 |
| Education | 43.008 | | | 470,354 |
| Other | 43. | | | <u>452,756</u> |
| | | | | 14,322,986 |
| Ames | | | | |
| Science | 43.001 | | | 505,244 |
| Johnson Space Center | | | | |
| Science | 43.001 | | 12,080 | 59,627 |
| Exploration | 43.003 | | 106,400 | <u>465,333</u> |
| | | | | 524,960 |
| Langley Research Center | | | | |
| Science | 43.001 | | | 62,811 |
| Glenn Research Center | | | | |
| Space Operations | 43.007 | | | 10,849 |
| Passed through from | | | | |
| University of Arizona | 43.001 | 288868 | | 17,919 |
| Arizona State University | 43.001 | 09-192 | | 22,567 |
| Arizona State University | 43. | various | | 23,664 |
| Association of Universities for Research in Astronomy, Inc | 43. | STSci-49776 | | 7,485 |
| Bermuda Institute of Ocean Sciences Inc | 43.001 | various | | 313,445 |
| Brown University | 43.001 | 945 | | 9,134 |
| University of California – Berkeley | 43.001 | various | | 121,599 |
| University of California – Los Angeles | 43.001 | 0995-S-NB083, AMDT 16 | | 54,995 |
| University of California – San Diego | 43.001 | 71946467, AMDT 2 | | 13,939 |
| California Institute of Technology | 43. | 2-1094682, MOD 03 | | 69,272 |
| University of Colorado – Denver | 43.001 | 1550433/PO #1000257817 | | 47,903 |
| Earth and Space Research | 43.001 | ESR-2014-202 | | 22,300 |
| Jet Propulsion Lab | 43. | various | | 223,071 |
| Johns Hopkins University | 43.001 | 132804 | | 150,499 |
| Johns Hopkins University | 43. | 124221 | | 33,603 |
| Lowell Observatory | 43.001 | 2014-81500 | | 22,491 |
| Malin Space Science Systems, Inc | 43.001 | 12-0178 | | 19,381 |
| University of Missouri | 43.009 | 00047533-03 | | 9,355 |
| University of North Carolina – Chapel Hill | 43.001 | 5101006 | | 64,702 |
| Planetary Science Institute | 43.001 | 1336 | | 39,238 |
| SETI Institute | 43.001 | SC 3189 | | 36,818 |

University of Hawai'i State of Hawai'i Schedule of Expenditures of Federal Awards Year Ended June 30, 2017

| | CFDA No. | Pass-Through Identifier | Passed Through to Subrecipients | Expenditures |
|--|-------------|-----------------------------|---------------------------------------|------------------|
| Smithsonian Astrophysical Observatory | 43.001 | G05-16150A | | 81,855 |
| University of South Carolina | 43.001 | 15-2718 / 13020-FC43 | | 92,664 |
| Southwest Research Institute | 43.001 | H99002HP | | 19,128 |
| Space Telescope Science Institute | 43. | various | | 389,315 |
| Research Foundation for the State University of New York | 43.001 | 69142-1120100-2 (PO 929838) | | 74,958 |
| Universities Space Research Association | 43.001 | 02251-01, PO 2015000635 | | 29,367 |
| Universities Space Research Association | 43. | 002235-03, PO 2014000583 | | 38,516 |
| Wyle Laboratories, Inc | 43. | various | | 348,307 |
| | | | | <u>2,397,490</u> |
| | | | | 17,824,340 |
| National Endowment for the Arts and Humanities | | | | |
| Passed through from | | | | |
| Folger Shakespeare Library | 45.162 | CHK0387481 | | 805 |
| Institute of Museum and Library Services | | | | |
| Museums for America | 45.301 | | | 15,797 |
| National Science Foundation | | | | |
| Engineering Grants | 47.041 | | 102,802 | 1,065,916 |
| Mathematical and Physical Sciences | 47.049 | | 119,784 | 4,696,618 |
| Geosciences | 47.050 | | 261,173 | 16,693,539 |
| Computer and Information Science and Engineering | 47.070 | | 761,127 | 2,592,501 |
| Biological Sciences | 47.074 | | 267,659 | 3,758,658 |
| Social, Behavioral and Economic Sciences | 47.075 | | | 560,735 |
| Education and Human Resources | 47.076 | | 215,992 | 4,374,163 |
| Office of Integrative Activities | 47.083 | | | 2,406,043 |
| Passed through from | | | | |
| Adnoviv, LLC | 47.041 | ----- | | 32,070 |
| Adnoviv, LLC | 47.000 | ----- | | 478 |
| University of Alabama – Huntsville | 47.076 | 2016-113 | | 143,754 |
| University of Alaska – Fairbanks | 47.050 | UAF 17-0065 P0510433 | | 5,083 |
| University of Alaska – Fairbanks | 47.076 | UAF 15-0081 PO P0490450 | | 15,796 |
| American Association of Community Colleges | 47.076 | AACC-138800-10 | | 8,878 |
| Association of Universities for Research in Astronomy, Inc | 47.049 | various | | 3,272,078 |
| Bishop Museum | 47.074 | 250701-UH01 | | 5,259 |
| Bishop Museum | 47.075 | 320705-UH01 | | 1,689 |
| University of California – San Diego | 47.050 | 59689318/S9000943 AMDT 002 | | 25,525 |
| California Association for Research in Astronomy | 47.049 | 13678 | | 5,478 |
| California State University – Northridge | 47.074 | F-13-3287-UH, AMDT 3 | | 1,432 |
| Chaminade University | 47.076 | CUH-UHH-IUSE-1 | | 38,141 |
| College of Charleston | 47.070 | 521156-Hawaii/ACI-1443037 | | 11,502 |
| University of Chicago | 47.070 | FP058609, AMDT 1 | | 10,059 |
| Clemson University | 47.070 | 1717-206-2009949, AMDT 3 | | 127,218 |
| Columbia University | 47.050 | various | | 165,022 |
| Consortium for Ocean Leadership | 47.076 | SA16-36 | | 2,461 |
| University of Georgia | 47.074 | RR167-540/4694818 | | 603 |
| University of Guam | 47.083 | ----- | | 110,096 |
| University of Illinois – Chicago | 47.070 | E2491, NSF# CNS 1456638 | | 36,130 |
| Indiana University | 47.070 | UA-4812506-UH / PO 1692070 | | 205,888 |
| Koa Technologies, LLC | 47.041 | ----- | | 66 |
| University of Maryland | 47.074 | various | | 97,767 |
| University of Massachusetts – Amherst | 47.075 | 12-007017 A 00 | | 9,690 |
| Monterey Bay Aquarium Research | 47.050 | 1410379 (PRIME OCE-1337601) | | 114,091 |
| National Center for Science & Civic Engagement | 47.076 | 11224488 | | 3,841 |
| National Radio Astronomy Observatory | 47.049 | various | | 36,199 |
| University of New Hampshire | 47.074 | 14-076 | | (3,494) |
| University of New Mexico | 47.050 | 133623-873Z | | 209,641 |
| State University of New York | 47.050 | R985036 | | 151,878 |
| Research Foundation for the State University of New York | 47.050 | 72862-1128064-2(PO 1012944) | | 18,556 |
| Research Foundation for the State University of New York | 47.076 | 73299-1128962-3 | | 5,589 |
| North Carolina State University | 47.050 | 2013-2581-01 | | 42,469 |
| University of Notre Dame | 47.049 | PHY-1219444 | | 19,826 |
| Pacific Resources for Education & Learning | 47.076 | various | | 34,792 |
| Predictive Science Inc | 47.050 | AGS-1358270 | | 59,684 |
| Princeton University | 47.050 | ORPA002069 | | 29,253 |
| Purdue University | 47.070 | 4101-71503 | | 149,856 |
| Rice University | 47.050 | R3E514 PRIME (OCE-1338842) | | 67,573 |
| State University of Rutgers | 47.075 | Subaward 4749; PO S1761882 | | 27,952 |
| University of Southern California | 47.050 | various | | 96,084 |
| University of Southern California | 47.074 | 80981056 | | 12,587 |
| University of Texas – Austin | 47.074 | UTA15-000532 | | 78,535 |
| University Corp for Atmospheric Research | 47.050 | Z16-20855 (ATM-0753581) | | 123,796 |
| VentureWell | 47.076 | CK7317 & CK7406 & CK7771 | | 1,399 |
| University of Washington | 47.050 | UWSC8197 | | 92,326 |
| | | | | <u>5,704,596</u> |
| | | | | 41,852,769 |

University of Hawai'i State of Hawai'i Schedule of Expenditures of Federal Awards Year Ended June 30, 2017

| | CFDA No. | Pass-Through Identifier | Passed Through to Subrecipients | Expenditures |
|--|-------------|-----------------------------|---------------------------------------|------------------|
| Environmental Protection Agency | | | | |
| Office of Research and Development | | | | |
| Science To Achieve Results Research Program | 66.509 | | | 93,321 |
| P3 Award: National Student Design Competition for Sustainability | 66.516 | | | <u>6,558</u> |
| | | | | 99,879 |
| Passed through from | | | | |
| State of Hawaii Dept. of Health | 66.419 | PO 00 232800 | | 1,674 |
| State of Hawaii Dept. of Health | 66.454 | PO 00 221845 (PO 00 212731) | | 982 |
| State of Hawaii Dept. of Health | 66.817 | various | | 30,538 |
| Government of American Samoa | 66. | C00543 | | <u>45,873</u> |
| | | | | <u>79,067</u> |
| | | | | 178,946 |
| U.S. Department of Energy | | | | |
| Office of Science Financial Assistance Program | | | | |
| Conservation Research and Development | 81.049 | | | 2,071,789 |
| Renewable Energy Research and Development | 81.086 | | | 179,444 |
| | 81.087 | | 704,584 | <u>1,786,100</u> |
| Passed through from | | | | |
| Alliance for Sustainable Energy LLC | 81. | XGJ-5-52227-01 | | 65,266 |
| Battelle Memorial Institute | 81. | various | | 207,649 |
| Brookhaven National Lab | 81. | 241773 | | 442 |
| University of California – Berkeley | 81. | 7088334, MOD 5 | | (1,825) |
| Carnegie Institution of Washington | 81.112 | 4-10469-25, AMDT 6 | | 48,997 |
| Duke University Medical Center | 81.087 | various | | 532,028 |
| InnoSys, Inc | 81.049 | DE-SCWI3244-UH | | 167,522 |
| Lawrence Livermore National Lab | 81. | various | | 49,888 |
| University of Michigan | 81.113 | 3003222389 | | 211,680 |
| Nalu Scientific LLC | 81.049 | ----- | | 44,969 |
| UT-Battelle LLC | 81. | 4000145289 | | 28,793 |
| Treadstone Technologies Inc | 81.087 | Prime: DE-EE0007732 | | <u>6,951</u> |
| | | | | <u>1,362,360</u> |
| | | | | 5,399,693 |
| U.S. Department of Education | | | | |
| Office of Elementary and Secondary Education | | | | |
| Javits Gifted and Talented Students Education | 84.206 | | 68,551 | 464,223 |
| Passed through from | | | | |
| Pacific Resources for Education & Learning | 84.283 | 13-025 & 17-003 | | <u>174,893</u> |
| | | | | 639,116 |
| U.S. Department of Health and Human Services | | | | |
| National Institutes of Health | | | | |
| Family Smoking Prevention and Tobacco Control Act Regulatory Research | 93.077 | | 4,475 | 283,270 |
| Environmental Health | 93.113 | | | 389,067 |
| Mental Health Research Grants | 93.242 | | 540,972 | 1,640,248 |
| Drug Abuse and Addiction Research Programs | 93.279 | | 369,092 | 1,581,820 |
| Discovery and Applied Research for Technological | | | | |
| Innovations to Improve Human Health | 93.286 | | | 44,981 |
| Minority Health and Health Disparities Research | 93.307 | | 473,913 | 7,636,971 |
| Trans-NIH Research Support | 93.310 | | | 7,979 |
| National Center for Advancing Translational Sciences | 93.350 | | | 16,963 |
| Research Infrastructure Programs | 93.351 | | | 712,234 |
| Cancer Cause and Prevention Research | 93.393 | | 4,120,351 | 10,214,579 |
| Cancer Detection and Diagnosis Research | 93.394 | | 249,810 | 440,194 |
| Cancer Treatment Research | 93.395 | | 142,390 | 1,178,544 |
| Cancer Biology Research | 93.396 | | | 8,739 |
| Cancer Centers Support Grants | 93.397 | | 100,698 | 3,002,524 |
| Cancer Research Manpower | 93.398 | | | 145,578 |
| Cardiovascular Diseases Research | 93.837 | | 298,523 | 1,863,343 |
| Blood Diseases and Resources Research | 93.839 | | 26,110 | 189,284 |
| Diabetes, Digestive, and Kidney Diseases Extramural Research | 93.847 | | 45,707 | 593,113 |
| Extramural Research Programs in the Neurosciences and | | | | |
| Neurological Disorders | 93.853 | | | 539,099 |
| Allergy and Infectious Diseases Research | 93.855 | | 348,704 | 2,417,947 |
| Microbiology and Infectious Diseases Research | 93.856 | | | 205,092 |
| Biomedical Research and Research Training | 93.859 | | 813,070 | 8,574,015 |
| Child Health and Human Development Extramural Research | 93.865 | | 4,575 | 573,223 |
| Aging Research | 93.866 | | | 68,600 |
| Medical Library Assistance | 93.879 | | 46,626 | 189,792 |
| International Research and Research Training | 93.989 | | 68,850 | 217,870 |
| Others | 93. | | | <u>1,527,874</u> |
| | | | | 44,262,943 |
| Administration for Community Living | | | | |
| Special Programs for the Aging – Title IV – and Title II – Discretionary Projects | 93.048 | | | 162,621 |
| Health Resources and Services Administration | | | | |
| Grants to Increase Organ Donations | 93.134 | | | 196,319 |
| Centers for Medicare and Medicaid Services | | | | |
| Health Care Innovation Awards ("HCIA") | 93.610 | | | 190,086 |
| Passed through from | | | | |
| State of Hawaii Dept. of Health | 93.130 | P.O. 00 231611 | | 31,319 |
| State of Hawaii Dept. of Health | 93.136 | ASO LOG 17-134 | | 30,193 |
| State of Hawaii Dept. of Health | 93.243 | various | | 151,805 |
| State of Hawaii Dept. of Health | 93.283 | MOA | | 2,667 |
| State of Hawaii Dept. of Health | 93.757 | various | | 109,452 |
| State of Hawaii Dept. of Health | 93.758 | PO# 227300 | | 19,488 |
| State of Hawaii Dept. of Health | 93.945 | ASO LOG 16-086 | | 65,313 |
| State of Hawaii Dept. of Health | 93.958 | ASO LOG 16-078 | | 1,099 |

University of Hawai'i State of Hawai'i Schedule of Expenditures of Federal Awards Year Ended June 30, 2017

| | CFDA No. | Pass-Through Identifier | Passed Through to Subrecipients | Expenditures |
|--|----------|-----------------------------|---------------------------------|------------------|
| American Psychiatric Association | 93.243 | ----- | | 13,156 |
| American Samoa Community Cancer Coalition | 93.307 | ----- | | 49,586 |
| Beth Israel Deaconess Med Ctr | 93.213 | 1025584 | | 3,158 |
| Blood Systems Research Institute | 93.242 | 11552UH130 | | 160,100 |
| Brigham and Women's Hospital Inc | 93. | ----- | | 42 |
| University of California – Davis | 93.262 | 2201118057-02, AMDT 5 | | 12,701 |
| University of California – San Francisco | 93.242 | 8219SC, AMDT 2 | | 10,257 |
| University of California – San Francisco | 93.855 | 7875sc, AMDT 2 | 71,250 | 71,682 |
| Cancer Prevention Institute of California | 93.393 | 7R01CA154644-03-UH, MOD 3 | | 85 |
| Chaminade University | 93.307 | 5 P20 MD006804-05, AMDT 4 | | 8,205 |
| Children's Hospital of Philadelphia | 93.395 | ----- | 1,288 | 1,700 |
| Children's Hospital of Philadelphia | 93. | ----- | 6,754 | 8,038 |
| Dartmouth College | 93.393 | 1454R180, AMDT 2 | | 37,393 |
| Drexel University | 93.853 | 870072 | | 6,806 |
| East-West Center | 93.866 | HC13476, AMDT 1 | | 31,113 |
| ECOG-ACRIN Cancer Research Group | 93. | ----- | | 38,612 |
| Harvard University | 93.113 | 111920-5100691 | | 17,037 |
| Harvard University | 93.393 | 114226-5092328 | | 58,625 |
| University of Hawaii Foundation | 93.375 | 124-2520-2 | | 279,295 |
| Hawaii Pacific University | 93.279 | various | | 162,150 |
| Hawaii Public Health Institute | 93.305 | various | | 134,800 |
| Hawaii Public Health Institute | 93.757 | ----- | | 28,736 |
| Health Research Inc | 93.393 | HRI Contract No. 55-01 | | 15,850 |
| Henry M Jackson Foundation | 93.242 | Sub-Awd#: 3646 PO# 890902 | | 5,791 |
| Johns Hopkins University | 93.393 | 2001377307 | | 1,955 |
| Johns Hopkins University | 93.865 | 5R01HD065955-05/ 2001380839 | | 29,720 |
| Fred Hutchinson Cancer Research Center | 93.393 | 1R01CA20140701A1/0000883149 | | 35,033 |
| Icahn School of Medicine at Mount Sinai | 93.847 | various | | 42,234 |
| University of Maryland | 93.113 | SR00002413 AMDT 4 | 70,937 | 112,003 |
| University of Miami | 93.242 | 663542 | | 7,281 |
| University of Miami | 93.361 | R01 NR012885-05 | | 18,578 |
| University of Michigan | 93.242 | 3004392268 | | 10,402 |
| Michigan State University | 93.286 | RC103889UH (R21EB017881) | | 4,185 |
| University of Minnesota | 93.242 | ----- | | 5,270 |
| University of Minnesota | 93.393 | various | | 93,383 |
| University of Missouri – St Louis | 93.242 | 00054519-3 | | 5,990 |
| Morehouse School of Medicine | 93.307 | various | 632 | 562,176 |
| University of Nevada – Las Vegas | 93.307 | 17-930R-01 | | 7,061 |
| University of Nevada – Las Vegas | 93.859 | various | | 193,343 |
| New York University | 93.394 | 16-A0-00-006712-01 | | 21,336 |
| University of North Carolina – Chapel Hill | 93.859 | various | | 26,323 |
| University of North Carolina – Greensboro | 93.273 | 110112 | | 53,168 |
| Northeastern University | 93.279 | 500392-78054 (PO P1503296) | | 57,431 |
| NRG Oncology Foundation Inc | 93. | ----- | | 183 |
| Oregon Health & Science University | 93. | ----- | | 660 |
| Palo Alto Veterans Institute for Research | 93.393 | OWJ0001-01 | | 30,281 |
| Papa Ola Lokahi | 93.397 | Subcontract #814 | | 121,522 |
| University of Pittsburgh | 93.859 | 0047882 (126884-1) | | 11,692 |
| Portland State University | 93.310 | various | | 381,770 |
| Queen's Hospital Medical Center | 93.394 | NIH 4R01CA161209-06 | | 112,120 |
| Riverside Research Institute | 93.286 | NYO.G01275P.C013314.01 | | 31,454 |
| Riverside Research Institute | 93.394 | various | | 68,222 |
| University of Rochester | 93.135 | various | | 28,472 |
| Seattle Institute for Biomedical and Clinical Research | 93.847 | various | | 174,520 |
| University of Southern California | 93.172 | 65050477 | | 188,108 |
| University of Southern California | 93.866 | 55003115 | | 683 |
| Southwest Oncology Group | 93. | ----- | | 220 |
| Stanford University | 93.393 | 60373216-110835 | 31,596 | 152,407 |
| University of Texas – San Antonio | 93.865 | 1000000443 | | 208,281 |
| Tulane University of Louisiana | 93.865 | various | | 22,319 |
| Vanderbilt University Medical Center | 93.393 | various | | 106,235 |
| Virginia Commonwealth University | 93.077 | PT108771-SC107124 | | 17,523 |
| Virginia Polytechnic Institute & State University | 93.865 | 431824-19182 | | 9,813 |
| University of Washington | 93.307 | 762279 | | 78,917 |
| University of Washington | 93.855 | UWSC7347 (PO764291) | | 611 |
| University of Washington | 93.989 | various | 78,600 | 96,362 |
| World Health Organization | 93.393 | GEP/12/06 (U01CA155340) | | 2,966 |
| Yale University | 93.395 | M13A11642 (A08642), AMDT 4 | | 32,586 |
| Yale University | 93.853 | M14A11643 (A10639) | | 18,918 |
| | | | | <u>4,749,971</u> |
| | | | | 49,561,940 |

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Schedule of Expenditures of Federal Awards

Year Ended June 30, 2017

| | CFDA No. | Pass-Through Identifier | Passed Through to Subrecipients | Expenditures |
|--|----------|--------------------------|---------------------------------|--------------------|
| U.S. Department of Homeland Security | | | | |
| Passed through from | | | | |
| NiyamIT Inc | 97. | ----- | | 11,983 |
| U.S. Agency for International Development | | | | |
| USAID Foreign Assistance for Programs Overseas | | | | |
| Passed through from | | | | |
| Development Alternatives Inc | 98.001 | 1002251-155-24532, MOD 2 | 878,011 | 1,547,110 |
| Iowa State University | 98. | 404-21-77B, AMDT 4 | | 26,319 |
| Nathan Associates Inc | 98.001 | H301-300-PDC | | 62,519 |
| Purdue University | 98.001 | 41060000-8000059267 | 42,202 | 24,159 |
| | | | | <u>158,941</u> |
| | | | | <u>1,706,051</u> |
| Total Research and Development | | | | 206,765,325 |
| MAJOR PROGRAM – STUDENT FINANCIAL ASSISTANCE | | | | |
| U.S. Department of Education | | | | |
| Office of Federal Student Aid | | | | |
| Federal Supplemental Educational Opportunity Grants | 84.007 | | | 1,359,153 |
| Federal Work-Study Program | 84.033 | | | 1,663,582 |
| Federal Perkins Loan Program | 84.038 | | | 2,359,349 |
| Federal Pell Grant Program | 84.063 | | | 55,700,758 |
| Federal Direct Student Loans | 84.268 | | | <u>150,389,331</u> |
| Teacher Education Assistance for College and Higher Education Grants | 84.379 | | | <u>82,002</u> |
| Total Student Financial Assistance | | | | 211,554,175 |
| MAJOR PROGRAM – TITLE III HIGHER EDUCATION – INSTITUTIONAL AID | | | | |
| U.S. Department of Education | | | | |
| Office of Postsecondary Education | | | | |
| Higher Education – Institutional Aid | 84.031 | | | <u>13,630,887</u> |
| Total Title III Higher Education – Institutional Aid | | | | 13,630,887 |
| MAJOR PROGRAM – TRIO CLUSTER | | | | |
| U.S. Department of Education | | | | |
| Office of Postsecondary Education | | | | |
| TRIO – Student Support Services | 84.042 | | | 1,908,342 |
| TRIO – Talent Search | 84.044 | | | 839,181 |
| TRIO – Upward Bound | 84.047 | | | 1,950,771 |
| TRIO – Educational Opportunity Centers | 84.066 | | | <u>368,311</u> |
| Total TRIO Cluster | | | | 5,066,605 |
| MAJOR PROGRAM – TITLE VII NATIVE HAWAIIAN EDUCATION | | | | |
| U.S. Department of Education | | | | |
| Office of Elementary and Secondary Education | | | | |
| Native Hawaiian Education | 84.362 | | 661,289 | 5,334,327 |
| Passed through from | | | | |
| Kula No Na Po'e Hawaii | 84.362 | various | | 312,572 |
| Pacific American Foundation | 84.362 | various | | 159,065 |
| Waianae Coast Comprehensive Health Center | 84.362 | various | | <u>53,748</u> |
| Total Title VII Native Hawaiian Education | | | | 5,859,712 |
| MAJOR PROGRAM – HOMELAND SECURITY TRAINING | | | | |
| U.S. Department of Homeland Security | | | | |
| Federal Emergency Management Agency | | | | |
| State and Local Homeland Security National Training Program | 97.005 | | 2,705,109 | <u>5,204,186</u> |
| Total State and Local Homeland Security National Training Program | | | | 5,204,186 |
| MAJOR PROGRAM – GEAR UP PROGRAM | | | | |
| U.S. Department of Education | | | | |
| Office of Postsecondary Education | | | | |
| Gaining Early Awareness and Readiness for Undergraduate Programs | 84.334 | | 1,079,806 | <u>5,454,544</u> |
| Total Gear Up Program | | | | 5,454,544 |

University of Hawai'i

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Schedule of Expenditures of Federal Awards

Year Ended June 30, 2017

| | CFDA No. | Pass-Through Identifier | Passed Through to Subrecipients | Expenditures |
|--|----------|-----------------------------|---------------------------------|------------------|
| MAJOR PROGRAM – C3T PROGRAM | | | | |
| U.S. Department of Labor | | | | |
| Employment Training Administration | | | | |
| Trade Adjustment Assistance Community College and Career Training ("TAACCCT") Grants | 17.282 | | | 4,274,416 |
| Total C3T Program | | | | 4,274,416 |
| MAJOR PROGRAM – IRTF OPERATION | | | | |
| National Aeronautics and Space Administration | | | | |
| Goddard | | | | |
| NNH14CK55B | 43. | | | 4,771,083 |
| Total IRTF Program | | | | 4,771,083 |
| OTHER FEDERAL ASSISTANCE | | | | |
| U.S. Department of Agriculture | | | | |
| Agricultural Research Service | | | | |
| Agricultural Research – Basic and Applied Research | 10.001 | | | 74,250 |
| Animal and Plant Health Inspection Service | | | | |
| Plant and Animal Disease, Pest Control, and Animal Care | 10.025 | | | 112,793 |
| Agricultural Marketing Service | | | | |
| Federal-State Marketing Improvement Program | 10.156 | | | 41,525 |
| National Institute of Food and Agriculture | | | | |
| Payments to Agricultural Experiment Stations Under the Hatch Act | 10.203 | | 2,016 | |
| Alaska Native Serving and Native Hawaiian Serving Institutions | | | | |
| Education Grants | 10.228 | | 1,860,239 | |
| Agriculture and Food Research Initiative ("AFRI") | 10.310 | | 75,411 | |
| Beginning Farmer and Rancher Development Program | 10.311 | 10,349 | 284,655 | |
| Cooperative Extension Service | 10.500 | | 2,813,066 | 5,035,387 |
| Foreign Agricultural Service | | | | |
| Cochran Fellowship Program-International Training-Foreign Participant | 10.962 | | | 42,951 |
| Forest Service | | | | |
| Forest Stewardship Program | 10.678 | | 3,461 | |
| Other | 10. | | 121,391 | 124,852 |
| Natural Resources Conservation Service | | | | |
| Environmental Quality Incentives Program | 10.912 | | 4,019 | 133,379 |
| Rural Business-Cooperative Service | | | | |
| Rural Business Development Grant | 10.351 | | | 12,343 |
| Rural Utilities Service | | | | |
| Distance Learning and Telemedicine Loans and Grants | 10.855 | | | 251,317 |
| Passed through from | | | | |
| State of Hawaii Dept. of Education | 10.558 | various | | 88,259 |
| State of Hawaii Dept. of Education | 10.559 | various | | 31,202 |
| State of Hawaii Dept. of Health | 10.561 | ----- | | 8,576 |
| State of Hawaii Dept. of Human Services | 10.561 | various | | 539,809 |
| State of Hawaii Dept. of Land and Natural Resources | 10.664 | various | | 43,999 |
| State of Hawaii Dept. of Land and Natural Resources | 10.678 | C40709 | | 4,585 |
| State of Hawaii Dept. of Land and Natural Resources | 10.680 | various | | 193,670 |
| State of Hawaii Dept. of Land and Natural Resources | 10.684 | C71252 | | 4,965 |
| University of California – Davis | 10.304 | various | | 27,579 |
| University of California – Davis | 10.329 | SA14-2309-11, AMDT 2 | | 35,729 |
| Kansas State University | 10.500 | various | | 56,775 |
| University of Nebraska – Lincoln | 10.500 | 25-6329-0086-306 | | 26,589 |
| Oregon State University | 10.328 | C0494A-C | | 39,967 |
| Utah State University | 10.215 | 140867033 | | 42,869 |
| Utah State University | 10.500 | 130677003-92 | | 13,484 |
| Washington State University | 10.500 | 108815-G003472 | | 12,200 |
| World Cocoa Foundation | 10.777 | IDOL-SUBAWD: BORLAUG FELLOW | | 22,533 |
| | | | | <u>1,192,790</u> |
| | | | | 7,021,587 |
| U.S. Department of Commerce | | | | |
| Economic Development Administration | | | | |
| Cluster Grants | 11.020 | | 76,682 | 110,736 |
| Investments for Public Works and Economic Development Facilities | 11.300 | | | 2,175,250 |
| Economic Development – Technical Assistance | 11.303 | | | 139,547 |
| National Oceanic and Atmospheric Administration ("NOAA") | | | | |
| NOAA Mission-Related Education Awards | 11.008 | | | 1,200 |
| Ocean Exploration | 11.011 | | | 1,190 |
| Integrated Ocean Observing System ("IOOS") | 11.012 | | | 2,176,463 |
| Sea Grant Support | 11.417 | | | 1,272,038 |
| Fisheries Development and Utilization Research Development Grants and Cooperative Agreements Program | 11.427 | | 40,095 | 117,058 |
| NOAA Cooperative Institutes | 11.432 | | | 40,052 |
| Unaffiliated Industry Projects | 11.452 | | | 234,344 |
| Meteorologic and Hydrologic Modernization Development | 11.467 | | | 397,799 |
| Congressionally Identified Awards and Projects | 11.469 | | | 16,940 |
| Office of Coastal Management | 11.473 | | | 224,854 |
| Other | 11. | | | 120,505 |
| National Institute of Standards and Technology ("NIST") | | | | |
| Science, Technology, Business and/or Education Outreach | 11.620 | | | 15,136 |

University of Hawai'i

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Schedule of Expenditures of Federal Awards

Year Ended June 30, 2017

| | CFDA No. | Pass-Through Identifier | Passed Through to Subrecipients | Expenditures |
|--|----------|----------------------------|---------------------------------|------------------|
| Minority Business Development Agency | | | | |
| MBDA Business Center | 11.805 | | | 154,244 |
| Passed through from | | | | |
| State of Hawaii Dept. of Business, Economic Development and Tourism | 11.419 | PO 144-7054 | | 19,058 |
| State of Hawaii Dept. of Defense | 11.467 | various | | 280,150 |
| State of Hawaii Dept. of Land and Natural Resources | 11.472 | various | | 234,233 |
| State of Hawaii Dept. of Land and Natural Resources | 11.482 | various | | 295,020 |
| Aquafeed.com LLC | 11.427 | NA16NMF4270268/UH/WCC001 | | 14,306 |
| Conservation International Foundation | 11.427 | 6001074 | | 40,000 |
| High Technology Development Corp | 11.611 | various | | 36,079 |
| National Marine Sanctuary Foundation | 11.011 | 15-12-B-00044 | | 23,459 |
| National Marine Sanctuary Foundation | 11. | various | | 456 |
| University Corp for Atmospheric Research | 11.431 | Z15-18983 (NA11OAR4310213) | | 180,400 |
| | | | | <u>1,123,161</u> |
| | | | | 8,320,517 |
| U.S. Department of Defense | | | | |
| Army | | | | |
| Basic and Applied Scientific Research | 12.300 | | | 470,322 |
| Basic Scientific Research | 12.431 | | | 240,045 |
| Other | 12. | | | 53,869 |
| | | | | <u>764,236</u> |
| Navy | | | | |
| Basic and Applied Scientific Research | 12.300 | | | 2,044,903 |
| Other | 12. | | | 718,419 |
| | | | | <u>2,763,322</u> |
| National Security Agency | | | | |
| Language Grant Program | 12.900 | | | 107,064 |
| Mathematical Sciences Grants Program | 12.901 | | | 19,250 |
| GenCyber Grants Program | 12.903 | | | 99,946 |
| | | | | <u>226,260</u> |
| Defense Logistics Agency | 12. | | | 144,711 |
| Passed through from | | | | |
| Chaminade University | 12.300 | various | | 29,978 |
| Ho'okipaipai LLC | 12.002 | ----- | | (7,133) |
| Institute of International Education | 12.550 | various | 221,680 | 1,661,130 |
| Institute of International Education | 12. | NSEP-U631073-UHM-KOR | | 51 |
| | | | | <u>1,684,026</u> |
| | | | | 5,582,555 |
| U.S. Department of Housing & Urban Development | | | | |
| Passed through from | | | | |
| State of Hawaii Dept. of Business, Economic Development and Tourism | 14. | PEO 16-04 | | 4,139 |
| U.S. Department of the Interior | | | | |
| Fish and Wildlife Service | | | | |
| Service Training and Technical Assistance (Generic Training) | 15.649 | | | 17,555 |
| Endangered Species Conservation – Recovery Implementation Funds | 15.657 | | | 42,341 |
| Fish and Wildlife Coordination and Assistance Programs | 15.664 | | | 114,876 |
| Cooperative Landscape Conservation | 15.669 | | | 94,700 |
| Cooperative Ecosystem Studies Units | 15.678 | | | 20,446 |
| | | | | <u>289,918</u> |
| U.S. Geological Survey | | | | |
| Other | 15. | | | 98,285 |
| Office of Insular Affairs | | | | |
| Economic, Social, and Political Development of the Territories | 15.875 | | 21,242 | 119,303 |
| National Park Service | | | | |
| Cooperative Research and Training Programs – Resources of the National Park System | 15.945 | | | 41,035 |
| Passed through from | | | | |
| State of Hawaii Dept. of Land and Natural Resources | 15.605 | various | | 58,287 |
| State of Hawaii Dept. of Land and Natural Resources | 15.611 | various | | 255,632 |
| State of Hawaii Dept. of Land and Natural Resources | 15.615 | various | | 260,787 |
| State of Hawaii Dept. of Land and Natural Resources | 15.634 | various | | 24,963 |
| National Fish and Wildlife Foundation | 15.663 | 1701.15.050697 | | 148,141 |
| Commonwealth of the Northern Mariana Islands | 15.875 | CNMI-CHC-ENERGY 2015-001 | | 916 |
| | | | | <u>748,726</u> |
| | | | | 1,297,267 |
| U.S. Department of Justice | | | | |
| National Institute of Justice | | | | |
| Postconviction Testing of DNA Evidence to Exonerate the Innocent | 16.820 | | | 313,267 |
| Passed through from | | | | |
| State of Hawaii Dept. of Human Services | 16.540 | DHS-15-OYS-545 SA#1 | | 44,604 |
| State of Hawaii Dept. of Public Safety | 16.751 | 63024 | | (3,330) |
| | | | | <u>41,274</u> |
| | | | | 354,541 |

University of Hawai'i

State of Hawai'i

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2017

| | CFDA No. | Pass-Through Identifier | Passed Through to Subrecipients | Expenditures |
|--|-------------|----------------------------|---------------------------------------|----------------|
| U.S. Department of Labor | | | | |
| Employment Training Administration | | | | |
| WIA/WIOA Pilots, Demonstrations, and Research Projects | 17.261 | | | (1,093) |
| Passed through from | | | | |
| State of Hawaii Dept. of Labor and Industrial Relations | 17.207 | DEI-PY15-UHCDS | | 229,828 |
| State of Hawaii Dept. of Labor and Industrial Relations | 17.268 | AAI-15-UH | | 6,382 |
| State of Hawaii Dept. of Labor and Industrial Relations | 17.285 | Appr SEG-16-UH | | 19,914 |
| State of Hawaii Dept. of Labor and Industrial Relations | 17. | PO 00104399 | | 8,920 |
| County of Maui | 17.259 | C5969, AMDT 3 | | 99,105 |
| | | | | <u>364,149</u> |
| | | | | 363,056 |
| U.S. Department of State | | | | |
| Passed through from | | | | |
| East West Center | 19. | various | | 433,400 |
| Partners of the Americas | 19.009 | CBG-2015-R1-17 | | 16,415 |
| | | | | <u>449,815</u> |
| U.S. Department of Transportation | | | | |
| Passed through from | | | | |
| State of Hawaii Dept. of Land and Natural Resources | 20.219 | various | | 227,799 |
| State of Hawaii Dept. of Transportation | 20.200 | ----- | | 13,903 |
| State of Hawaii Dept. of Transportation | 20.205 | MOA | | (6,335) |
| State of Hawaii Dept. of Transportation | 20.600 | various | | 128,269 |
| State of Hawaii Dept. of Transportation | 20.616 | MC16-07 (01-S-01) | | 3,000 |
| University of Southern California | 20.701 | 84376201 | | 2,225 |
| | | | | <u>368,861</u> |
| National Aeronautics and Space Administration | | | | |
| Goddard | | | | |
| Science | 43.001 | | | 137,193 |
| Education | 43.008 | | | 1,101,596 |
| Space Technology | 43.012 | | | 43,184 |
| Other | 43. | | | 158,809 |
| Johnson Space Center | | | | |
| Education | 43.008 | | | 80,807 |
| NASA Astrobiology Institute | 43. | | | 581 |
| Passed through from | | | | |
| University of Arizona | 43. | Y403053 | | 57,303 |
| New Mexico State University | 43.009 | Q01622 | | 43,513 |
| Space Telescope Science Institute | 43. | HST-HF2-51359.001-A | | 27,552 |
| Teledyne Brown Engineering | 43. | PO00135774 | | 8,000 |
| | | | | <u>136,368</u> |
| | | | | 1,658,538 |
| National Endowment for the Arts and Humanities | | | | |
| Passed through from | | | | |
| Hawaii State Foundation on Culture & Arts | 45.025 | various | | 7,060 |
| Hawaii Council for the Humanities | 45.129 | various | | 17,959 |
| WESTAF | 45.025 | various | | 7,625 |
| | | | | <u>32,644</u> |
| Institute of Museum and Library Services | | | | |
| Passed through from | | | | |
| Washington State University | 45.312 | 116432 G003717 | | 6,954 |
| Small Business Administration | | | | |
| Small Business Development Centers | 59.037 | | | 595,855 |
| Veterans Outreach Program | 59.044 | | | 164,130 |
| Other | 59. | | | 17,133 |
| Passed through from | | | | |
| State of Hawaii Dept. of Business, Economic Development and Tourism | 59.061 | 65639 | | 17,695 |
| | | | | <u>794,813</u> |
| U.S. Department of Veterans Affairs | | | | |
| | 64. | | | 253,642 |
| Environmental Protection Agency | | | | |
| Office of Research and Development ("ORD") | | | | |
| Greater Research Opportunities ("GRO") Fellowships for Undergraduate Environmental Study | 66.513 | | | 4,956 |
| Science to Achieve Results ("STAR") Fellowship Program | 66.514 | | | 5,896 |
| Passed through from | | | | |
| State of Hawaii Dept. of Health | 66.460 | ASO LOG 15-028 | | 138,042 |
| | | | | <u>148,894</u> |
| U.S. Department of Energy | | | | |
| Conservation Research and Development | 81.086 | | | 52,305 |
| Passed through from | | | | |
| State of Hawaii Dept. of Business, Economic Development and Tourism | 81.041 | 120-7005 | | 2,500 |
| State of Hawaii Dept. of Business, Economic Development and Tourism | 81.119 | 65616 | | 3,061 |
| University of Central Florida | 81.087 | 16226104-04 | | 32,557 |
| | | | | <u>38,118</u> |
| | | | | 90,423 |

University of Hawai'i

State of Hawai'i

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2017

| | CFDA No. | Pass-Through Identifier | Passed Through to Subrecipients | Expenditures |
|---|----------|----------------------------|---------------------------------|-------------------|
| U.S. Department of Education | | | | |
| Office of Postsecondary Education | | | | |
| National Resource Centers Program for Foreign Language and Areas Studies or Foreign Language and International Studies Program and Foreign Language and Area Studies Fellowship Program | | | | |
| | 84.015 | | | 1,364,790 |
| | 84.021 | | | 12,277 |
| | 84.022 | | | 311 |
| | 84.229 | | | 189,660 |
| | 84.335 | | | 166,527 |
| | 84.378 | | 120,216 | 593,949 |
| | 84.382 | | | 174,689 |
| | 84.407 | | | <u>381,897</u> |
| | | | | 2,884,100 |
| Office of Special Education and Rehabilitative Services | | | | |
| | 84.129 | | | 227,845 |
| | 84.325 | | | 1,085,679 |
| | 84.326 | | | <u>160,565</u> |
| | | | | 1,474,089 |
| Office of Elementary and Secondary Education | | | | |
| | 84.365 | | | 297,324 |
| | 84.367 | | | <u>267,358</u> |
| | | | | 564,682 |
| Office of Career, Technical, and Adult Education | | | | |
| | 84.048 | | | <u>2,522,337</u> |
| Passed through from | | | | |
| | 84.184 | MOA D15-083 CO-10584 AMDT1 | | 11,671 |
| | 84.287 | various | | 56,230 |
| | 84.372 | various | | 1,233,389 |
| | 84.126 | various | | 448,342 |
| | 84.419 | SPCSC-15-01-SW | | 3,248 |
| | 84.259 | various | | 736,042 |
| | 84.403 | C00542 | | 33,943 |
| | 84. | various | | 987,527 |
| | 84.116 | ----- | | 2,993 |
| | 84.259 | various | | 71,413 |
| | 84.325 | H325K160037 | | 58,932 |
| | 84.367 | 92-H101-SEED2017-ILI | | <u>1,037</u> |
| | | | | 3,644,767 |
| | | | | <u>11,089,975</u> |
| Japan U.S. Friendship Commission | | | | |
| | 90.300 | | | 59,739 |
| U.S. Department of Health and Human Services | | | | |
| Health Resources and Services Administration | | | | |
| | 93.107 | | 728,580 | 880,208 |
| | 93.110 | | 1,500 | 356,507 |
| | 93.127 | | | 128,874 |
| | 93.157 | | | 830,465 |
| | 93.165 | | | 114,687 |
| | 93.211 | | | 367,474 |
| | 93.243 | | | 532,183 |
| | 93.247 | | | 626,223 |
| | 93.251 | | | 499,982 |
| | 93.358 | | | 39,612 |
| | 93.359 | | | 362,273 |
| | 93.732 | | 30,583 | 30,925 |
| | 93.822 | | 206,813 | 492,949 |
| | 93.969 | | | <u>761,732</u> |
| | | | | 6,024,094 |
| Centers for Disease Control and Prevention | | | | |
| | 93.283 | | 194,911 | 475,212 |
| | 93.314 | | | 250,536 |
| | 93.738 | | 139,088 | <u>1,002,733</u> |
| | | | | 1,728,481 |
| Substance Abuse and Mental Health Services Administration | | | | |
| | 93.243 | | | 789 |
| Administration for Community Living | | | | |
| | 93.631 | | | 102,375 |
| | 93.632 | | 361,751 | 1,116,065 |
| | 93.763 | | | <u>268,257</u> |
| | | | | 1,486,697 |
| Office of Minority Health | | | | |
| | 93.137 | | | 617,420 |

University of Hawai'i State of Hawai'i Schedule of Expenditures of Federal Awards Year Ended June 30, 2017

| | CFDA No. | Pass-Through Identifier | Passed Through to Subrecipients | Expenditures |
|---|-------------|-----------------------------|---------------------------------------|-----------------------|
| Passed through from | | | | |
| State of Hawaii Dept. of Education | 93.079 | MOA D16-113 CO-10692 | | 29,250 |
| State of Hawaii Dept. of Education | 93.243 | MOA D15077 CO-10583 AMDT1 | | 208,990 |
| State of Hawaii Dept. of Education | 93. | CO-10266 MOA D11-140 | | 59,976 |
| State of Hawaii Dept. of Health | 93.004 | PO 00 217510 | | 1,123 |
| State of Hawaii Dept. of Health | 93.048 | UH15NWD | | 107,694 |
| State of Hawaii Dept. of Health | 93.092 | PO 00 229931 | | 580 |
| State of Hawaii Dept. of Health | 93.104 | CAMHD Log 14-113 Mod 5 | | 30,758 |
| State of Hawaii Dept. of Health | 93.110 | Furutomo MOA (PO 00 227869) | | 24,478 |
| State of Hawaii Dept. of Health | 93.136 | ASO Log 17-099 | | 27,157 |
| State of Hawaii Dept. of Health | 93.217 | ASO LOG 13-095 MOD 4 | | 7,027 |
| State of Hawaii Dept. of Health | 93.243 | CAMHD LOG 11-001 MOD 12 | | 39,714 |
| State of Hawaii Dept. of Health | 93.283 | PO 00 231876 | | 11,436 |
| State of Hawaii Dept. of Health | 93.758 | various | | 52,069 |
| State of Hawaii Dept. of Health | 93.958 | various | | 441,726 |
| State of Hawaii Dept. of Health | 93.959 | various | | 650,383 |
| State of Hawaii Dept. of Health | 93.991 | various | | 27,004 |
| State of Hawaii Dept. of Health | 93. | various | | 164,623 |
| State of Hawaii Dept. of Human Services | 93.536 | ----- | | 217,508 |
| State of Hawaii Dept. of Human Services | 93.558 | various | | 39,015 |
| State of Hawaii Dept. of Human Services | 93.596 | various | | 909,127 |
| State of Hawaii Dept. of Human Services | 93.658 | various | | 485,885 |
| State of Hawaii Dept. of Human Services | 93.667 | various | | 99,386 |
| State of Hawaii Dept. of Human Services | 93.669 | DHS-17-POS-4054 | | 133,000 |
| State of Hawaii Dept. of Human Services | 93.747 | DHS-17-APCSB-4093 | | 44,369 |
| State of Hawaii Dept. of Human Services | 93.779 | ----- | | 259,555 |
| State of Hawaii Judiciary | 93.243 | J15154 | | (2,054) |
| State of Hawaii Office of Enterprise Technology Services | 93.511 | ----- | | 97,833 |
| State of Hawaii Office of Information Management and Technology | 93.511 | WTL#1 OIMT UH-TASI JUNE2015 | | 347,847 |
| City & County of Honolulu | 93.044 | various | | 19,380 |
| City & County of Honolulu | 93.052 | various | | 190,118 |
| Government of American Samoa | 93.283 | ----- | | 25,000 |
| Government of American Samoa | 93.778 | 57310 | | 107,562 |
| University of Arizona | 93.516 | 218822 | | 81,001 |
| Association of University Centers on Disabilities | 93.424 | ----- | | 6,857 |
| University of California – San Francisco | 93.145 | various | | 141,206 |
| Coalition for a Drug-Free Hawaii | 93.276 | YEAR 3 | | 8,879 |
| Federated States of Micronesia | 93.283 | A120707121361-12-8310 | | 57,521 |
| Global Coalition Against Cervical Cancer | 93.424 | C867-UH | | 10,712 |
| Government of Guam | 93.283 | 5101H121712SE118/230 | | 18,862 |
| Government of Guam | 93.778 | GDPHSS-MEDICAID-CA-002WTL#2 | | 13,595 |
| ARRA – Hawaii Health Information Exchange | 93.718 | 2010-002 | | 81,731 |
| Republic of the Marshall Islands | 93.283 | ----- | | 27,181 |
| Commonwealth of the Northern Mariana Islands | 93.185 | CNMI DPHSS, AMDT 4 | | 30,237 |
| Commonwealth of the Northern Mariana Islands | 93.507 | WTL CNMI-CHC-DPHS-2013-001 | | 50,000 |
| Commonwealth of the Northern Mariana Islands | 93.778 | various | | 220,540 |
| Commonwealth of the Northern Mariana Islands | 93. | CNMI-CHC-SIM 2015-001 | | 19,304 |
| Pacific Youth & Community Development | 93.612 | 90NE0034-01-00 | | 33,064 |
| Republic of Palau | 93.283 | various | | 20,008 |
| University Clinical, Education & Research Associates | 93.917 | various | | 145,208 |
| Waikiki Health | 93. | Aparicio MOU | | 9,999 |
| Waimanalo Health Center | 93.224 | ----- | | 23,000 |
| University of Washington | 93.226 | UWSC9409 | | 12,908 |
| | | | | <u>5,869,332</u> |
| | | | | 15,726,813 |
| Corporation for National and Community Service | | | | |
| State Commissions | 94.003 | | | 181,523 |
| AmeriCorps | 94.006 | | 2,500,074 | 2,500,074 |
| Training and Technical Assistance | 94.009 | | | <u>92,782</u> |
| | | | | 2,774,379 |
| Social Security Administration | | | | |
| Social Security – Work Incentives Planning and Assistance Program | 96.008 | | | 115,734 |
| U.S. Department of Homeland Security | | | | |
| Passed through from | | | | |
| County of Kauai | 97.044 | ----- | | (3,134) |
| Agency for International Development | | | | |
| USAID Foreign Assistance for Programs Overseas | 98.001 | | 15,000 | 220,385 |
| Passed through from | | | | |
| University of California – Davis | 98. | 09-002945-108 | | 15,238 |
| Michigan State University | 98. | RC102095BHEARD-Bangladesh | | <u>46,946</u> |
| | | | | 282,569 |
| Other | | | | |
| Peace Corps | 99. | | | <u>17,419</u> |
| Total other federal assistance | | | | <u>56,811,740</u> |
| Total expenditures of federal awards | | | \$ 29,226,936 | \$ 519,392,673 |

University of Hawai‘i
State of Hawai‘i
Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the University and is presented on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements. The University has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

2. Loans Outstanding

The University had the following loans outstanding as of June 30, 2017, which are not presented in the schedule of expenditures of federal awards.

| | CFDA No. | Loans Outstanding |
|---|-----------------|------------------------------|
| Major Program – Student Financial Assistance | | |
| Federal Perkins Loan | 84.038 | \$ 16,641,387 |
| Nursing Student Loan | 93.364 | <u>10,829</u> |
| | | <u>\$ 16,652,216</u> |

During the year ended June 30, 2017, the University distributed \$2,359,349 and \$150,389,331 in student loans through the U.S. Department of Education Federal Perkins Loan and Direct Loan programs, respectively. These distributions and related funding sources are presented in the schedule of expenditures of federal awards, however, are not included as expenses and revenues in the University's consolidated financial statements.

SECTION 3

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

University of Hawai‘i²
State of Hawai‘i
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Section I – Summary of Auditors’ Results

Financial Statements

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

Federal Awards

| | |
|--|------------|
| Internal control over major programs: | |
| Material weaknesses identified? | No |
| Significant deficiencies identified that are not considered to be material weaknesses? | No |
| Type of auditors’ report issued on compliance for major programs | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. CFR Part 200, Section 200.516? | Yes |

Identification of Major Programs¹

| CFDA Number | Federal Program or Cluster | |
|---|--|-------------|
| Various | Research and Development Cluster | |
| Various | Student Financial Assistance Cluster – Grants, Scholarships and Loans | |
| Various | TRIO Cluster | |
| 17.282 | Trade Adjustment Assistance Community College and Career Training | |
| 43.000 | NASA IRTF Operation | |
| 84.031 | Title III Higher Education – Institutional Aid | |
| 84.334 | Gaining Early Awareness and Readiness for Undergraduate Programs (“GEAR UP”) | |
| 84.362 | Title VII Native Hawaiian Education | |
| 97.005 | State and Local Homeland Security National Training Program | |
| Dollar threshold used to distinguish between Type A and Type B programs | | \$3,000,000 |
| Auditee qualified as low-risk auditee? | | Yes |

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

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

University of Hawai'i
State of Hawai'i
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Section II – Financial Statement Findings

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

**University of Hawai'i
 State of Hawai'i
 Schedule of Findings and Questioned Costs
 Student Financial Assistance Cluster
 University of Hawai'i at Mānoa
 Year Ended June 30, 2017**

Section III – Federal Award Findings and Questioned Costs

**Questioned
 Costs**

\$ –

Finding No. 2017-001: Financial Aid Administration – Control Deficiency

Federal Agency: U.S. Department of Education

CFDA Number and Title: 84.268 – Federal Direct Student Loans

Condition

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

- For 10 out of 20 students selected for testing, the institution failed to provide exit counseling to borrowers within a timely manner.
- For 1 out of 20 students selected for testing, the institution failed to update the student's enrollment status in the National Student Loan Data System ("NSLDS") within a timely manner.

Criteria

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

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

**University of Hawai'i
State of Hawai'i
Schedule of Findings and Questioned Costs
Student Financial Assistance Cluster
University of Hawai'i at Mānoa
Year Ended June 30, 2017**

Cause

The financial aid office utilizes a report extracted from the University's Banner system that is provided by the Information Technology ("IT") department to identify borrowers requiring exit counseling. Due to the delayed receipt of the report from the IT department, the financial aid office was unable to provide the exit counseling to borrowers in a timely manner.

The financial aid office relies on the Office of the Registrar ("Registrar") to update the student's enrollment status in the NSLDS. Due to the delayed receipt of the spring graduation listing from the School of Medicine, the Registrar was unable to update the student's enrollment status in the NSLDS in a timely manner.

Effect

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

Context

A sample of 20 exit counseling sessions conducted with borrowers were selected for audit from a population of 1,892 exit counseling sessions conducted with borrowers. Our test found 10 exit counseling sessions conducted with borrowers that were not performed timely. Our sample was a statistically valid sample.

A sample of 20 students who failed to enroll on at least a half-time basis were selected for audit from a population of 1,892 students who failed to enroll on at least a half-time basis. Our test found one student's enrollment status that was not updated in the NSLDS within a timely manner. Our sample was a statistically valid sample.

Repeat Finding

This is not a repeat finding.

Recommendation

We recommend that the institution perform the following to ensure compliance with Federal requirements:

- Provide timely exit counseling to borrowers.
- Update student enrollment status in the NSLDS on a timely basis.

Views of Responsible Officials and Planned Corrective Actions

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

**University of Hawai'i
 State of Hawai'i
 Schedule of Findings and Questioned Costs
 Student Financial Assistance Cluster
 University of Hawai'i Hilo
 Year Ended June 30, 2017**

**Questioned
 Costs**

\$6,298

Finding No. 2017-002: Return of Title IV Funds – Control Deficiency

Federal Agency: U.S. Department of Education

CFDA Number and Title: 84.007 – Federal Supplemental Educational Opportunity Grants
 84.063 – Federal Pell Grant Program
 84.268 – Federal Direct Student Loans

Condition

During our audit, for 1 out of 15 students selected for testing, the institution did not have evidence that the student attended any classes. As such, the institution failed to remit all Title IV funds for this student, resulting in an underpayment of \$6,298 to the Title IV program.

Criteria

Title 34, Section 668.21(a) of the CFR requires if a student does not begin attendance in a payment period or period of enrollment, the institution must return all Title IV, HEA programs funds that were credited to the student's account at the institution or disbursed directly to the student for that payment period or period of enrollment for Federal Perkins Loan, Federal Supplemental Educational Opportunity, Federal Pell Grant, TEACH Grant, ACG, and National SMART Grant program funds. For the Federal Direct Student Loans, the institution must return all loan funds that were credited to the student's account at the institution for that payment period or period of enrollment.

Cause

The institution is not required to take attendance and, during our testing, we noted that the institution does not have procedures for evidencing that the student began attendance during the enrollment period. The institution was unable to provide evidence that this student began attendance for the enrolled classes during the period of enrollment.

Effect

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

**University of Hawai'i
State of Hawai'i
Schedule of Findings and Questioned Costs
Student Financial Assistance Cluster
University of Hawai'i Hilo
Year Ended June 30, 2017**

Context

A sample of 15 students who completely withdrew from the institution and were disbursed a total of \$70,739 in Title IV funds was selected for audit from a population of 217 students who completely withdrew and were disbursed a total of \$1,475,028 in Title IV funds. Our test found one student's return of Title IV funds that was incorrectly calculated, resulting in a questioned cost of \$6,298. Our sample was a statistically valid sample.

Repeat Finding

This is not a repeat finding.

Recommendation

We recommend that the institution remit all aid to the appropriate Title IV programs if a student fails to begin attendance during the period of enrollment.

Views of Responsible Officials and Planned Corrective Actions

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

**University of Hawai'i
 State of Hawai'i
 Schedule of Findings and Questioned Costs
 Student Financial Assistance Cluster
 University of Hawai'i West O'ahu
 Year Ended June 30, 2017**

**Questioned
 Costs**

\$ –

Finding No. 2017-003: Return of Title IV Funds – Control Deficiency

Federal Agency: U. S. Department of Education

CFDA Number and Title: 84.007 – Federal Supplemental Educational Opportunity Grants
 84.063 – Federal Pell Grant Program
 84.268 – Federal Direct Student Loans

Condition

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

- For 9 out of 15 students selected for testing, the institution failed to remit the institutional portion of unearned Title IV Funds to the Title IV program within 45 days after the institution determined that the student withdrew.
- For 7 out of 15 students selected for testing, the institution failed to perform the return to Title IV calculation for students who unofficially withdrew from the institution, within 30 days after the end of period of enrollment.

Criteria

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

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

Cause

Due to turnover in critical positions within the financial aid office and lack of personnel training, the institution was unable to perform the return to Title IV calculations timely.

Effect

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

**University of Hawai'i
State of Hawai'i
Schedule of Findings and Questioned Costs
Student Financial Assistance Cluster
University of Hawai'i West O'ahu
Year Ended June 30, 2017**

Context

A sample of 15 students who withdrew from the institution and were disbursed a total of \$40,146 in Title IV funds was selected for audit from a population of 135 students who completely withdrew and were disbursed a total of \$906,232 in Title IV funds. Our test found nine students' institutional portion of unearned aid that were not remitted timely as the fall 2016 and spring 2017 semester return to Title IV calculations were not performed until July 2017. Our sample was a statistically valid sample.

Of our sample of 15 students who withdrew, nine students were selected for testing who unofficially withdrew from the institution and were disbursed a total of \$26,799 in Title IV funds from a population of 95 students who unofficially withdrew from the institution and were disbursed a total of \$630,358 in Title IV funds. Our test found seven students' return to Title IV calculation not performed timely. Our sample was a statistically valid sample.

Repeat Finding

This is a repeat of prior audit finding 2016-005.

Recommendation

We recommend that the institution perform the following to ensure compliance with Federal requirements:

- Remit the institutional unearned aid to the appropriate Title IV program within the required 45-day period.
- Perform the return to Title IV calculations within the required 30-day period.

Views of Responsible Officials and Planned Corrective Actions

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

**University of Hawai'i
State of Hawai'i
Schedule of Findings and Questioned Costs
Student Financial Assistance Cluster
Hawai'i Community College
Year Ended June 30, 2017**

**Questioned
Costs**

\$ –

Finding No. 2017-004: Financial Aid Administration – Control Deficiency

Federal Agency: U.S. Department of Education

CFDA Number and Title: 84.268 – Federal Direct Student Loans

Condition

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

- For 1 out of 3 months selected for testing, the institution did not have evidence that they were transmitting and reconciling borrower data. As such, the institution failed to perform the reconciliation between institutional records and direct loan disbursements records.
- For 14 out of 15 students selected for testing, the institution failed to provide exit counseling to borrowers within a timely manner.

Criteria

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

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

Cause

The application of an inappropriate filter applied to a report extracted from the Banner system resulted in the improper inclusion of transactions from the report utilized in the reconciliation process.

The institution was unable to perform exit counseling for borrowers in a timely manner due to staffing constraints within the financial aid office and general oversight of the applicable compliance requirements by the remaining individuals within the financial aid office.

**University of Hawai'i
State of Hawai'i
Schedule of Findings and Questioned Costs
Student Financial Assistance Cluster
Hawai'i Community College
Year Ended June 30, 2017**

Effect

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

Context

A sample of three monthly reconciliations were selected for audit from a population of 12 monthly reconciliations. Our test found one monthly reconciliation that was not performed properly. Our sample was a statistically valid sample.

A sample of 15 exit counseling sessions conducted with borrowers were selected for audit from a population of 174 exit counseling sessions conducted with borrowers. Our test found 14 exit counseling sessions conducted with borrowers that were not performed timely. Our sample was a statistically valid sample.

Repeat Finding

This is not a repeat finding.

Recommendation

We recommend that the institution perform the following to ensure compliance with Federal requirements:

- Reconcile borrower information on a monthly basis and retain records.
- Provide timely exit counseling to borrowers.

Views of Responsible Officials and Planned Corrective Actions

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

**University of Hawai'i
State of Hawai'i
Schedule of Findings and Questioned Costs
Student Financial Assistance Cluster
Leeward Community College
Year Ended June 30, 2017**

**Questioned
Costs**

\$4,410

Finding No. 2017-005: Financial Aid Administration – Control Deficiency

Federal Agency: U.S. Department of Education

CFDA Number and Title: 84.063 – Federal Pell Grant Program
84.033 – Federal Work Study Program

Condition

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

- For 1 out of 15 students selected for testing, the institution failed to remit the institutional portion of unearned Title IV Funds to the Title IV program within 45 days after the institution determined that the student withdrew.
- The institution failed to use at least seven percent of its Federal Work Study (“FWS”) program funds to pay students employed in community service jobs.

Criteria

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

Title 34 Section 675.18(g)(1) of the CFR states that an institution must use at least seven percent of the sum of its initial and supplemental FWS allocations for an award year to compensate students employed in community service activities.

Cause

A revision was made to the original Return to Title IV calculation resulting in additional institutional portion of unearned aid. The institution was unable to remit the additional aid within the required 45-day time period.

The institution was unable to identify a sufficient number of students for employment in community service activities to ensure the FWS earmarking requirement was met.

Effect

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

**University of Hawai'i
State of Hawai'i
Schedule of Findings and Questioned Costs
Student Financial Assistance Cluster
Leeward Community College
Year Ended June 30, 2017**

An institution that fails to meet the seven percent requirement will be required to return an amount that represents the difference between the actual compensation amount and the amount that should have been compensated for community service activities.

Context

A sample of 15 students who completely withdrew from the institution and were disbursed a total of \$27,673 in Title IV funds was selected for audit from a population of 405 students who completely withdrew and were disbursed a total of \$1,340,354 in Title IV funds. Our test found one student's return of Title IV funds that was not remitted timely. Our sample was a statistically valid sample.

During the review of the institution's Fiscal Operation Report and Application to Participate ("FISAP"), we noted that the institution employed three students who were compensated a total of \$2,590 or 2.59% of the \$100,000 FWS initial allocation for community service activities, resulting in a questioned cost of \$4,410. No further sampling of student compensation was performed in conjunction with the testing of the institution's FISAP.

Repeat Finding

This is not a repeat finding.

Recommendation

We recommend that the institution perform the following to ensure compliance with Federal requirements:

- Remit the institutional portion of unearned aid to the appropriate Title IV program within the required 45-day time period.
- Ensure that at least seven percent of FWS allocations are used to compensate students employed in community service activities. We also recommend that the institution consider requesting a waiver of the earmarking requirements pursuant to the provisions of Title 34 Section 675.18(g)(2) of the CFR.

Views of Responsible Officials and Planned Corrective Actions

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

**University of Hawai'i
State of Hawai'i
Schedule of Findings and Questioned Costs
Student Financial Assistance Cluster
University of Hawai'i Maui College
Year Ended June 30, 2017**

**Questioned
Costs**

\$ –

Finding No. 2017-006: Return of Title IV Funds – Control Deficiency

Federal Agency: U.S. Department of Education

CFDA Number and Title: 84.268 – Federal Direct Student Loans

Condition

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

- For 1 out of 15 students selected for testing, the institution failed to provide exit counseling to the borrower within a timely manner.
- For 1 out of 15 students selected for testing, the institution failed to update student enrollment status in the NSLDS within a timely manner.

Criteria

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

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

**University of Hawai'i
State of Hawai'i
Schedule of Findings and Questioned Costs
Student Financial Assistance Cluster
University of Hawai'i Maui College
Year Ended June 30, 2017**

Cause

During our testing we noted that the institution did not consider the student's obtainment of a Certificate of Competence as a criteria to proceed with the exit counseling processes. Failure to do so resulted in the institution being unable to provide exit counseling to this borrower in a timely manner.

During our testing we noted that the student enrolled in the institution in the summer 2016 session, did not continue their enrollment in the fall 2016 semester, and resumed their enrollment in the spring 2017 semester. As the institution is not required to report summer session enrollment to the NSLDS and as the student did not enroll in the institution in the fall 2016 semester, the institution failed to update the student's enrollment status in the NSLDS system in a timely manner.

Effect

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

Context

A sample of 15 exit counseling sessions conducted with borrowers were selected for audit from a population of 521 exit counseling sessions conducted with borrowers. Our test found one exit counseling session conducted with a borrower that was not performed timely. Our sample was a statistically valid sample.

A sample of 15 students who failed to enroll on at least a half-time basis were selected for audit from a population of 521 students who failed to enroll on at least a half-time basis. Our test found one student enrollment status that was not updated in the NSLDS within a timely manner. Our sample was a statistically valid sample.

Repeat Finding

This is not a repeat finding.

Recommendation

We recommend that the institution perform the following to ensure compliance with Federal requirements:

- Provide timely exit counseling to borrowers.
- Update the student enrollment status in the NSLDS on a timely basis.

Views of Responsible Officials and Planned Corrective Actions

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

SECTION 4

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

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

University of Hawai'i
State of Hawai'i
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2017

| Finding No. | Description | Classification | Status | | Current Year Finding No. |
|--------------------|--|-------------------------------|-----------------|-------------------|---------------------------------|
| | | | Resolved | Unresolved | |
| 2016-001 | Approval of Payroll Expenditures | Significant deficiency ("SD") | X | | |
| 2016-002 | Improper Consultant Expenditures | SD | X | | |
| 2016-003 | Subrecipient Monitoring | SD | X | | |
| 2016-004 | Federal Direct Loan Enrollment Reporting | Control deficiency ("CD") | X | | |
| 2016-005 | Financial Aid Administration | SD | | X | 2017-003 |
| 2016-006 | Financial Aid Administration | CD | X | | |

SECTION 5
CORRECTIVE ACTION PLAN (UNAUDITED)



UNIVERSITY *of* HAWAI'I®

SYSTEM

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

FISCAL YEAR ENDED JUNE 30, 2017

**Corrective Action Plan Related to the Schedule of Findings and Questioned Costs
Student Financial Assistance Cluster
University of Hawai'i at Mānoa
Year Ended June 30, 2017**

Finding No. 2017-001: **Financial Aid Administration – Control Deficiency**

Federal Agency: U.S. Department of Education

CFDA Number and Title: 84.268 - Federal Direct Student Loans

Responsible Individual: Jodie Kuba, Financial Aid Services Director

Date Action Taken: October 2, 2017

To ensure timely notification of exit counseling to students, the IT department worked with the Financial Aid Office to establish a new production calendar for report generation to include absolute run dates. IT also established backup coverage to produce the reports on the aforementioned production dates should the primary specialist be out of the office.

To ensure timely enrollment reporting of students to the NSLDS, the Office of the Registrar revised the degree conferral process to include a step to report degrees awarded after the electronic transmission process manually to the National Student Clearinghouse, who then will report to the NSLDS.

**Corrective Action Plan Related to the Schedule of Findings and Questioned Costs
Student Financial Assistance Cluster
University of Hawai'i at Hilo
Year Ended June 30, 2017**

Finding No. 2017-002: **Return of Title IV Funds – Control Deficiency**

Federal Agency: U.S. Department of Education

CFDA Number and Title: 84.007 – Federal Supplemental Educational Opportunity Grants
84.063 – Federal Pell Grant Program
84.268 – Federal Direct Student Loans

Questioned Costs: \$6,298

Responsible Individual: Sherrie Padilla, Enrollment Services Manager and Director of Financial Aid

Date Action to be Taken: August 28, 2017

Beginning with the Fall 2017 semester, for each student who is on the University's withdrawal lists who withdrew online, the Financial Aid Office will verify initial attendance by contacting the instructional faculty of the student's registered courses. Once verification of initial attendance or non-initial attendance has been received, the student's financial aid will be adjusted and returned to the Title IV programs for any non-attendance courses before the Return to Title IV Aid (R2T4) calculation is performed.

**Corrective Action Plan Related to the Schedule of Findings and Questioned Costs
Student Financial Assistance Cluster
University of Hawai'i West O'ahu
Year Ended June 30, 2017**

Finding No. 2017-003: **Return of Title IV Funds – Control Deficiency**

Federal Agency: U.S. Department of Education

CFDA Number and Title: 84.007 – Federal Supplemental Educational Opportunity Grants
84.063 – Federal Pell Grant Program
84.268 – Federal Direct Student Loans

Responsible Individual: Christina Padilla, Financial Aid Services Director

Date Action to be Taken: July 25, 2017

UHWO staff has received the necessary training regarding the use of the Banner system in the processing of return to Title IV (R2T4) calculations and returns. As a result of this training, a new process beginning in the 17-18 aid year has been implemented to increase controls over the R2T4 process.

For official withdrawals beginning after the add/drop period, UHWO runs the complete withdrawal report weekly via Discoverer to determine which students need to be evaluated for a potential R2T4 calculation. The date of determination is documented and instructors are emailed a request to provide the FA office with the required information needed to complete the R2T4 process. Each instructor is asked to confirm whether or not the student began attendance in their course. If the student attended the course, the instructor is asked to provide the last day that the student participated in an education related activity (e.g., attending a study group, taking an exam, emailing the instructor, submitting an assignment), which is considered to be recorded as the last day of attendance for the course. Responses received by instructors are exported and merged with the withdrawal report. A second staff member then processes the R2T4 calculations in Banner using a Quick Flow process created for 17-18 to ensure all procedural requirements are completed in Banner, including the return of any unearned funds.

For unofficial withdrawals, UHWO runs the unofficial withdrawal (F grade) report at the completion of each semester. Each student is reviewed to determine if the F was earned or unearned. For the unearned F grades, the last day of attendance (based on the last day the student participated in an academic related activity) is entered into Banner by the instructor and is utilized to process the R2T4 calculation. Similar to official withdrawals, a second staff member processes the R2T4 calculations in Banner using the Quick Flow process created for 17-18 to ensure all procedural requirements are completed in Banner, including the return of any unearned funds.

UHWO will continually review these new processes/procedures for further improvements and to ensure that all federal compliance requirements are met, including the timely calculation and return of Title IV funds.

**Corrective Action Plan Related to the Schedule of Findings and Questioned Costs
Student Financial Assistance Cluster
Hawai'i Community College
Year Ended June 30, 2017**

Finding No. 2017-004: **Financial Aid Administration – Control Deficiency**

Federal Agency: U.S. Department of Education

CFDA Number and Title: 84.268 - Federal Direct Loans

Responsible Individual: Shawn (Kaleo) Domingo, Financial Aid Manager

Date Action Taken: June 26, 2017

Since coming on board in late June of 2017, a Standard Operating Procedure (SOP) has been developed, which outlines the reconciliation process, to ensure that a monthly reconciliation is completed and in compliance every month.

Documentation of the reconciliation has also been moved from a paper system to an electronic one to ensure that all documentation can be found easily and efficiently for auditing purposes.

A monthly loan reconciliation has been completed on a monthly basis since coming on board and is up to date, balanced, and accurate.

Date Action Taken: July 1, 2017

Action has been taken to ensure that the following findings have been addressed;

- Reconcile borrower information on a monthly basis and retain records.
- Provide exit counseling to borrowers timely.

A monthly reconciliation process and Standard Operating Procedure (SOP) have been put in place to ensure timely reporting of all loan records between the institution and Common Origination and Disbursement (COD). This SOP is followed and conducted by the Financial Aid Manager, Shawn (Kaleo) Domingo, every month.

A Discoverer report is now run weekly to monitor all students that either Drop below half time, graduate, or disenroll to ensure that exit notification is sent within the allotted time frame. This report is run by the Financial Aid Officer, Lorianne Fukui-Stoos, and then electronic notification letters are ran by the Financial Aid Manager, Kaleo Domingo, and sent to the student. For those students that do not have a valid email address, paper confirmation is sent to the students by our Clerical Receptionist, April Kualii-Neal, and recorded in the banner system. Once notification is sent out, then a code of "S" is put into RRAAREQ screen to ensure that the requirement is satisfied.

**Corrective Action Plan Related to the Schedule of Findings and Questioned Costs
Student Financial Assistance Cluster
Leeward Community College
Year Ended June 30, 2017**

Finding No. 2017-005: **Financial Aid Administration – Control Deficiency**

Federal Agency: U.S. Department of Education

CFDA Number and Title: 84.063 – Federal Pell Grant Program
84.033 – Federal Work Study Program

Questioned Costs: \$4,410

Responsible Individual: Gregg Yoshimura, FAO Director

Date Action Taken: December 2016

The institution has updated its Return to Title IV procedures and will implement annual training to ensure initial Return to Title IV calculations are correct and returns are made within the 45 day time period.

Date Action Taken: October 2017

To ensure that at least 7% of FWS Program allocation is used to compensate students employed in community service activities, the Financial Aid Office and Job Prep Services are working on increasing the number of community service positions and looking to creating new community jobs on campus and off-campus.

**Corrective Action Plan Related to the Schedule of Findings and Questioned Costs
Student Financial Assistance Cluster
University of Hawai'i Maui College
Year Ended June 30, 2017**

Finding No. 2017-006: Return of Title IV Funds – Control Deficiency
Federal Agency: U.S. Department of Education
CFDA Number and Title: 84.268 – Federal Direct Student Loans
Responsible Individual: Davileigh Kahealani Naeole, Financial Aid Director
Date Action Taken: September 22, 2016

In this instance, the student obtained a Certificate of Competence (CO) in Dental Assisting in Spring 2016 and was exited in September 2016. The student should have been identified in May 2016, however finding these students was a manual process. In the following term, when the student was found she was exited. Currently, UHMC no longer offers a CO in Dental Assisting.

Date Action Taken: February 1, 2017

In this instance, the student enrolled in Summer 2016. However, summer enrollment is not a required part of the UHCC System Enrollment Reporting process. This is why NSLDS was not updated with the student's enrollment status.

Since January 2017, NSLDS implemented a new error reporting system, which is the Student Status Confirmation Report (SSCR) Error Report. Through this reporting and correction process, student records will be individually updated in the National Student Clearinghouse by our campus' Admissions and Records Office.

SECTION 6

CONSOLIDATED FINANCIAL STATEMENTS

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Index
June 30, 2017 and 2016

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Report of Independent Auditors

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the University of Hawai'i (the "University"), a component unit of the State of Hawai'i, as of and for the years ended June 30, 2017 and 2016, 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 13.1 percent and 13.3 percent, respectively, of the total assets and deferred outflows of resources and 0.8 percent of the total operating revenues of the University as of and for the years ended June 30, 2017 and 2016. 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, 2017 and 2016, are based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University of Hawai'i, as of June 30, 2017 and 2016, 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, effective July 1, 2015, the University adopted new accounting guidance under Governmental Accounting Standards Board Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, 68 and 73*. Our opinion is not modified with respect to this matter.

Other Matters*Required Supplementary Information*

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2017, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended June 30, 2017. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

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

Honolulu, Hawai'i
December 7, 2017

University of Hawai'i
State of Hawai'i
 (A Component Unit of the State of Hawai'i)
Management's Discussion and Analysis (Unaudited)
June 30, 2017 and 2016

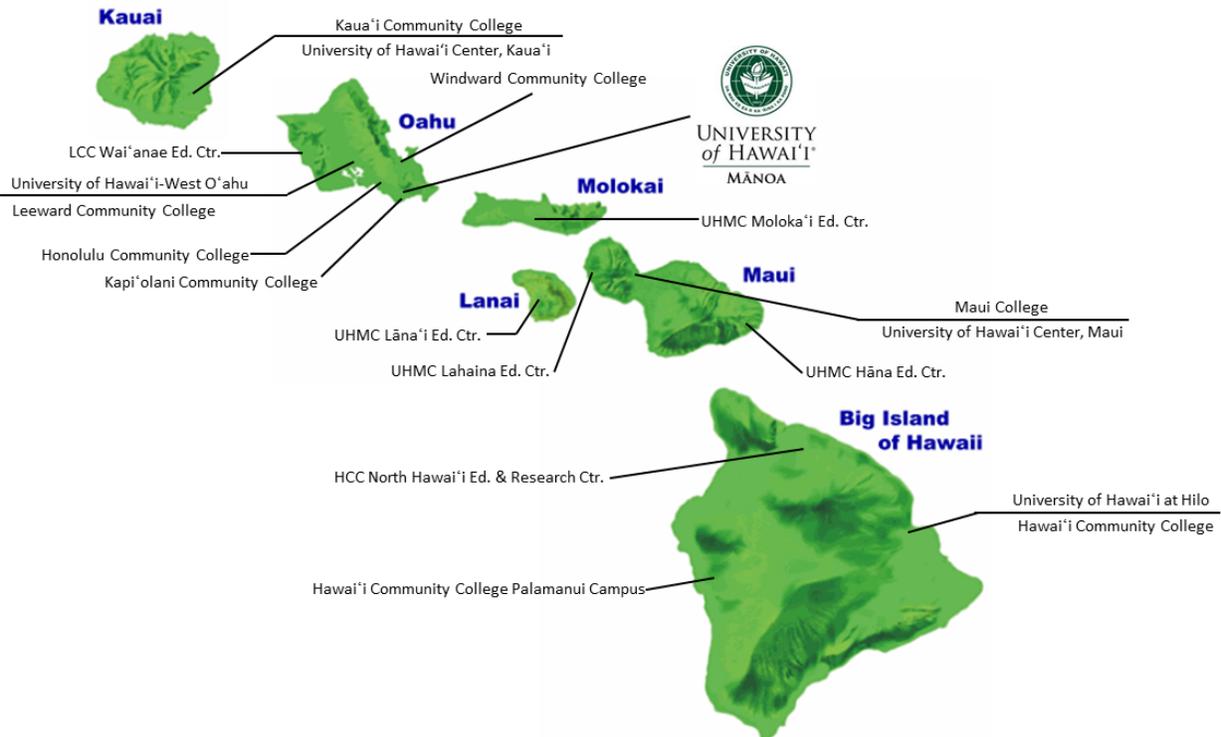
Introduction

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, 2017 and 2016, with selected information for the year ended June 30, 2015. 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 and a 10-campus 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 of Hawai'i at Mānoa was ranked No. 159 on the publication's annual Best Colleges and No. 83 as a top public school, according to the latest surveys by *U.S. News & World Report*.

The University is the sole public higher education system within the State and, therefore, has a unique competitive position and value in Hawai'i. Furthermore, the University is the only truly integrated higher education system in the country that seamlessly arranges its universities and community colleges into one system. Other public higher education systems in the country are typically separate and distinct systems defined by the type of system (community colleges, junior colleges and universities).

In addition to being an integrated higher education system, the University distinguishes itself through its Hawai'i, Asian and Pacific orientation and its position as one of the world's foremost multicultural centers for global and indigenous studies. Students are members of a population in which no one ethnic group constitutes a majority, and the educational experience is enriched by the diversity of cultures represented.



University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Management's Discussion and Analysis (Unaudited)
June 30, 2017 and 2016

University of Hawai'i Quick Facts

| Students | Academic Year 2017 | Academic Year 2016 | Academic Year 2015 |
|-----------------|-------------------------------|-------------------------------|-------------------------------|
| Undergraduate | 47,903 | 50,011 | 48,494 |
| Graduate | 5,515 | 5,745 | 8,558 |
| Total | 53,418 | 55,756 | 57,052 |

Types of Degrees Awarded

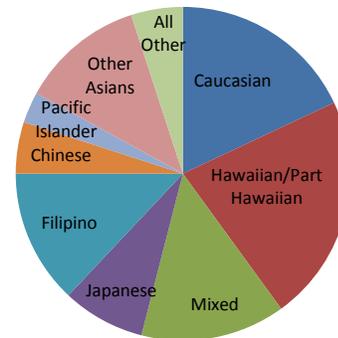
| | |
|----------------------------------|-----|
| Certificates: Community Colleges | 180 |
| Certificates: University | 101 |
| Associate degrees | 128 |
| Bachelor's degrees | 146 |
| Master's degrees | 91 |
| Doctoral degrees | 59 |
| Professional degrees | 5 |

Residency

| | |
|----------|-----|
| Hawai'i | 86% |
| Mainland | 10% |
| Foreign | 4% |

Student Diversity (full time Students)

| | |
|---|-----|
| Caucasian | 18% |
| Hawaiian/Part Hawaiian | 22% |
| Mixed | 14% |
| Japanese | 8% |
| Filipino | 13% |
| Chinese | 5% |
| Pacific Islander | 3% |
| Other Asians | 12% |
| All Other (e.g. Hispanic, African American) | 5% |



| Total Revenues (\$ in thousands) | Fiscal Year 2017 | % of Total | Fiscal Year 2016 | Fiscal Year 2015 |
|--|-------------------------|-------------------|-------------------------|-------------------------|
| Net tuition and fees | \$ 270,123 | 15% | \$ 272,306 | \$ 262,660 |
| Contracts and grants (including Pell grants) | 424,592 | 23% | 451,669 | 456,944 |
| State appropriations | 471,453 | 26% | 441,373 | 413,148 |
| Transfer from State for fringe benefits | 179,715 | 10% | 172,248 | 162,969 |
| Sales and services | 130,867 | 7% | 134,787 | 135,315 |
| Capital State appropriations | 159,094 | 9% | 16,547 | 161,822 |
| Others | 202,376 | 10% | 79,701 | 82,244 |
| Total | \$ 1,838,220 | 100% | \$ 1,568,631 | \$ 1,675,102 |

The University's Revenue Bond Ratings:

Moody's Investors Service - Aa2 with stable outlook
Fitch Ratings - AA with stable outlook

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Using the Financial Statements

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

- **Statements of Net Position** – The Consolidated Statements of Net Position present information on the University's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the University's financial condition is improving or deteriorating. Net position increases when revenues exceed expenses, or when assets increase without a corresponding increase in liabilities. This is an indication of improving financial condition. However, when expenses exceed revenues, or when liabilities increase without a corresponding increase in assets, there is an indication of deteriorating financial condition.
- **Statements of Revenues, Expenses and Changes in Net Position** – The Consolidated Statements of Revenues, Expenses and Changes in Net Position present the University's revenues and expenses and illustrate how current year activities improve or weaken the University's financial condition. Changes in net position are reported when the underlying event occurs (accrual basis of accounting), which may be different from actual cash flows. In accordance with GASB requirements, certain significant revenues budgeted for fundamental operational support of the core instructional mission of the University must be recorded as nonoperating revenue, including state educational appropriations, private gifts, and investment income. Consequently, the Consolidated Statements of Revenues, Expenses and Changes in Net Position distinguish operating from nonoperating revenues and expenses. It is anticipated that the University will consistently report an operating loss since certain significant revenue sources relied upon for core operational needs are considered nonoperating revenue.
- **Statements of Cash Flows** – The Consolidated Statements of Cash Flows distinguishes between cash inflows and outflows from operating activities, non-capital financing activities, capital and related financing activities, and investing activities.
- **Notes to Consolidated Financial Statements** – The notes provide additional information that is essential to a full understanding of the information presented in the consolidated financial statements.

Related Entities

The University maintains close relationships with two other entities, considered to be component units, whose financial information is blended into the University's accompanying consolidated financial statements. The University of Hawai'i Foundation (the "Foundation") is a not-for-profit organization established to solicit and manage funds for the benefit of the University. The Research Corporation of the University of Hawai'i (the "Research Corporation") provides administrative support services for research and training programs of the University. Both of the University's component units prepare stand-alone financial statements with footnotes, which are audited by independent auditors. Summarized information of the individual components of the University's consolidated financial position, results of operations and cash flows for the years ended June 30, 2017 and 2016 is presented in Note 18 to the consolidated financial statements.

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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, 2017, 2016 and 2015 are summarized as follows (in thousands of dollars):

| | 2017 | 2016 | FY 17 vs 16 Change | 2015 | FY 16 vs 15 Change |
|---|--------------|--------------|-----------------------|--------------|-----------------------|
| Current assets | | | | | |
| Cash and operating investments | \$ 424,276 | \$ 401,881 | \$ 22,395 | \$ 375,052 | \$ 26,829 |
| Receivables, net | 98,041 | 104,838 | (6,797) | 104,711 | 127 |
| Other current assets | 21,741 | 21,712 | 29 | 24,681 | (2,969) |
| Total current assets | 544,058 | 528,431 | 15,627 | 504,444 | 23,987 |
| Noncurrent assets | | | | | |
| Endowment and other investments | 507,613 | 475,040 | 32,573 | 477,243 | (2,203) |
| Capital assets, net | 2,087,733 | 2,053,385 | 34,348 | 2,068,691 | (15,306) |
| Other noncurrent assets | 507,535 | 388,709 | 118,826 | 466,840 | (78,131) |
| Total assets | 3,646,939 | 3,445,565 | 201,374 | 3,517,218 | (71,653) |
| Deferred outflows of resources | | | | | |
| Deferred loss on refunding | 9,995 | 11,383 | (1,388) | 5,251 | 6,132 |
| Deferred outflows on net pension liability | 557,225 | 134,715 | 422,510 | 106,848 | 27,867 |
| Total deferred outflows of resources | 567,220 | 146,098 | 421,122 | 112,099 | 33,999 |
| Total assets and deferred outflows of resources | \$ 4,214,159 | \$ 3,591,663 | \$ 622,496 | \$ 3,629,317 | \$ (37,654) |
| Current liabilities | \$ 289,085 | \$ 266,951 | \$ 22,134 | \$ 270,047 | \$ (3,096) |
| Noncurrent liabilities | | | | | |
| Long-term debt | 524,565 | 543,680 | (19,115) | 561,470 | (17,790) |
| Net pension liability and other postemployment benefits | 2,493,243 | 1,867,321 | 625,922 | 1,740,687 | 126,634 |
| Other noncurrent liabilities | 112,568 | 105,896 | 6,672 | 91,530 | 14,366 |
| Total liabilities | 3,419,461 | 2,783,848 | 635,613 | 2,663,734 | 120,114 |
| Deferred inflows of resources | | | | | |
| Deferred inflows on net pension liability | 65,171 | 111,364 | (46,193) | 151,162 | (39,798) |
| Total deferred inflows of resources | 65,171 | 111,364 | (46,193) | 151,162 | (39,798) |
| Net position | | | | | |
| Net investment in capital assets | 1,541,725 | 1,504,935 | 36,790 | 1,503,902 | 1,033 |
| Restricted | | | | | |
| Nonexpendable | 342,071 | 244,396 | 97,675 | 235,894 | 8,502 |
| Expendable | 586,825 | 561,093 | 25,732 | 644,743 | (83,650) |
| Unrestricted | (1,741,094) | (1,613,973) | (127,121) | (1,570,118) | (43,855) |
| Total net position | 729,527 | 696,451 | 33,076 | 814,421 | (117,970) |
| Total liabilities, deferred inflows of resources and net position | \$ 4,214,159 | \$ 3,591,663 | \$ 622,496 | \$ 3,629,317 | \$ (37,654) |

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Implementation of GASB Statements No. 68, 71 and 82

During fiscal year 2015, University 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*. During fiscal year 2017, the University implemented GASB Statement No. 82, *Pension Issues – an Amendment of GASB Statements No. 67, No. 68, and No. 73*.

The adoption of Statements No. 68 and 71 has a significant impact on the University's consolidated 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 of Statement No. 82 addresses certain issues that have been raised with respect to Statements No. 67, 68 and 73. 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 \$822 million from \$1.962 billion, which reflects the retrospective effect of Statements No. 68 and 71 related to the adoption for net pension liability of \$1.113 billion during fiscal year 2015, plus the retrospective effect of Statement No. 82 related to the new calculation of deferred outflows of resources of \$27 million. 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.

The net pension liability increased by \$559.9 million to \$1.704 billion from \$1.144 billion in fiscal year 2017 when compared to fiscal year 2016. Similarly, the net pension liability increased by \$54.7 million from \$1.090 billion when compared to fiscal year 2015. The changes are 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, 2017, 2016 and 2015, working capital amounted to \$255.0 million, \$261.5 million and \$234.4 million, respectively. The University is committed to maintaining a prudent level of working capital to fund operations, including pre-funding approximately \$368.9 million in extramural grants which were mostly paid on a cost reimbursement basis. Based on the \$1.655 billion of operating expenses (excluding depreciation) for the year ended June 30, 2017, the working capital at year end represents approximately 57 days of operating funds, as compared to 59 and 53 days of operating funds in 2016 and 2015, respectively.

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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 \$544.0 million, \$528.4 million and \$504.4 million at June 30, 2017, 2016 and 2015, respectively. Total current assets increased by \$15.6 million, or 3.0 percent, at June 30, 2017, primarily due to a \$22.4 million increase in cash, offset by a \$6.8 million decrease in accounts receivable. The cash increase was attributable to the operating surplus from tuition and fees. During fiscal year 2017, with the anticipation of enrollment decline, the University implemented various cost control initiatives including personnel cost reduction, which resulted in operating surplus. The \$6.8 million accounts receivable reduction was due to the decrease of federal awards. 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.
- 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 \$289.1 million, \$267.0 million and \$270.0 million at June 30, 2017, 2016 and 2015, respectively. Total current liabilities increased by \$22.1 million, or 8.3 percent, at June 30, 2017, primarily due to increases in accounts payable of \$9.1 million and the current portion of long-term liabilities of \$17.8 million. The increase in accounts payable was mainly due to the timing of recording and the increase in the current portion of long-term liabilities is because the repayment of the \$17.0 million note payable (EB-5 loan) with Hawaii Regional Center LP III is due in fiscal year 2018. The aggregated increase is offset by a net decrease in accrued payroll of \$4.2 million primarily due to the negotiated bonus payments accrued for in fiscal year 2016 and paid in fiscal year 2017. 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.

Endowment and Other Investments

The University's endowment and other investments, including endowments held with the Foundation, increased by \$32.6 million, or 6.9 percent, to \$507.6 million at June 30, 2017 as a result of an \$8.6 million gift, and favorable market conditions. The June 30, 2016 decrease of \$2.2 million, or 0.5 percent, was primarily due to a result of market value decline.

Realized and unrealized net gains in fiscal year 2017 totaled \$34.7 million, versus \$6.1 million realized and unrealized net losses in fiscal year 2016. A summarized comparison of the University investments as of June 30, 2017, 2016 and 2015, are as follows (in thousands of dollars):

| | 2017 | 2016 | 2015 |
|-----------------------|-----------------|-----------------|-----------------|
| University of Hawai'i | \$ 100.1 | \$ 103.8 | \$ 104.0 |
| Foundation | 407.5 | 371.2 | 373.2 |
| Total | <u>\$ 507.6</u> | <u>\$ 475.0</u> | <u>\$ 477.2</u> |

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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 spending rate policy for the University's self-managed endowment 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 2017, 2016 and 2015, 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, \$2.6 million and \$2.5 million in fiscal years 2017, 2016 and 2015, 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, 2017, 2016 and 2015, total capital assets, net of accumulated depreciation, remained constant at \$2.1 billion, which represented approximately 57 percent of the University's total assets. Capital asset additions totaled \$173.1 million, \$118.5 million and \$130.7 million in fiscal years 2017, 2016 and 2015, respectively, while depreciable capital asset disposals, net of accumulated depreciation, amounted to \$15.9 million, \$8.8 million and \$12.5 million, respectively.

The increase of the additions in fiscal year 2017 was due to the purchase of the Atherton building for \$8.2 million and an increased number of strategic capital projects that are ongoing as of fiscal year end 2017. The decrease of the additions in fiscal year 2016 was due to the completion of many strategic capital projects in prior years.

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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 2017 and 2016 or in progress as of June 30, 2017 and 2016 included:

- **Hawai'i Community College Pāalamanui Campus** – The newest University of Hawai'i campus, the \$27.8 million Hawai'i Community College Pāalamanui opened on August 24, 2015. The community of Pāalamanui, "A Place of Enlightenment," will consist of homes, parks, a University Village Town Center, a University Inn, and the Hawai'i Community College Pāalamanui Campus. The first phase includes five single-story buildings with kitchens, classrooms, laboratories, computer lab, and a library. The Hawai'i Community College Pāalamanui Campus was awarded a Leadership in Energy and Environmental Design ("LEED") Platinum rating from the U.S. Green Building Council.
- **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 \$10 million University of Hawai'i Maui College project was placed in service on July 15, 2016. 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 community colleges are leading the way to reach the University of Hawai'i's goal of net-zero energy by 2035.
- **University of Hawai'i at Mānoa Elevator Modernization Phase III** – Most of the elevators at the University of Hawai'i at Mānoa exceeded normal service life expectancy and as a result required frequent service and repair calls. The modernization project was executed in phases and Phase III should be completed in August 2017. The new systems will be reliable and will comply with all current and accessibility standards and includes the installation of security access surveillance in the elevator lobbies and cabs.
- **Culinary Institute of the Pacific** – The \$30.5 million Phase I portion of the Culinary Institute of the Pacific was placed in service on April 17, 2017. Phase I includes the infrastructure for the entire project, a parking lot, two single story laboratory buildings, a student lounge, and an outdoor cooking area. Phase II will include an auditorium, administration building, classrooms, laboratories, and a restaurant.
- **William S. Richardson School of Law Clinical Building** – The \$7 million William S. Richardson School of Law Clinical Building (Clinical Legal Outreach Center) broke ground on September 30, 2016. The new building will provide law students a professional space required for trial practice and advocacy. U.S. Green Building Council will award the project a Silver LEED rating upon completion, with the opportunity to receive a Gold rating. The estimated completion date is November 2017.

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- **Coconut Island Marine Laboratory Buildings 1 & 2** – The estimated completion date for the \$21 million Coconut Island Marine Laboratory Buildings 1 & 2 renovation project is March 2018. This is the home of the Hawaii Institute of Marine Biology. The renovation project will provide state of the art research and teaching laboratories, replace and upgrade mechanical, electrical and architectural systems and structures, and perform significant structural retrofitting.
- **Daniel K. Inouye College of Pharmacy** – The \$31.3 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. The building will include classrooms, student lounge, biolabs, faculty offices, a mock pharmacy, a resource center, and simulation labs. The estimated completion date is May 2018.
- **University of Hawai'i West O'ahu Allied Health and Administration Building** – The ground breaking for the University of Hawai'i West O'ahu Allied Health and Administration building took place on November 28, 2016. The \$30 million two-story 43,000 square foot building will house the allied health, community health, health information management, long-term care, and biology programs and will contain administrative offices, faculty offices, classrooms and lab spaces. The building is expected to be completed in 2018.
- **University of Hawai'i at Mānoa Life Sciences Building** – The design portion of \$49.5 million University of Hawai'i at Mānoa Life Sciences Building has been completed. This design-build project is being developed at the site of Henke Hall and will support botany, PBRC, biology and microbiology. The estimated completion date is spring 2019.

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 2017, 2016 and 2015, 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 2017, 2016 and 2015, \$111.3 million, \$106.8 million and \$106.1 million, respectively, were appropriated.

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- **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 \$543.7 million, \$562.6 million and \$578.6 million for fiscal years 2017, 2016 and 2015, respectively. The University revenue bonds were assigned municipal bond ratings of “Aa2” and “AA” by 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 \$11.8 million, \$9.5 million and \$9.9 million in fiscal years 2017, 2016 and 2015, respectively, to cover debt service for the bonds that financed the medical school facility. The University also receives a portion of the State of Hawai'i's cigarette tax revenues, by statute, for the UH Cancer Center to be used for research and operating expenses and capital expenditures. In each of the fiscal years 2017, 2016 and 2015, \$7.9 million from cigarette tax revenues was used to cover debt service for the bonds that financed the UH Cancer Center. 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, 2017, \$17 million remains outstanding.
- **Line of credit** – On April 20, 2017, the Foundation entered into a 10-year \$13.2 million acquisition and construction credit facility (the “Loan”) for the purchase and renovation of the Charles Atherton House and the Mary Atherton Richards House (the “Atherton Property”). The Loan is secured by the fee simple interest and improvements on the Atherton Property, along with an assignment of a long-term lease and rents due thereunder from the University. Under terms of the credit facility, interest-only payments are required for the first 36 months at a fixed rate of three percent and, thereafter monthly installments of principal and interest, based on a 25-year amortization schedule, at a fixed rate of four percent through the remaining term of the Loan. The Loan matures on April 1, 2027. As of June 30, 2017, the outstanding balance on the Loan was \$8.2 million.

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Net Position

Net position represents the residual interest in the University’s assets after liabilities are deducted. At June 30, 2017, 2016 and 2015, total net position amounted to \$729.5 million, \$696.5 million and \$814.4 million, 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, 2017, 2016 and 2015 is summarized as follows (in thousands of dollars):

| | 2017 | 2016 | 2015 |
|----------------------------------|--------------------|--------------------|--------------------|
| Net investment in capital assets | \$ 1,541,725 | \$ 1,504,935 | \$ 1,503,902 |
| Restricted – Nonexpendable | 342,071 | 244,396 | 235,894 |
| Restricted – Expendable | 586,825 | 561,093 | 644,743 |
| Unrestricted | <u>(1,741,094)</u> | <u>(1,613,973)</u> | <u>(1,570,118)</u> |
| Total net position | <u>\$ 729,527</u> | <u>\$ 696,451</u> | <u>\$ 814,421</u> |

Net investment in capital assets is the University’s capital asset, net of accumulated depreciation and the related outstanding debt used to finance the acquisition, construction or improvement of those assets. The net investment in capital assets increased by \$36.8 million in fiscal year 2017, primarily due to \$122.8 million of depreciation expense, \$15.9 million in net disposals offset by \$19.2 million in related debt retirement, and \$173.1 million of capital asset additions. 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.

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 \$342.1 million, \$244.4 million and \$235.9 million at June 30, 2017, 2016 and 2015, respectively. The increases of \$97.7 million and \$8.5 million in fiscal years 2017 and 2016, respectively, were primarily attributable to new permanent endowment gifts received, including the receipt of three properties as part of the Shidler gift valued at \$80.2 million in fiscal year 2017. The University’s alumnus, Jay H. Shidler, has provided significant gifts to the College of Business at Mānoa with a safe, predictable and continuous revenue stream to help insure long-term financial stability.

Restricted expendable net position is subject to externally imposed restrictions governing their use. Net position was restricted for the following purposes at June 30, 2017, 2016 and 2015 (in thousands of dollars):

| | 2017 | 2016 | 2015 |
|-----------------------------|-------------------|-------------------|-------------------|
| Plant facilities | \$ 354,780 | \$ 319,809 | \$ 386,742 |
| Donor-restricted activities | 215,608 | 210,404 | 224,904 |
| Loan activities | 24,131 | 37,229 | 24,363 |
| External sponsor activities | <u>(7,694)</u> | <u>(6,349)</u> | <u>8,734</u> |
| | <u>\$ 586,825</u> | <u>\$ 561,093</u> | <u>\$ 644,743</u> |

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In fiscal year 2017, the overall increase of \$25.7 million in restricted expendable net position was primarily attributable to a \$25.6 million increase in capital assets due to increased State capital appropriations in fiscal year 2017. 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.

Net position that is not subject to externally imposed restrictions governing their use is classified as unrestricted for financial reporting purposes. At June 30, 2017, 2016 and 2015, unrestricted net positions amounted to deficits of \$1.74 billion, \$1.61 billion and \$1.57 billion, respectively. Although unrestricted net position is not subject to externally imposed restrictions, all of the University's unrestricted net positions have been internally designated for various academic and research programs and initiatives, contractual commitments, and capital projects. In addition, unrestricted net positions of \$44.8 million, \$37.6 million and \$45.0 million were designated for endowment activities at June 30, 2017, 2016 and 2015, respectively.

In addition to the impact of the net pension liability recorded in accordance with GASB Statements No. 68 and 71, the reduction in unrestricted net positions for the years ended June 30, 2017 and 2016 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 showing growth. The University's share of the OPEB liability as of June 30, 2017, 2016 and 2015 was \$788.8 million, \$722.8 million and \$650.8 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 the impact of the net pension and OPEB liabilities (in thousands of dollars):

| | 2017 | 2016 | 2015 |
|------------------------------------|---------------------|-------------------|-------------------|
| Unrestricted net position | \$ (1,741,094) | \$ (1,613,973) | \$ (1,570,118) |
| Pension | 2,001,189 | 1,843,970 | 1,785,001 |
| OPEB | <u>788,773</u> | <u>722,757</u> | <u>650,805</u> |
| Adjusted net unrestricted position | <u>\$ 1,048,868</u> | <u>\$ 952,754</u> | <u>\$ 865,688</u> |

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Results of Operations

The Consolidated Statements of Revenues, Expenses and Changes in Net Position are a presentation of the University's results of operations for the year. It indicates whether the financial condition of the University improved or deteriorated. For financial reporting purposes, certain significant revenues, including state appropriations, private gifts and investment income, which are relied upon and budgeted to support the University's core operations, are required to be reported as nonoperating revenues. The University's results of operations for the years ended June 30, 2017, 2016 and 2015 summarized to match revenues supporting core activities with expenses associated with core activities, are as follows (in thousands of dollars):

| | 2017 | 2016 | FY 17 vs 16 Change | 2015 | FY 16 vs 15 Change |
|---|-------------------|-------------------|-----------------------|-------------------|-----------------------|
| Revenues | | | | | |
| Operating | | | | | |
| Tuition and fees | \$ 403,177 | \$ 403,411 | \$ (234) | \$ 392,471 | \$ 10,940 |
| Less: Scholarship allowances | (133,054) | (131,105) | (1,949) | (129,811) | (1,294) |
| Grants and contracts | 368,892 | 390,231 | (21,339) | 390,800 | (569) |
| Sales and services | 130,867 | 134,787 | (3,920) | 135,315 | (528) |
| Other revenue | 1,648 | 2,211 | (563) | 2,568 | (357) |
| Total operating revenues | <u>771,530</u> | <u>799,535</u> | <u>(28,005)</u> | <u>791,343</u> | <u>8,192</u> |
| Nonoperating | | | | | |
| State appropriations | 471,453 | 441,373 | 30,080 | 413,148 | 28,225 |
| Federal Pell grant | 55,701 | 61,438 | (5,737) | 66,144 | (4,706) |
| Net investment income | 42,509 | 679 | 41,830 | 4,659 | (3,980) |
| Private gifts | 31,233 | 32,382 | (1,149) | 32,600 | (218) |
| Total nonoperating revenues | <u>600,896</u> | <u>535,872</u> | <u>65,024</u> | <u>516,551</u> | <u>19,321</u> |
| Total revenues supporting core activities | <u>1,372,426</u> | <u>1,335,407</u> | <u>37,019</u> | <u>1,307,894</u> | <u>27,513</u> |
| Expenses | | | | | |
| Operating | | | | | |
| Compensation and benefits | 1,235,479 | 1,114,755 | 120,724 | 1,094,407 | 20,348 |
| Supplies, services and cost of goods sold | 193,411 | 202,157 | (8,746) | 205,833 | (3,676) |
| Telecom and utilities | 59,957 | 64,633 | (4,676) | 72,282 | (7,649) |
| Scholarships and fellowships | 41,771 | 43,440 | (1,669) | 49,302 | (5,862) |
| Other expense | 124,786 | 111,615 | 13,171 | 112,076 | (461) |
| Total operating expenses | <u>1,655,404</u> | <u>1,536,600</u> | <u>118,804</u> | <u>1,533,900</u> | <u>2,700</u> |
| Nonoperating (revenues) expenses | | | | | |
| Transfers from State, net | (208,594) | (200,216) | (8,378) | (191,584) | (8,632) |
| Transfers (from) to Federal – capital assets | 505 | (4,081) | 4,586 | 5,315 | (9,396) |
| Interest expense | 26,900 | 25,064 | 1,836 | 27,523 | (2,459) |
| Total nonoperating revenues | <u>(181,189)</u> | <u>(179,233)</u> | <u>(1,956)</u> | <u>(158,746)</u> | <u>(20,487)</u> |
| Expenses associated with core activities before depreciation | <u>1,474,215</u> | <u>1,357,367</u> | <u>116,848</u> | <u>1,375,154</u> | <u>(17,787)</u> |
| Loss from core activities before depreciation | <u>(101,789)</u> | <u>(21,960)</u> | <u>(79,829)</u> | <u>(67,260)</u> | <u>45,300</u> |
| Depreciation | <u>122,841</u> | <u>124,937</u> | <u>(2,096)</u> | <u>121,378</u> | <u>3,559</u> |
| Expenses associated with core activities including depreciation | <u>1,597,056</u> | <u>1,482,304</u> | <u>114,752</u> | <u>1,496,532</u> | <u>(14,228)</u> |
| Loss from core activities | <u>(224,630)</u> | <u>(146,897)</u> | <u>(77,733)</u> | <u>(188,638)</u> | <u>41,741</u> |
| Other nonoperating activity | | | | | |
| Capital gifts and grants | 171,652 | 28,122 | 143,530 | 165,904 | (137,782) |
| Permanent endowment | 96,024 | 9,254 | 86,770 | 19,426 | (10,172) |
| Other expenses, net | (9,970) | (8,449) | (1,521) | (4,391) | (4,058) |
| Other nonoperating income, net | <u>257,706</u> | <u>28,927</u> | <u>228,779</u> | <u>180,939</u> | <u>(152,012)</u> |
| Increase (decrease) in net position | <u>33,076</u> | <u>(117,970)</u> | <u>151,046</u> | <u>(7,699)</u> | <u>(110,271)</u> |
| Net position | | | | | |
| Beginning of year | 696,451 | 814,421 | | 1,961,526 | |
| Adjustment for change in accounting principle | - | - | | (1,139,406) | |
| Beginning of year, as restated | <u>696,451</u> | <u>814,421</u> | | <u>822,120</u> | |
| End of year | <u>\$ 729,527</u> | <u>\$ 696,451</u> | | <u>\$ 814,421</u> | |

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Revenues Supporting Core Activities

The University has a diversified stream of revenues to support its operations. No single source generated more than 35 percent of the total 2017 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 down by \$2.2 million, or 0.8 percent, to \$270.1 million in fiscal year 2017. The decrease in fiscal year 2017 was primarily attributable to the continued decline in enrollment offset by an increase in tuition rates between one percent and eight percent among all campuses. The increase in fiscal year 2016 was \$9.6 million, or 3.7 percent, to \$272.3 million, which was primarily attributable to the increase in tuition rates between four percent and five percent among all campuses offset by a decline in enrollment. Scholarship allowances amounted to \$133.1 million, \$131.1 million and \$129.8 million in fiscal years 2017, 2016 and 2015, respectively.

One of the largest sources of revenue (27 percent) continues to be grants and contracts. Total grants and contracts revenue decreased by \$21.3 million, or 5.5 percent in fiscal year 2017. The decrease was mainly from federal awards where the University is experiencing unaccustomed peaks and troughs in funding — a direct consequence of federal budget cuts, the lingering effects of sequestration, and other uncertainties in Washington, D.C. The total revenue decrease from federal awards was approximately \$26.9 million offset by a slight revenue increase in State and local grants and contracts of \$6.3 million and private grants and contracts of \$0.8 million. Although the federal reductions were evident across all federal agencies, the greatest revenue cuts were from three federal agencies: Department of Health & Human Services, Department of the Navy, and Department of Labor, totaling \$19 million. The grants and contracts revenue amounted to \$368.9 million, \$390.2 million and \$390.8 million in fiscal year 2017, 2016 and 2015, respectively.

Sales and services revenues, which are mainly comprised of bookstores, student and faculty housing, food services, parking and athletics, was down by \$3.9 million, or 2.9 percent, to \$130.9 million in fiscal year 2017. The decrease was primarily attributable to a decline in Research Corporation of the University of Hawai'i project activities due to the federal award cuts. Sales and services revenues decreased by \$0.5 million, or 0.4 percent, to \$134.8 million in fiscal year 2016 from fiscal year 2015. 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.

The State continues to provide strong financial support to the University as the sole public higher education system within the State. General state appropriations increased by \$30.1 million, or 6.8 percent, to \$471.5 million in fiscal year 2017 and by \$28.2 million, or 6.8 percent, to \$441.4 million in fiscal year 2016. The increase in fiscal year 2017 was primarily attributable to a \$38.4 million allotment for salary increases as negotiated by the collective bargaining agreements, which is a \$20.8 million increase from the fiscal year 2016 allotment of \$17.6 million. The State also provided an additional \$7.1 million for the Hawai'i Promise Program, Athletics program, and special equipment fund for Community Colleges in fiscal year 2017. 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.

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The University's net investment income for fiscal year 2017, as compared to fiscal year 2016, went up by \$41.8 million. The fiscal year 2017 increase was mainly due to the increase in realized gains of \$10.2 million and an increase in unrealized gains of \$30.7 million. The University's net investment income for fiscal year 2016, as compared to fiscal year 2015, decreased by \$4.0 million, or 85.4 percent, 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 components of net investment income for the years ended June 30, 2017, 2016 and 2015 were as follows (in thousands):

| | 2017 | 2016 | FY 17 vs 16 Change | 2015 | FY 16 vs 15 Change |
|-------------------------------|------------------|---------------|-----------------------|-----------------|-----------------------|
| Interest and dividend income | \$ 9,149 | \$ 8,640 | \$ 509 | \$ 7,974 | \$ 666 |
| Net realized gains | 10,733 | 572 | 10,161 | 8,336 | (7,764) |
| Net unrealized gains (losses) | 23,974 | (6,703) | 30,677 | (8,232) | 1,529 |
| Other, net | (1,347) | (1,830) | 483 | (3,419) | 1,589 |
| | <u>\$ 42,509</u> | <u>\$ 679</u> | <u>\$ 41,830</u> | <u>\$ 4,659</u> | <u>\$ (3,980)</u> |

Private gifts, most of which are restricted as to use, stayed relatively consistent at \$31.2 million in fiscal year 2017 compared to \$32.4 million and \$32.6 million in fiscal years 2016 and 2015, respectively.

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 77.3 percent during fiscal year 2017, 75.2 percent during fiscal year 2016, and 73.1 percent during fiscal year 2015, were related to compensation and benefits.

Compensation and benefits went up by \$120.7 million, or 10.8 percent, to \$1,235 million in fiscal year 2017 as compared to fiscal year 2016, and increased by \$20.3 million, or 1.9 percent, to \$1,115 million in fiscal year 2016 as compared to \$1,094 million in fiscal year 2015. The fiscal year 2017 increase was attributable to a \$103.5 million increase in pension expense, and an increase in fringe benefits of \$40.6 million, offset by a decrease in OPEB of \$26.2 million. 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 \$115.7 million, \$117.1 million and \$113.0 million of postretirement health and life insurance benefits in fiscal years 2017, 2016 and 2015, respectively. The fiscal year 2017 decrease in postretirement health and life insurance benefits was due to a decrease in the net OPEB obligation adjustment factor determined by actuarial assumptions whereas the increases 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.

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In fiscal year 2017, such expenses decreased by \$8.7 million, or 4.3 percent, to \$193.4 million as compared to fiscal year 2016. The fiscal year 2017 decrease was primarily attributable to decreases in other services and controlled property purchases relating to declining federal awards, and cost of goods sold at the Bookstores offset by an increase in purchases of supplies. 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.

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 of \$174.8 million in fiscal year 2017 stayed relatively consistent as compared to the prior year. 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.

Other operating expenses increased by \$13.2 million, or 11.8 percent, to \$124.8 million in fiscal year 2017. Due to the expiration of the Federal Perkins Loan program in September 2017, the University is required to return the Federal Capital Contribution ("FCC") from the Perkins Loan Revolving Funds on a regular basis until such time as all of the University's outstanding Perkins Loans have been paid in full or otherwise fully retired, or assigned to the federal government. During fiscal year 2017, the University recognized a noncurrent liability and operating expense of \$13.6 million in accordance with GASB Statement No. 33 as the FCC was previously recorded as nonexchange grant revenue upon initial receipt from the federal government.

The University depreciates its capital assets over their estimated useful lives using the straight-line method. Depreciation expense decreased by \$2.1 million, or 1.7 percent, to \$122.8 million during fiscal year 2017 as compared to fiscal year 2016. The decrease in fiscal year 2017 was primarily attributable to a decrease in capital projects placed into service in the current year. 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.

Transfers from the State amounted to \$208.6 million, \$200.2 million and \$191.6 million in fiscal years 2017, 2016 and 2015, respectively. Transfers from the 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 the State for both fiscal years 2017 and 2016 were primarily attributable to the increase in fringe benefit rates.

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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 2017, capital gifts and grants, including state capital appropriations and transfers, increased by \$143.5 million, or 510.4 percent, to \$171.7 million as compared to \$28.1 million in fiscal year 2016. In fiscal year 2016, there was a decrease of \$137.8 million, or 83.0 percent, to \$28.1 million compared to \$165.9 million in fiscal year 2015. The State of Hawai'i Legislature continues its strong financial support to the University's capital improvement programs as the increase in fiscal year 2017 was primarily attributable to the increase of capital appropriations from the State of Hawai'i by \$142.5 million, or 861.5 percent, to \$159.1 million as compared to the decrease of capital appropriations in fiscal year 2016 of \$145.3 million. The capital appropriation fluctuations were mainly due to the timing of capital appropriation requests and lapses. Other capital gifts and grants during fiscal year 2017 included federal capital grants of \$11.2 million and private capital gifts and grants of \$1.8 million. During fiscal year 2016, other capital gifts and grants included federal capital grants of \$4.8 million and private capital gifts and grants of \$1.1 million.

Endowed gifts supply permanent capital and an ongoing stream of current earnings to the University. Programs supported by endowment returns include academic programs, scholarships, fellowships, professorships, chairs and research activities. In fiscal year 2017, additions to the permanent endowment increased by \$86.7 million to \$96.0 million, when compared to \$9.2 million in fiscal year 2016. The increase is due to the generosity of alumnus Jay H. Shidler, who provided the \$80.2 million endowed gifts.

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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, 2017, 2016 and 2015 are as follows (in thousands of dollars):

| | 2017 | 2016 | FY 17 vs 16 Change | 2015 | FY 16 vs 15 Change |
|---|--------------------|--------------------|-----------------------|--------------------|-----------------------|
| Cash received from operations | \$ 789,810 | \$ 799,112 | \$ (9,302) | \$ 804,374 | \$ (5,262) |
| Cash payments for operations | <u>(1,313,781)</u> | <u>(1,293,552)</u> | <u>(20,229)</u> | <u>(1,299,687)</u> | <u>6,135</u> |
| Net cash used in operating activities | <u>(523,971)</u> | <u>(494,440)</u> | <u>(29,531)</u> | <u>(495,313)</u> | <u>873</u> |
| Net cash provided by noncapital financing activities | 578,881 | 560,769 | 18,112 | 538,775 | 21,994 |
| Net cash used in capital and related financing activities | (51,003) | (43,518) | (7,485) | (41,419) | (2,099) |
| Net cash provided by (used in) investing activities | <u>(37,990)</u> | <u>(9,443)</u> | <u>(28,547)</u> | <u>23,461</u> | <u>(32,904)</u> |
| Net increase (decrease) in cash | <u>(34,083)</u> | <u>13,368</u> | <u>(47,451)</u> | <u>25,504</u> | <u>(12,136)</u> |
| Cash | | | | | |
| Beginning of year | <u>103,179</u> | <u>89,811</u> | <u>13,368</u> | <u>64,307</u> | <u>25,504</u> |
| End of year | <u>\$ 69,096</u> | <u>\$ 103,179</u> | <u>\$ (34,083)</u> | <u>\$ 89,811</u> | <u>\$ 13,368</u> |

The University's cash and cash equivalents decreased by \$34.1 million, or 33.0 percent, to \$69.1 million at June 30, 2017 from \$103.1 million at June 30, 2016. 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 2017, \$524.0 million in cash was used for operating activities, offset by \$578.9 million in cash provided by noncapital financing activities. Net cash used in capital and related financing activities and investing activities amounted to \$51.0 million and \$38.0 million in fiscal year 2017.

The net cash used in operating activities increased by \$29.5 million in fiscal year 2017 and decreased by \$0.9 million in fiscal year 2016. The increase in fiscal year 2017 was largely due to an increase in personnel costs. The reduction in fiscal year 2016 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 \$7.5 million increase in net cash used in capital and related financing activities in fiscal year 2017 as compared to fiscal year 2016 were attributable to increases in capital appropriations of \$23.3 million and capital gifts and grants of \$7.4 million, the \$6 million repayment of funds to the State of Hawai'i in fiscal year 2016, offset by an increase in capital asset purchases of \$44.6 million. The \$2.1 million increase in net cash used in capital and related financing activities in fiscal year 2016 as compared to fiscal year 2015 was primarily attributable to a reduction of capital appropriation received from the State of Hawai'i of \$25.8 million and \$12.0 million due to the advance and repayment of funds to the State of Hawai'i offset by a decrease in capital asset purchases of \$28.5 million and the receipt of proceeds from the Series 2015A bond issuance of \$8.6 million.

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The net cash used in investing activities increased by \$28.5 million and \$32.9 million in fiscal year 2017 and 2016, respectively. The increase in fiscal year 2017 was primarily due to an increase in available funds from net operating gains invested in the University's operating fund investment pool of \$42.3 million, offset by an \$11.4 million net increase in cash provided by the University's bond system. The increase in fiscal year 2016 was primarily due to a \$30.5 million net increase in cash provided by the University's bond system.

Looking Forward

The University of Hawai'i is the sole provider of public higher education in Hawai'i, known for generating streams of talent, knowledge and social benefits, and has always been at the center of the Hawai'i economic engine. The University's programs attract students and faculty from Hawai'i, the mainland, and many international countries and leverage hundreds of millions of dollars in state, federal, and private funding to promote discovery of new knowledge that fuels economic growth.

In the 2018 Best Colleges Rankings released by *U.S. News & World Report*, the University of Hawai'i at Mānoa, West O'ahu and Hilo once again made the ranking, along with the Mānoa Shidler College of Business. Mānoa has gained 10 spots on the annual list of the nation's top universities and secured No. 83 as a top public school. West O'ahu ranked 25 among Best Regional Colleges West, placing it in the top 38 percent of schools in its respective category, while Hilo ranked 66 among Best Regional Universities West, placing it in the top 47 percent in its respective category.

The University of Hawai'i's strength is further demonstrated through its credit ratings. During fiscal year 2017, the University was rated Aa2 with stable outlook by Moody's Investors Service and AA with stable outlook by Fitch Ratings. Both credit agencies have cited some of the strong characteristics of the University:

- Dominant provider of higher education and important economic development driver in the State of Hawai'i.
- Strong operating support from the State of Hawai'i.
- Unique academic programming and research, and well-diversified revenue.
- Low debt burden which reflects strong and growing capital support from the State of Hawai'i.
- Improved cash and investment cushion and reserve.

The University is committed to improving the social, economic and environmental well-being of current and future generations. To that end, the University has developed and implemented the University of Hawai'i Strategic Directions, 2015–2021, built upon previous work outlined in the Strategic Outcomes and Performances Measures, 2008–2015, that will guide the University's priorities for the next three biennia to achieve the outcomes directed by the Board of Regents.

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

- Hawai'i Graduation Initiative.
- Hawai'i Innovation Initiative.
- 21st Century Facilities.
- High Performance Mission-Driven System.

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Hawai'i Graduation Initiative

An educated labor force and engaged citizenry are essential in today's global, knowledge-based economy. The State of Hawai'i has set goals to increase the percentage of working age adults with two- or four-year degrees to 55 percent by 2025 (*55 by '25 Campaign*). As the sole provider of public higher education in Hawai'i, the University is doing its part to increase number of educated citizens within the State. The Hawai'i Graduation Initiative ("HGI") was established with a set of goals to increase the graduation rate each year between four percent and five percent. Because of the focused efforts, the University of Hawai'i at Mānoa improved its four-year graduation rate from 17.5 percent in 2010 to an all-time high of 34 percent in 2017, and awarded 3,347 undergraduate degrees and certificates in spring 2017, just 302 shy of the record 3,649 degrees in spring 2016.

The University of Hawai'i at Hilo also set a record in 2017 with 798 undergraduate degrees awarded, a 37.3 percent increase from 2011. The University of Hawai'i at West O'ahu awarded 623 degrees, a 144 percent increase from six years ago, and the seven Community Colleges awarded 5,118 degrees and certificates, the third highest ever, and a 53.8 percent increase from 2011.

As part of the HGI's tactical plans, *15 to Finish Campaign* was launched to encourage 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). As a result, the percentage of first-time freshmen who enroll in 15 or more credits in their first semester has nearly doubled since the start of the campaign in 2012.

To further the HGI, the University has developed the *Guided Pathways System* ("GPS") that provides undergraduate students with the optimal path to their destination, i.e., graduation. When students select a new program of study, GPS will help with their registration and create a path for the students based on where they are and where they want to go. The GPS pilot test results showed an impressive reduction in the share of credits taken that do not count towards a degree, from 22 percent, which is consistent with national averages, to just four percent. This represents a remarkable cost savings toward a student's degree. STAR GPS registration was in full use across the University for summer and fall 2017.

HGI is a winning strategy because it helps students graduate faster, reduce debt, and prevent drop-outs.

Enrollment and Tuition

Enrollment at the University of Hawai'i's 10 campuses dropped slightly in fall 2017 to 51,674 total students, a decrease of 1,744 students, or 3.3 percent compared to fall 2016, as Hawai'i's robust economy continues. As of September 2017, the State unemployment rate was at 2.5 percent. The overall decline was no surprise, as the University continues to graduate more students on time while competing for students with a tight local labor market experiencing extraordinarily low unemployment. The largest decrease in enrollment were at the Community Colleges, as students commonly attend college during a recession and enter the job market with the improved economy.

The fall 2017 enrollment at the University of Hawai'i at West O'ahu is up 4.9 percent to 3,082 students from fall 2016, continuing the trend that began in 2012 when the school moved to its Kapolei campus. The campus was recently recognized as the fastest growing public baccalaureate campus in the nation.

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Fall census headcount comparisons are as follows:

| | Fall 2017 | Fall 2016 | % Change | Fall 2015 | % Change |
|--------------------|------------------|------------------|-----------------|------------------|-----------------|
| Mānoa | 17,612 | 18,056 | -2.5 | 18,865 | -4.3 |
| Hilo | 3,539 | 3,666 | -3.5 | 3,829 | -4.3 |
| West O‘ahu | 3,082 | 2,939 | 4.9 | 2,692 | 9.2 |
| Community Colleges | 27,441 | 28,757 | -4.6 | 30,370 | -5.3 |
| Total | 51,674 | 53,418 | -3.3 | 55,756 | -4.2 |

With the goal to reverse the enrollment decline and address the higher education gaps for the underserved regions and populations, the Community Colleges, working with the State legislators, secured \$1.8 million to establish the *Hawai‘i Promise* scholarship program that provides free in-state tuition for qualified community college students with financial needs in fiscal year 2017. The program is a “last dollar” scholarship that would provide any financial needs that are not met by other forms of financial aid, such as federal grants, the University scholarships, and other private sources. Because of the success of the program, the University will continue to request funding from the State.

To further grow student enrollment and help reach the State’s goal of *55 by ‘25 Campaign*, the University has developed a 2017–2020 Enrollment Management Plan to steadily grow enrollment over the next five years. This framework will guide the University’s overall enrollment, retention, and degree efforts.

Specific initiatives and strategies are:

- Focus on retention and persistence initiatives with campus specific strategies.
- Use of financial aid to positively impact enrollment.
- Initiatives targeting transfer, returning and adult students.
- Research best practices and maintain national engagement in enrollment management.
- Set enrollment target to increase enrollment between three percent and eight percent systemwide over the next four years.

On October 11, 2011, the Board approved a five-year tuition schedule. Fiscal year 2015–2016 was 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 years 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, 2017. This new schedule has no increases for fiscal year 2017–2018, and tuition increases in fiscal years 2018–2019 and 2019–2020 ranging from one to two percent at various campuses.

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Research and Innovation

The University's extramural fund awards include a mix of research and non-research programs that provide financial stability and balance to the University. About 40 to 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 of Hawai'i at Mānoa, the flagship campus, is ranked by National Science Foundation ("NSF") as number 48th among 398 public universities for research and development expenditures in fiscal year 2015.

The extramural awards totaled \$387 million in fiscal year 2017, representing an almost flat to slight decrease of one percent from the previous year's tally. Like many of our counterpart universities in recent years, the University is experiencing unaccustomed peaks and troughs in funding — a direct consequence of federal budget cuts, the lingering effects of sequestration and other uncertainties in Washington, D.C.

Despite the significant reductions in federal support that have put a strain on research institutions across the country, the University is doing its best to weather the storm through the dedicated efforts of our talented research faculty and support staff. Here are some highlights of fiscal year 2017:

- The Hawai'i Natural Energy Institute received an \$8.6 million award from the Office of Naval Research for its Asia-Pacific Research Initiative for Sustainable Energy Systems.
- The University at Hilo received two separate awards from the National Science Foundation totaling \$1.9 million for research on tropical ecosystems.
- The Cancer Center's Multi Ethnic Cohort Study received a \$3.9 million award from the National Cancer Institute.
- The University at West O'ahu received a \$2.0 million award from the U.S. Department of Education for its PIKO project.
- The Community Colleges received numerous awards totaling \$14.3 million from the U.S. Department of Education, NSF, and the Hawai'i State Departments of Human Services, Transportation, and Labor & Industrial Relations for its programs.

In early 2017, the University published a research and innovation long-range plan to use as a roadmap for the 10-campus system to help better navigate the evolving research landscape. Included were various thought-provoking strategies and initiatives, including the possible formation of cutting-edge interdisciplinary teams to successfully compete for multi-million dollar research awards.

The University continues the efforts to expand the Hawai'i Innovation Initiative and has created 394 invention disclosures, 67 license/option agreements, 66 patents, and 14 startup companies between 2010 and 2017. In June 2017, the State of Hawai'i Governor David Ige signed into law two key legislative measures that removed restrictive statutes that limited the University's ability to participate in technology transfer and commercialization activities, and will now enable the University to remain competitive with our peer research institutions.

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Facilities and Infrastructure

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 year 2018–2023 (the "6-Year CIP Plan"). The 6-Year CIP Plan sets 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.

In the past three years, the University completed many major construction projects, which included the newest campus, Hawai'i Community College Pāalamanui campus, as well as the 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.

To meet the increasing enrollment, provide access to higher education for students in the Leeward side of the island, and create a vibrant campus life experience that inspires students to engage in their campus community, the University of Hawai'i at West O'ahu broke ground for its \$36 million newest addition, the Allied Health/Administration building. The building will house the allied health, community health, health information management, long-term care, and biology programs, in addition to various administrative offices. The University is also in the process of developing a master plan to build an integrated campus and University Village on 500 acres of current vacant lands in West O'ahu. The plan may include leasehold housing options, retail and commercial activities, and other uses that would complement the West O'ahu campus and also serve the area. There will be transit-oriented development options near the transit stations. Two stations will be located directly across Kualaka'i Parkway from the West O'ahu campus.

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. At the conclusion of the 2017 Legislative Session, the State provided a \$159.8 million General Obligation bond appropriation as part of the 2018-2019 Capital Improvement Project biennium budget.

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 2017, the University had raised \$77.6 million as compared to \$66.1 million in fiscal year 2016 and \$129.0 million in fiscal year 2015.

In September 2017, the Shidler College of Business at Mānoa received a significant donation of \$117 million in cash and eleven real estate ground leases in nine major cities from alumnus Jay H. Shidler. This donation was made immediately following the final installment of his previous \$111 million gift made in fiscal year 2015 and brings the total value of his donation to \$228 million. The \$117 million gift will further the school's on-going facility improvements, faculty endowments, and academic program expansions and is also designated to provide a level of steady funding for the college. The donated ground leases have 99-year terms and are expected to generate a minimum of \$2.1 billion in contractual

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cash flow for the college. In addition, at the end of the ground lease terms, the college will receive full ownership of the related commercial office buildings, which together with the land will be worth an estimated \$5.1 billion for a total of \$7.2 billion over the life of the current leases.

State General Fund Appropriations

As the sole provider of higher public education and a key economic development driver, the University helped generate a total estimated impact of \$3.61 billion on Hawai'i's economy. Looking toward the future, Hawai'i's economy is expected to continue a positive growth of 1.5 percent in 2018, according to the State Department of Business, Economic Development & Tourism. The tourism and construction industries are projected to remain strong, while the government and military sectors will continue to stay relatively unchanged. Hawai'i's robust economy has kept the unemployment rate low at 2.7 percent as of July 2017.

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 was 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 \$42.2 million, or 9.7 percent in general funds to the University's fiscal year 2018 operating budget. These funds were allocated throughout the campuses primarily to fund faculty salary increases that were negotiated through collective bargaining agreements and other special programs, including the Hawai'i Promise Program.

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 2017 with a general fund surplus totaling \$893 million, although it was a single point of data. The Council on Revenues had initially forecasted a 5.5 percent growth for fiscal year 2017, which was eventually reduced to 2.5 percent. Ultimately, fiscal year 2017 general fund tax revenue collections showed only a 2.0 percent growth over FY16 totals. The Council's current forecast for FY18 revenues projects 4.3 percent growth compared to FY17. As of September 2017, general fund collections are up 9.3 percent compared to the same period for fiscal year 2017. In addition, ERS (retirement) and OPEB (health fund) unfunded liabilities for the State are roughly \$23 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.

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Consolidated Statements of Net Position
June 30, 2017 and 2016
(All dollars reported in thousands)

| | 2017 | 2016 |
|--|---------------------|---------------------|
| Assets and Deferred Outflows of Resources | | |
| Current assets | | |
| Cash and cash equivalents | \$ 69,096 | \$ 103,179 |
| Operating investments | 355,180 | 298,702 |
| Due from State of Hawai'i | 1,355 | 102 |
| Accounts receivable, net | 78,270 | 86,913 |
| Current portion of notes and contributions receivable, net | 17,035 | 16,972 |
| Accrued interest receivable | 1,381 | 851 |
| Inventories | 7,902 | 10,250 |
| Prepaid expenses and other current assets | 13,839 | 11,462 |
| Total current assets | <u>544,058</u> | <u>528,431</u> |
| Noncurrent assets | | |
| Due from State of Hawai'i | 378,310 | 329,751 |
| Endowment and other investments | 507,613 | 475,040 |
| Notes and contributions receivable, net | 34,619 | 40,068 |
| Capital assets, net | 2,087,733 | 2,053,385 |
| Other noncurrent assets | 94,606 | 18,890 |
| Total noncurrent assets | <u>3,102,881</u> | <u>2,917,134</u> |
| Total assets | <u>3,646,939</u> | <u>3,445,565</u> |
| Deferred outflows of resources | | |
| Deferred loss on refunding | 9,995 | 11,383 |
| Deferred outflows on net pension liability | 557,225 | 134,715 |
| Total deferred outflows of resources | <u>567,220</u> | <u>146,098</u> |
| Total assets and deferred outflows of resources | <u>\$ 4,214,159</u> | <u>\$ 3,591,663</u> |
| Liabilities, Deferred Inflows of Resources and Net Position | | |
| Current liabilities | | |
| Accounts payable | \$ 60,696 | \$ 51,596 |
| Accrued payroll and fringe benefits | 62,119 | 66,300 |
| Advances from sponsors | 31,607 | 34,002 |
| Unearned revenue | 48,657 | 46,314 |
| Due to State of Hawai'i | 6,117 | 6,294 |
| Current portion of long-term liabilities | 72,989 | 55,216 |
| Other current liabilities | 6,900 | 7,229 |
| Total current liabilities | <u>289,085</u> | <u>266,951</u> |
| Noncurrent liabilities | | |
| Accrued vacation | 45,280 | 45,251 |
| Accrued workers' compensation | 12,186 | 11,747 |
| Net pension liability | 1,704,470 | 1,144,564 |
| Other postemployment benefits | 788,773 | 722,757 |
| Revenue bonds payable | 524,565 | 543,680 |
| Premium on bonds payable | 13,412 | 14,754 |
| Note payable | 8,200 | 17,000 |
| Other noncurrent liabilities | 33,490 | 17,144 |
| Total noncurrent liabilities | <u>3,130,376</u> | <u>2,516,897</u> |
| Total liabilities | <u>3,419,461</u> | <u>2,783,848</u> |
| Deferred inflows of resources | | |
| Deferred inflows on net pension liability | 65,171 | 111,364 |
| Total deferred inflows of resources | <u>65,171</u> | <u>111,364</u> |
| Commitments and contingencies | | |
| Net position | | |
| Net investment in capital assets | 1,541,725 | 1,504,935 |
| Restricted | | |
| Nonexpendable | 342,071 | 244,396 |
| Expendable | 586,825 | 561,093 |
| Unrestricted | (1,741,094) | (1,613,973) |
| Total net position | <u>729,527</u> | <u>696,451</u> |
| Total liabilities, deferred inflows of resources and net position | <u>\$ 4,214,159</u> | <u>\$ 3,591,663</u> |

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

University of Hawai'i
State of Hawai'i
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Consolidated Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2017 and 2016
(All dollars reported in thousands)

| | 2017 | 2016 |
|---|--------------------|-------------------|
| Operating revenues | | |
| Student tuition and fees | \$ 403,177 | \$ 403,411 |
| Less: Scholarship allowances | 133,054 | 131,105 |
| Net student tuition and fees | 270,123 | 272,306 |
| Federal appropriations, grants and contracts | 295,344 | 322,266 |
| State and local grants and contracts | 39,174 | 32,831 |
| Nongovernmental sponsored programs | 34,374 | 35,134 |
| Sales and services of educational departments, other | 33,428 | 35,763 |
| Auxiliary enterprises | | |
| Bookstores | 19,598 | 20,736 |
| Student housing (net of scholarship allowances of \$1,867 and \$1,474) | 31,952 | 32,102 |
| Other auxiliary enterprises revenues | 45,889 | 46,186 |
| Other operating revenues | 1,648 | 2,211 |
| Total operating revenues | <u>771,530</u> | <u>799,535</u> |
| Operating expenses | | |
| Compensation and benefits | 1,235,479 | 1,114,755 |
| Supplies, services and cost of goods sold | 193,411 | 202,157 |
| Depreciation | 122,841 | 124,937 |
| Telephone and utilities | 59,957 | 64,633 |
| Scholarships and fellowships | 41,771 | 43,440 |
| Travel expenses | 32,989 | 33,962 |
| Repairs and maintenance | 30,011 | 28,571 |
| Rental expenses | 11,198 | 12,877 |
| Other operating expenses | 50,588 | 36,205 |
| Total operating expenses | <u>1,778,245</u> | <u>1,661,537</u> |
| Operating loss | <u>(1,006,715)</u> | <u>(862,002)</u> |
| Nonoperating revenues (expenses) | | |
| State appropriations | 471,453 | 441,373 |
| Federal Pell grants | 55,701 | 61,438 |
| Private gifts | 31,233 | 32,382 |
| Net investment income | 42,509 | 679 |
| Interest expense | (26,900) | (25,064) |
| Net transfers from (to) State of Hawai'i for | | |
| Fringe benefits | 179,715 | 172,248 |
| Hawai'i Barrel Tax | 2,536 | 2,784 |
| School of Nursing | 124 | 1,066 |
| University of Hawai'i Cancer Center | 6,546 | 6,366 |
| Other | - | (86) |
| Loss on disposal of capital assets | (10,069) | (8,165) |
| Other, net | 99 | (284) |
| Net nonoperating revenues before capital and endowment additions (deductions) | <u>752,947</u> | <u>684,737</u> |
| Capital – state appropriations | 159,094 | 16,547 |
| Capital – federal grants/subsidies | 11,174 | 4,829 |
| Capital – gifts and grants | 1,776 | 1,095 |
| Net transfers from (to) State of Hawai'i for capital assets | (392) | 5,651 |
| Transfers from State of Hawai'i, Tobacco settlement | 11,799 | 9,549 |
| Transfers from State of Hawai'i, University of Hawai'i Cancer Center | 7,874 | 7,876 |
| Transfers from other State agencies | - | 413 |
| Net transfers from (to) Federal – capital assets | (505) | 4,081 |
| Additions to permanent endowments | 96,024 | 9,254 |
| Total other revenues | <u>286,844</u> | <u>59,295</u> |
| Net nonoperating revenues | <u>1,039,791</u> | <u>744,032</u> |
| Change in net position | 33,076 | (117,970) |
| Net position | | |
| Beginning of year | 696,451 | 842,421 |
| Adjustment for change in accounting principle (Note 1) | - | (28,000) |
| Beginning of year, as restated | <u>696,451</u> | <u>814,421</u> |
| End of year | <u>\$ 729,527</u> | <u>\$ 696,451</u> |

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

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Consolidated Statements of Cash Flows
Years Ended June 30, 2017 and 2016
(All dollars reported in thousands)

| | 2017 | 2016 |
|---|------------------|-------------------|
| Cash flows from operating activities | | |
| Student tuition and fees | \$ 274,315 | \$ 267,057 |
| Grants and contracts | 382,764 | 395,583 |
| Other revenues | 132,731 | 136,472 |
| Payments to employees | (899,457) | (870,514) |
| Payments to suppliers and other | (372,553) | (379,598) |
| Payments for scholarships and fellowships | (41,771) | (43,440) |
| Net cash used in operating activities | <u>(523,971)</u> | <u>(494,440)</u> |
| Cash flows from noncapital financing activities | | |
| State appropriations | 470,200 | 441,459 |
| Gifts and grants for other than capital purposes | 99,457 | 109,406 |
| Transfer from State of Hawai'i for | | |
| Hawai'i Barrel Tax | 2,536 | 2,784 |
| School of Nursing | 124 | 1,066 |
| University of Hawai'i Cancer Center | 6,546 | 6,366 |
| Other | - | (86) |
| Other receipts (disbursements) | 18 | (226) |
| Net cash provided by noncapital financing activities | <u>578,881</u> | <u>560,769</u> |
| Cash flows from capital and related financing activities | | |
| Capital appropriations | 109,255 | 85,940 |
| Capital gifts and grants | 12,558 | 5,171 |
| Proceeds from issuance of capital debt | 8,200 | 8,575 |
| Purchases of capital assets | (154,106) | (109,459) |
| Proceeds from sale of capital assets | 21 | 653 |
| Principal paid on capital debt | (19,069) | (19,190) |
| Interest paid on capital debt | (27,535) | (27,046) |
| Repayment to State of Hawai'i | - | (6,000) |
| Transfer from other State agencies | - | 413 |
| Transfer from State of Hawai'i for | | |
| Tobacco Settlement | 11,799 | 9,549 |
| University of Hawai'i Cancer Center | 7,874 | 7,876 |
| Net cash used in capital and related financing activities | <u>(51,003)</u> | <u>(43,518)</u> |
| Cash flows from investing activities | | |
| Interest and dividends on investments, net | 7,481 | 7,163 |
| Proceeds from sales and maturities of investments | 793,427 | 962,297 |
| Purchase of investments | (838,898) | (978,903) |
| Net cash used in investing activities | <u>(37,990)</u> | <u>(9,443)</u> |
| Net increase (decrease) in cash and cash equivalents | (34,083) | 13,368 |
| Cash and cash equivalents | | |
| Beginning of year | <u>103,179</u> | <u>89,811</u> |
| End of year | <u>\$ 69,096</u> | <u>\$ 103,179</u> |

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

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Consolidated Statements of Cash Flows
Years Ended June 30, 2017 and 2016
(All dollars reported in thousands)

| | 2017 | 2016 |
|--|---------------------|---------------------|
| Reconciliation of operating loss to net cash used in operating activities | | |
| Operating loss | \$ (1,006,715) | \$ (862,002) |
| Adjustments to reconcile operating loss to net cash used in operating activities | | |
| On behalf payments by State for fringe benefits | 223,116 | 195,332 |
| Depreciation expense | 122,841 | 124,937 |
| Pension and other post retirement health care benefit expense | 113,818 | 35,885 |
| Bad debt expense, net | 2,436 | 146 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | 6,386 | 1,542 |
| Notes and contributions receivable | 565 | 9 |
| Inventories | 2,348 | 1,515 |
| Prepaid expenses and other assets | 944 | 810 |
| Accounts payable | (2,700) | (3,403) |
| Accrued payroll and benefits | (3,437) | 10,200 |
| Accrued workers' compensation liability | 333 | 2,588 |
| Advances from sponsors | 11,201 | 23 |
| Other, net | 4,893 | (2,022) |
| Net cash used in operating activities | <u>\$ (523,971)</u> | <u>\$ (494,440)</u> |
| Supplemental information of noncash transactions | | |
| Noncash contributions | \$ 87,634 | \$ 1,951 |
| Net transfers from (to) State of Hawai'i for capital assets | (392) | 5,651 |
| Net transfers from (to) Federal for capital assets | (505) | 4,081 |
| Accounts payable for capital assets | 30,674 | 18,874 |
| Bond proceeds deposited immediately into escrow | - | 171,408 |
| Defeasance of outstanding revenue bond principal | - | (163,245) |

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

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June 30, 2017 and 2016
(All dollars reported in thousands)

1. Organization and Summary of Significant Accounting Policies

Financial Reporting Entity

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

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

Similarly, the University is fiscally dependent upon the State of Hawai'i (the "State") and therefore, the State is financially accountable for the University as defined by GASB Statement No. 61. Accordingly, the University's financial information is discretely presented as a component unit within the State's comprehensive annual financial report ("CAFR").

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

Basis of Presentation

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

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

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

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Cash, Cash Equivalents and Investments

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

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

Investments

Investments in money market instruments that have remaining maturity at time of purchase of one year or less are reported at amortized cost. Investments in time certificates of deposits are carried at cost. Investments in money market funds, fixed income securities, equity securities, and mutual funds with readily determinable fair values are reported at fair value based on quoted market prices. Investments in limited partnerships, absolute return, real estate and other investments include limited partnership investments in private equity, venture capital, real estate, and hedge funds including absolute return and long/short hedge funds. Fair value is generally based on information provided by the respective external investment manager at the most recent valuation date and from the valuation date to fiscal year-end, if applicable. The private equity, venture capital, and real estate investments are not readily marketable and involve assumptions and methods that are reviewed by the Foundation. Because these investments are not readily marketable, their estimated value is subject to uncertainty and therefore, may differ from the value that would have been used had a ready market for such investment existed. A portion of the investments made by certain hedge funds is also not readily marketable; additionally, hedge fund managers may not provide the detail of their underlying marketable securities. The hedge fund valuation process is carefully reviewed by the Foundation with the assistance of an outside consultant. The Foundation utilized the net asset value per share for the investments in limited partnerships, absolute return, real estate and other investments. Unrealized gains and losses on investments are included in the Consolidated Statements of Revenues, Expenses and Changes in Net Position. Realized gains and losses are computed as the difference between the proceeds of the sale and the cost basis of the investment sold. The calculation of realized gains and losses is independent of the calculation of net changes in the fair value of investments.

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

Fair Value Measurements

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

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

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

Due from and Due to State

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

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

Perpetual Trusts

The Foundation is the beneficiary of certain perpetual trusts held and administered by others. The fair value of the estimated future cash receipts from the trusts is recognized as assets and contribution revenues when the Foundation is notified of their existence. The reported value of the assets is fair value.

Split-Interest Agreements

The Foundation's split-interest agreements with donors consist of irrevocable pooled income funds, charitable remainder trusts and charitable gift annuities for which the Foundation serves as trustee. Assets held under the split-interest agreements are included in investments. Contribution revenues are recognized at the date the split-interest agreements are established after recording liabilities for the present value (utilizing discount rates ranging from 1.2 percent to 8.2 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,

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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 \$27,183 and \$25,562 for the years ended June 30, 2017 and 2016, respectively, of which capitalized interest as a cost of construction amounted to \$283 and \$498, respectively. The University does not capitalize works of art or historical treasures that are held for exhibition, education, research and public service. These collections are neither disposed of for financial gain nor encumbered. Accordingly, such collections are not recognized or capitalized for financial statement purposes. Maintenance and repairs, as well as minor renewals, replacements and betterments, are charged to operations. Major renewals, replacements and betterments are capitalized in the year incurred. Capital assets retired or otherwise disposed of are removed from the appropriate asset and related accumulated depreciation accounts. Gains and losses on disposals and the net book value of transfers of capital assets are reflected in operations.

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

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period. The University defers recognition of the loss on debt refunding related to issuance of its revenue bonds and amortizes these costs over the life of the bonds using the effective interest rate method. The deferred outflow of resources related to pensions resulted from differences between expected and actual experiences which will be amortized over five years and University contributions to the pension plan subsequent to the measurement date of the actuarial valuations for the pension plans which will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

Advances from Sponsors

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

Unearned Revenue

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

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Pensions

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

Other Postemployment Benefits

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

Revenue Bonds Payable

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

Deferred Inflows of Resources

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

Net Position

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

- **Net investment in capital assets** – This component of net position represents the University's total investment in capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those capital assets.
- **Restricted**
 - Nonexpendable – Net position subject to externally imposed stipulations that they be maintained permanently by the University, which includes the University's permanent endowment funds.
 - Expendable – Net position that is restricted for specific purposes by sponsors, donors or law. Restrictions in these assets are released when the University complies with the stipulations required by the sponsor, donor or legislative act.
- **Unrestricted** – Net position not classified as restricted or net investment in capital assets and not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Regents ("Board") or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net position is designated for academic and research programs and initiatives, and capital asset programs.

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

Net Position Restricted by Enabling Legislation

GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34*, requires that limitations on the use of net position imposed by enabling legislation be reported as restricted net position. GASB Statement No. 46 also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Restricted net position at June 30, 2017 and 2016 amounted to \$928,896 and \$805,489, respectively, of which \$348,726 and \$313,262 were restricted by enabling legislation for capital activity.

Operating and Nonoperating Activities

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

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

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

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

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

Scholarships and Fellowships

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

State Appropriations

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

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Management's Estimates

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

With respect to workers' compensation insurance, the University is self-insured for the first \$650 per occurrence and annual aggregate, and obtains excess insurance of \$50,000 from a commercial insurance company. The University records a liability for risk financing and insurance related losses if it is determined that a loss has been incurred and the amount can be reasonably estimated. The University uses a third-party actuary to estimate its workers' compensation liability. Changes in the liability are the result of claims payments made during the fiscal year, new claims filed, and changes in the estimates of existing claims. Anticipated payments by the third party for the next fiscal year are considered current and payments thereafter are considered noncurrent. The liability represents the University's best estimate of workers' compensation liabilities based on available information. The University's estimated liability for workers' compensation claims is included in "Other Liabilities" in the accompanying Consolidated Statements of Net Position (see Note 11).

The University also uses a third-party actuary to estimate its net pension liability and postemployment health care and life insurance benefit obligations. The assumptions used to determine the liabilities are described in Notes 14 and 15.

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

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

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

New Accounting Pronouncements

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*, as amended. 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 has determined that Statement No. 75 will have a material effect on its consolidated financial statements.

During fiscal year 2017, the University implemented GASB Statement No. 80, *Blending Requirements for Certain Component Units*. This Statement amends the blending requirements in GASB Statement No. 14. The Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. This Statement did not have a material effect on the University's consolidated financial statements.

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The GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this Statement are effective for reporting periods beginning after December 15, 2016. The University is currently evaluating the impact that Statement No. 81 will have on its financial statements.

During fiscal year 2017, the University implemented GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, 68 and 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The adoption of Statement No. 82 has resulted in the restatement of the University's beginning net position to reflect the new calculation of deferred outflows of resources in accordance with the provisions of Statement No. 82. The beginning net position as of July 1, 2015 was restated by \$28,000 from \$842,421 to \$814,421.

The GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. The objective of this Statement is to provide financial statement users with information about asset retirement obligations that were not addressed in GASB standards by establishing uniform accounting and financial reporting requirements for these obligations. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The University has not yet determined the effect this Statement will have on its consolidated financial statements.

The GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The University has not yet determined the effect this Statement will have on its consolidated financial statements.

The GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The University is currently evaluating the impact Statement No. 85 will have on its consolidated financial statements.

The GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources — resources other than the proceeds of refunding debt — are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The University is currently evaluating the impact Statement No. 86 will have on its consolidated financial statements.

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The GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The University has not yet determined the effect this Statement will have on its consolidated financial statements.

Reclassifications

In addition to the restatement of beginning net position as of July 1, 2015 by \$28,000, certain amounts in the 2016 consolidated financial statements have been reclassified due to the adoption of GASB Statement No. 82.

| | 2016 | | 2016 |
|---|----------------------|--------------------------|----------------|
| | As Previously | Reclassifications | Revised |
| | Reported | | |
| Deferred outflows of resources | | | |
| Deferred outflows on pension liability | \$ 163,699 | \$ (28,984) | \$ 134,715 |
| Total deferred outflows of resources | 175,082 | (28,984) | 146,098 |
| Total assets and deferred outflows of resources | 3,620,647 | (28,984) | 3,591,663 |
| Operating expenses | | | |
| Compensation and benefits | 1,113,771 | 984 | 1,114,755 |
| Total operating expenses | 1,660,553 | 984 | 1,661,537 |
| Operating loss | (861,018) | (984) | (862,002) |
| Change in net position | (116,986) | (984) | (117,970) |

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, 2017 and 2016, classified as cash and cash equivalents and operating investments, were \$230,039 and \$271,416, with corresponding bank balances of \$230,511 and \$282,084, 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 \$225,690 at June 30, 2017 and \$276,554 at June 30, 2016. Additional cash equivalent balances of \$4,119 at June 30, 2017 and \$7,341 at June 30, 2016 represent deposits with investment brokers covered by the Securities Investor Protection Corporation and additional insurance provided by the investment brokers.

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

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

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As a result of market fluctuations, the fair market value of certain donor-restricted endowments was less than the historical cost of such funds by \$4,855 and \$10,428 at June 30, 2017 and 2016, respectively. These unrealized losses have been recorded as reductions in unrestricted net position. Future market gains will be used to restore this deficiency in unrestricted net position before any net appreciation above the historical cost value of such funds increases restricted expendable net position.

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

The Hawai'i Uniform Prudent Management of Institutional Funds Act ("HUPMIFA"), established under Hawai'i Revised Statute §517E, was enacted by the State 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 2017 and 2016, 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, 2017 and 2016, the University's investments were comprised of the following:

| | 2017 | | 2016 | |
|------------------------------|-------------------|-------------------|-------------------|-------------------|
| | Fair Value | Cost | Fair Value | Cost |
| Money market funds | \$ 4,716 | \$ 4,716 | \$ 11,679 | \$ 11,679 |
| Fixed income securities | 283,541 | 284,620 | 210,172 | 207,952 |
| Equity securities | 6,328 | 5,122 | 5,866 | 5,143 |
| Mutual funds | 183,210 | 173,137 | 179,089 | 178,440 |
| Time certificates of deposit | 161,022 | 161,022 | 192,518 | 192,518 |
| Limited partnerships | 121,954 | 74,267 | 74,376 | 43,289 |
| Absolute return | 16,322 | 11,741 | 19,612 | 14,779 |
| Real estate | 23,161 | 28,721 | 17,105 | 21,084 |
| Other investments | 62,539 | 52,927 | 63,325 | 56,312 |
| Total investments | 862,793 | 796,273 | 773,742 | 731,196 |
| Less: Current portion | 355,180 | 355,686 | 298,702 | 297,425 |
| Total noncurrent investments | <u>\$ 507,613</u> | <u>\$ 440,587</u> | <u>\$ 475,040</u> | <u>\$ 433,771</u> |

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Changes in the University's investments for the year ended June 30, 2017 were as follows:

| | Fair Value | Cost Basis | Net Unrealized Gain (Loss) | Net Realized Gain (Loss) |
|---|------------------|------------------|-------------------------------|-----------------------------|
| University Endowment Pool | | | | |
| End of year | \$ 69,054 | \$ 62,793 | \$ 6,261 | |
| Beginning of year | <u>63,479</u> | <u>63,094</u> | <u>385</u> | |
| Net change | <u>5,575</u> | <u>(301)</u> | <u>5,876</u> | \$ 293 |
| Foundation Endowment Pool | | | | |
| End of year | 283,469 | 223,970 | 59,499 | |
| Beginning of year | <u>255,979</u> | <u>215,551</u> | <u>40,428</u> | |
| Net change | <u>27,490</u> | <u>8,419</u> | <u>19,071</u> | 10,639 |
| Associated Students of the University of Hawai'i | | | | |
| End of year | 8,768 | 7,566 | 1,202 | |
| Beginning of year | <u>8,350</u> | <u>7,590</u> | <u>760</u> | |
| Net change | <u>418</u> | <u>(24)</u> | <u>442</u> | 3 |
| School of Medicine | | | | |
| End of year | 5,540 | 5,540 | - | |
| Beginning of year | <u>5,519</u> | <u>5,519</u> | <u>-</u> | |
| Net change | <u>21</u> | <u>21</u> | <u>-</u> | - |
| University Bond System | | | | |
| End of year | 16,738 | 16,738 | - | |
| Beginning of year | <u>26,492</u> | <u>26,492</u> | <u>-</u> | |
| Net change | <u>(9,754)</u> | <u>(9,754)</u> | <u>-</u> | - |
| Operating investments | | | | |
| End of year | 355,180 | 355,686 | (506) | |
| Beginning of year | <u>298,702</u> | <u>297,425</u> | <u>1,277</u> | |
| Net change | <u>56,478</u> | <u>58,261</u> | <u>(1,783)</u> | 36 |
| Other | | | | |
| End of year | 124,044 | 123,980 | 64 | |
| Beginning of year | <u>115,221</u> | <u>115,525</u> | <u>(304)</u> | |
| Net change | <u>8,823</u> | <u>8,455</u> | <u>368</u> | (238) |
| Total investments | | | | |
| End of year | 862,793 | 796,273 | 66,520 | |
| Beginning of year | <u>773,742</u> | <u>731,196</u> | <u>42,546</u> | |
| Net change | <u>\$ 89,051</u> | <u>\$ 65,077</u> | <u>\$ 23,974</u> | <u>\$ 10,733</u> |

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

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| | 2017 | 2016 |
|--|------------------|----------------|
| Summary of net investment income | | |
| Change in unrealized net gain (loss) | \$ 23,974 | \$ (6,703) |
| Net realized gain | 10,733 | 572 |
| | <u>34,707</u> | <u>(6,131)</u> |
| Interest and dividend income | 9,329 | 8,640 |
| Other | (212) | (593) |
| | <u>43,824</u> | <u>1,916</u> |
| Investment income before management fees | 43,824 | 1,916 |
| Less: Management fees | 1,315 | 1,237 |
| | <u>42,509</u> | <u>679</u> |
| Net investment income | <u>\$ 42,509</u> | <u>\$ 679</u> |

The University's investments reported at fair value on a recurring basis have been categorized based on the fair value hierarchy in Note 1 at June 30, 2017 and 2016 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 |
|------------------------------|-------------------|---|---|--|--|
| 2017 | | | | | |
| Money market funds | \$ 4,716 | \$ 4,716 | \$ - | \$ - | \$ - |
| Fixed income securities | 283,541 | 123,220 | 140,504 | - | 19,817 |
| Equity securities | 6,328 | 6,328 | - | - | - |
| Mutual funds | 183,210 | 177,658 | - | - | 5,552 |
| Time certificates of deposit | 161,022 | - | - | - | 161,022 |
| Limited partnerships | 121,954 | - | - | - | 121,954 |
| Absolute return | 16,322 | - | - | - | 16,322 |
| Real estate | 23,161 | - | - | 15,050 | 8,111 |
| Other investments | 62,539 | - | - | 1,956 | 60,583 |
| Total investments | <u>\$ 862,793</u> | <u>\$ 311,922</u> | <u>\$ 140,504</u> | <u>\$ 17,006</u> | <u>\$ 393,361</u> |
| 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 | <u>\$ 773,742</u> | <u>\$ 275,413</u> | <u>\$ 90,247</u> | <u>\$ 8,815</u> | <u>\$ 399,267</u> |

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

- **Mutual funds** – Domestic mutual funds can be redeemed on a quarterly basis, with notification provided between 30 and 60 days prior to redemption. Investments in foreign mutual funds can be redeemed on a monthly basis with notification provided between 10 and 30 days prior to redemption.
- **Limited partnerships and other investments** – Redemption frequency for investments in this class range from monthly to annually, with notification provided between 2 and 90 days prior to redemption. Additionally, certain investments can be redeemed at the discretion of the investment managers.
- **Absolute return and real estate and other investments** – These investments can be redeemed at the discretion of the investment managers. Through the Foundation, the University has commitments to contribute additional amounts to this class of investments of approximately \$34,168 at June 30, 2017.

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

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

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

Investment Risk Factors

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

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Concentration Risk

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

Credit Risk

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

The composition of fixed income securities at June 30, 2017 and 2016, along with credit quality ratings, is summarized below:

| | | Credit Quality Rating | | | | | |
|-------------------------------|-------------------|-----------------------|------------------|-------------------|-----------------|---------------|------------------|
| | | U.S. Govt-Exempt | AAA | AA | A | BBB | Not Rated |
| 2017 | | | | | | | |
| U.S. Treasury | \$ 126,823 | \$ 126,823 | \$ - | \$ - | \$ - | \$ - | \$ - |
| U.S. government agencies | 156,234 | - | - | 156,234 | - | - | - |
| Corporate bonds | 484 | - | 28 | 61 | 233 | 162 | - |
| Mutual bond funds | 99,766 | - | 4,079 | - | 4,350 | - | 91,337 |
| Total fixed income securities | <u>\$ 383,307</u> | <u>\$ 126,823</u> | <u>\$ 4,107</u> | <u>\$ 156,295</u> | <u>\$ 4,583</u> | <u>\$ 162</u> | <u>\$ 91,337</u> |
| 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 | <u>\$ 309,689</u> | <u>\$ 88,076</u> | <u>\$ 10,839</u> | <u>\$ 121,653</u> | <u>\$ 232</u> | <u>\$ 182</u> | <u>\$ 88,707</u> |

Interest Rate Risk

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

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At June 30, 2017, the composition of the University's fixed income investments and maturities are summarized below:

| | Fair Value | Investment Maturities (in Years) | | | |
|-------------------------------|-------------------|----------------------------------|-------------------|------------------|--------------|
| | | Less than 1 | 1 to 5 | 6 to 10 | More than 10 |
| U.S. Treasury | \$ 126,823 | \$ 33,819 | \$ 79,677 | \$ 13,310 | \$ 17 |
| U.S. government agencies | 156,234 | 32,879 | 122,307 | 989 | 59 |
| Corporate bonds | 484 | 185 | 111 | 188 | - |
| Mutual bond funds | 99,766 | 10,980 | 65,657 | 23,129 | - |
| Total fixed income securities | <u>\$ 383,307</u> | <u>\$ 77,863</u> | <u>\$ 267,752</u> | <u>\$ 37,616</u> | <u>\$ 76</u> |

Foreign Currency Risk

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

At June 30, 2017 and 2016, 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 \$30,457 and \$28,278 at June 30, 2017 and 2016, respectively, is summarized as follows:

| | 2017 | 2016 |
|----------------------------|------------------|------------------|
| U.S. government | \$ 44,448 | \$ 49,258 |
| State and local government | 9,405 | 8,217 |
| Private agencies | 9,333 | 8,019 |
| Student tuition and fees | 7,350 | 10,147 |
| Other | 7,734 | 11,272 |
| | <u>\$ 78,270</u> | <u>\$ 86,913</u> |

4. U.S. Government Funding

The federal government reimburses the University for certain overhead costs (e.g., facilities and administrative costs) incurred in support of federally-sponsored programs based on cost reimbursement rates negotiated with the University's cognizant agency, the U.S. Department of Health and Human Services. These reimbursements amounted to approximately \$42,464 in 2017 and \$43,579 in 2016 and are reported in federal appropriations, grants and contracts revenue.

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

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5. Notes and Contributions Receivable

The composition of notes and contributions receivable at June 30, 2017 and 2016 is summarized as follows:

| | 2017 | 2016 |
|---|------------------|------------------|
| Student notes | | |
| Federal loan programs | \$ 16,653 | \$ 17,036 |
| State loan programs | 7,528 | 7,901 |
| University loan funds | 67 | 68 |
| Other notes receivable | 43 | 52 |
| Total student and other notes outstanding | <u>24,291</u> | <u>25,057</u> |
| Less: Allowance for uncollectible receivables | 7,393 | 7,410 |
| Total student and other notes receivable, net | <u>16,898</u> | <u>17,647</u> |
| Contributions receivable | 36,965 | 45,211 |
| Less: Allowance for uncollectible pledges | 1,801 | 1,557 |
| Less: Discount to present value | 408 | 4,261 |
| Total contributions receivable, net | <u>34,756</u> | <u>39,393</u> |
| Total student notes and contributions receivable, net | 51,654 | 57,040 |
| Less: Current portion, net | <u>17,035</u> | <u>16,972</u> |
| | <u>\$ 34,619</u> | <u>\$ 40,068</u> |

The allowance for uncollectible receivables at June 30, 2017 and 2016 is comprised of:

| | 2017 | 2016 |
|---|-----------------|-----------------|
| Federal Perkins loan program | \$ 3,806 | \$ 4,035 |
| State of Hawai'i Higher Education loans | 3,545 | 3,333 |
| Nursing/Health Profession loans | 10 | 10 |
| Short-term loans | 32 | 32 |
| | <u>\$ 7,393</u> | <u>\$ 7,410</u> |

Payments on contributions receivable at June 30, 2017 are expected to be collected in:

| | |
|------------------------|------------------|
| Less than one year | \$ 15,137 |
| One year to five years | <u>21,828</u> |
| | <u>\$ 36,965</u> |

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

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

During the years ended June 30, 2017 and 2016, the University distributed \$2,359 and \$2,484 in student loans through the U.S. Department of Education Federal Perkins Loan Program, respectively, and \$150,389 and \$156,333 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 \$5,866 and \$39,020 at June 30, 2017 and 2016, 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, 2017 and 2016 are summarized below:

| | | 2017 | 2016 |
|---|---|-----------------|------------------|
| University of Hawai'i Bookstore merchandise inventory | Lower of cost or market using the first-in, first-out retail inventory method. | \$ 5,051 | \$ 7,121 |
| University of Hawai'i Chemistry Stockroom | Cost applied on the first-in, first-out basis. | 888 | 885 |
| University of Hawai'i Facilities Management Warehouse | Cost applied on the first-in, first-out basis. | 695 | 927 |
| 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. | 944 | 699 |
| University of Hawai'i other inventory | Lower of cost or market using the weighted average cost method. | 324 | 618 |
| | | <u>\$ 7,902</u> | <u>\$ 10,250</u> |

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7. Capital Assets

A summary of capital assets at June 30, 2017 and 2016 is as follows:

| | Beginning Balance | Additions | Deductions | Transfers | Ending Balance |
|--|------------------------------|------------------|-------------------|------------------|---------------------------|
| 2017 | | | | | |
| Nondepreciable capital assets | | | | | |
| Land | \$ 45,354 | \$ 5,900 | \$ - | \$ 3,941 | \$ 55,195 |
| Construction in progress | 182,872 | 132,013 | 5,007 | (139,851) | 170,027 |
| Total capital assets not being depreciated | 228,226 | 137,913 | 5,007 | (135,910) | 225,222 |
| Depreciable capital assets | | | | | |
| Land improvements | 128,969 | 224 | - | 2,552 | 131,745 |
| Infrastructure | 218,284 | 594 | - | 24,152 | 243,030 |
| Buildings | 2,340,153 | 12,969 | 28,282 | 97,041 | 2,421,881 |
| Equipment | 382,445 | 18,627 | 15,766 | 12,165 | 397,471 |
| Library materials | 168,836 | 2,769 | - | - | 171,605 |
| Total capital assets being depreciated | 3,238,687 | 35,183 | 44,048 | 135,910 | 3,365,732 |
| Less: Accumulated depreciation | 1,413,528 | 122,841 | 33,148 | - | 1,503,221 |
| Capital assets, net | \$ 2,053,385 | \$ 50,255 | \$ 15,907 | \$ - | \$ 2,087,733 |
| 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 |

Capital assets consist of land, land improvements, infrastructure, buildings, equipment, library materials, and construction in progress. Construction in progress ("CIP") additions represent costs for new projects, net of the amount of capital assets placed in service. CIP is not depreciated until the asset is placed in service. Assets acquired are recorded at cost, or if donated, at appraised value at the date of the gift. Land parcels comprising 1,206 acres, or 22 percent of the University's property, are recorded at the State's value of \$1 per parcel. Assets owned by the federal government, although in the custody of the University, are not included in the capital asset total.

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8. Other Noncurrent Assets

Other noncurrent assets at June 30, 2017 and 2016 were comprised of:

| | 2017 | 2016 |
|--|------------------|------------------|
| Interest in beneficial trusts held by others | \$ 94,081 | \$ 16,343 |
| Prepaid bond insurance | 275 | 295 |
| Other | 250 | 2,252 |
| | <u>\$ 94,606</u> | <u>\$ 18,890</u> |

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

Amounts due from and due to the State of Hawai'i at June 30, 2017 and 2016 were as follows:

| | 2017 | | 2016 | |
|---|-------------------|-----------------|-------------------|-----------------|
| | Due from | Due to | Due from | Due to |
| State appropriations for current operations | \$ 1,355 | | \$ 102 | |
| State capital appropriations – noncurrent | <u>378,310</u> | | <u>329,751</u> | |
| Total due from State of Hawai'i | <u>\$ 379,665</u> | | <u>\$ 329,853</u> | |
| Imprest/petty cash advances | | \$ 80 | | \$ 80 |
| Advance | | 6,000 | | 6,000 |
| General obligation bonds – current | | - | | 195 |
| Employee fringe adjustments | | <u>37</u> | | <u>19</u> |
| Due to State of Hawai'i – current | | 6,117 | | 6,294 |
| General obligation bonds – noncurrent | | - | | - |
| Total due to State of Hawai'i | | <u>\$ 6,117</u> | | <u>\$ 6,294</u> |

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

Activity related to amounts due to the State for general obligation bonds for the years ended June 30, 2017 is as follows:

| | Original Amount | Beginning Balance | Principal Repayment | Ending Balance |
|--|--------------------|----------------------|------------------------|-------------------|
| Series DB (interest rate, 2.80% to 5.25%) | | | | |
| Student Housing | | | | |
| Mānoa | \$ 731 | \$ 99 | \$ 99 | \$ - |
| Hilo | 143 | 20 | 20 | - |
| Parking Structure Phase I | 425 | 58 | 58 | - |
| | <u>1,299</u> | <u>177</u> | <u>177</u> | <u>-</u> |
| Series DG (interest rate, 5.00%) | | | | |
| Student Housing | | | | |
| Mānoa | 82 | 11 | 11 | - |
| Hilo | 16 | 1 | 1 | - |
| Parking Structure Phase I | 47 | 6 | 6 | - |
| | <u>145</u> | <u>18</u> | <u>18</u> | <u>-</u> |
| | <u>\$ 1,444</u> | <u>\$ 195</u> | <u>\$ 195</u> | <u>\$ -</u> |

Activity related to amounts due to the State 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 |
| | <u>1,299</u> | <u>343</u> | <u>166</u> | <u>177</u> |
| 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 |
| | <u>145</u> | <u>37</u> | <u>19</u> | <u>18</u> |
| | <u>\$ 1,444</u> | <u>\$ 380</u> | <u>\$ 185</u> | <u>\$ 195</u> |

General obligation bonds are payable in annual installments, including semi-annual interest payments. The University made the final principal and interest payment to the State for general obligation bonds in June 2017.

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11. Long-Term Liabilities

Long-term liability activity for the years ended June 30, 2017 and 2016 is summarized as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|--|------------------------------|-------------------|-------------------|---------------------------|----------------------------|
| 2017 | | | | | |
| Bonds payable | | | | | |
| Revenue bonds payable | \$ 562,620 | \$ - | \$ 18,940 | \$ 543,680 | \$ 19,115 |
| Other liabilities | | | | | |
| Workers' compensation | 18,100 | 2,106 | 1,773 | 18,433 | 6,247 |
| Accrued vacation | 75,174 | 28,552 | 27,819 | 75,907 | 30,627 |
| Net pension liability (Note 14) | 1,144,564 | 657,300 | 97,394 | 1,704,470 | - |
| Postemployment health care/life insurance benefits (Note 15) | 722,757 | 115,716 | 49,700 | 788,773 | - |
| Long-term debt | 17,000 | 8,200 | - | 25,200 | 17,000 |
| Total other liabilities | <u>1,977,595</u> | <u>811,874</u> | <u>176,686</u> | <u>2,612,783</u> | <u>53,874</u> |
| Total long-term liabilities | <u>\$ 2,540,215</u> | <u>\$ 811,874</u> | <u>\$ 195,626</u> | <u>\$ 3,156,463</u> | <u>\$ 72,989</u> |
| 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 | - |
| Long-term debt | 17,000 | - | - | 17,000 | - |
| Total other liabilities | <u>1,847,039</u> | <u>298,483</u> | <u>167,927</u> | <u>1,977,595</u> | <u>36,276</u> |
| Total long-term liabilities | <u>\$ 2,425,624</u> | <u>\$ 464,768</u> | <u>\$ 350,177</u> | <u>\$ 2,540,215</u> | <u>\$ 55,216</u> |

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Revenue Bonds Payable

The University's revenue bonds payable at June 30, 2017 and 2016 is as follows:

| | Series | Date Issued | Authorized | 2017 | 2016 |
|---|------------------|--------------------|-------------------|-------------------|-------------------|
| 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 | \$ 17,490 | \$ 19,970 |
| University Health & Wellness Center (interest rate, 3.5% to 5.0%) | Ref 2006A | October 25, 2006 | 133,810 | 16,045 | 20,590 |
| Various acquisition and construction projects (interest rate, 2.5% to 6.0%) | 2009A | April 15, 2009 | 100,000 | 84,765 | 87,340 |
| University's Cancer Center (interest rate, 2.5% to 6.0%) | 2010A-1, 2010A-2 | October 7, 2010 | 138,640 | 121,455 | 124,590 |
| Various construction projects (interest rate, 2.5% to 6.0%) | 2010B-1, 2010B-2 | October 7, 2010 | 154,090 | 138,995 | 142,490 |
| Student Housing System at Mānoa and Telecommunications System (interest rate, 2.0% to 5.0%) | 2012A(R) | February 22, 2012 | 8,575 | 1,775 | 3,245 |
| Hilo College of Pharmacy and Law School Expansion and Modernization (interest rate, 1.0% to 4.7%) | 2015A | September 24, 2015 | 8,575 | 8,400 | 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 | 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 | 15,510 | 15,945 |
| University Health & Wellness Center (interest rate, 0.8% to 2.8%) | 2015D(R) | September 24, 2015 | 25,715 | 24,835 | 25,465 |
| University Health & Wellness Center (interest rate, 5.0%) | 2015E(R) | April 20, 2016 | 67,400 | 67,400 | 67,400 |
| | | | <u>\$ 801,400</u> | <u>\$ 543,680</u> | <u>\$ 562,620</u> |

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

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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. During the year ended 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 \$11,799 and \$9,549 in 2017 and 2016, respectively.

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The revenue bonds are paid from certain unrestricted revenues in annual installments, including semi-annual interest payments ranging from \$12 to \$13,512 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).

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, 2017, future maturities of revenue bonds are as follows:

| | Principal | Interest |
|-----------------------------|-------------------|-------------------|
| Year ending June 30, | | |
| 2018 | \$ 19,115 | \$ 26,739 |
| 2019 | 18,360 | 26,155 |
| 2020 | 18,745 | 25,533 |
| 2021 | 19,375 | 24,864 |
| 2022 | 20,000 | 24,120 |
| 2023–2027 | 112,075 | 105,388 |
| 2028–2032 | 135,480 | 75,043 |
| 2033–2037 | 124,310 | 39,744 |
| 2038–2042 | 74,755 | 8,864 |
| 2043–2045 | 1,465 | 105 |
| | <u>\$ 543,680</u> | <u>\$ 356,555</u> |

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Bond Premiums

Activity related to the premiums on general obligation and revenue bonds for the years ended June 30, 2017 and 2016 is as follows:

| | Series | Beginning Balance | Additions | Reductions | Ending Balance |
|----------------------------------|-----------|-------------------|------------------|-----------------|------------------|
| 2017 | | | | | |
| John A. Burns School of Medicine | Ref 2006A | \$ 191 | \$ - | \$ 13 | \$ 178 |
| University's Cancer Center | 2010A | 452 | - | 203 | 249 |
| Various construction projects | 2010B | 708 | - | 303 | 405 |
| Student Housing | 2015B(R) | 5,443 | - | 273 | 5,170 |
| John A. Burns School of Medicine | 2015E(R) | 7,960 | - | 550 | 7,410 |
| Total bond premiums | | <u>\$ 14,754</u> | <u>\$ -</u> | <u>\$ 1,342</u> | <u>\$ 13,412</u> |
| 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 | | <u>\$ 2,972</u> | <u>\$ 13,698</u> | <u>\$ 1,916</u> | <u>\$ 14,754</u> |

Note Payable

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

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, 2017 and 2016, \$17,000 remained outstanding.

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12. Line of Credit

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, 2018. 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, 2017 and 2016. At June 30, 2017 and 2016, there were no borrowings under this line.

On April 20, 2017, the Foundation entered into a 10-year \$13,200 acquisition and construction credit facility (the "Loan") for the purchase and renovation of the Charles Atherton House and the Mary Atherton Richards House (the "Atherton Property"). The Loan is secured by the fee simple interest and improvements on the Atherton Property, along with an assignment of a long-term lease and rents due thereunder from the University. Under terms of the credit facility, interest-only payments are required for the first 36 months at a fixed rate of three percent and, thereafter monthly installments of principal and interest, based on a 25-year amortization schedule, at a fixed rate of four percent through the remaining term of the Loan. The Loan matures on April 1, 2027. As of June 30, 2017, the outstanding balance on the Loan was \$8,200.

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, | |
| 2018 | \$ 1,944 |
| 2019 | 785 |
| 2020 | 346 |
| 2021 | 81 |
| 2022 | 76 |
| 2023–2027 | 334 |
| 2028–2032 | 334 |
| Thereafter | 1,734 |
| | <u>\$ 5,634</u> |

Rent expense for outside space for the years ended June 30, 2017 and 2016 approximated \$6,420 and \$7,904, respectively.

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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 retiree's 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.

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- 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.

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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.

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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, 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.

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 rate was 17 percent for fiscal years 2017 and 2016. Contributions to the pension plan from the University for the years ended June 30, 2017 and 2016 were \$98,865 and \$96,977, respectively.

On May 18, 2017, the Governor signed into law Act 17 SLH 2017. Per Act 17, future employer contributions from the University is expected to increase pursuant to a phased-in contribution rate increase over four years beginning July 1, 2017. The rate for general employees increases to 18 percent on July 1, 2017; 19 percent on July 1, 2018; 22 percent on July 1, 2019; and 24 percent on July 1, 2020.

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. Contributory members hired after June 30, 2012 are required to contribute 9.8 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, 2017 and 2016, the University reported a liability of \$1,704,470 and \$1,144,564, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and 2015, 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, 2016 and 2015, the University's proportion was 12.75 percent and 13.11 percent, respectively, which was a decrease of 0.36 percent and 0.48 percent from its proportion measured as of June 30, 2015 and 2014, respectively.

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There were significant changes in actuarial assumptions effective June 30, 2016 based on the Five-Year Experience Study report dated July 5, 2016 that resulted in a significant increase in the measurement of the total pension liability. Primary drivers for the increase include a decrease in the investment return assumption and discount rate from 7.65 percent as of June 30, 2015 to 7.00 percent as of June 30, 2016; and a decrease in the mortality assumptions for longer life expectancy and an explicit assumption for continued future mortality improvement (generational approach).

There were no other changes between the measurement date, June 30, 2016, and the reporting date, June 30, 2017, that are expected to have a significant effect on the proportionate share of the net pension liability.

For the years ended June 30, 2017 and 2016, the University recognized pension expense of \$190,485 and \$84,899, respectively. At June 30, 2017 and 2016, 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 |
|---|---|--|
| 2017 | | |
| Difference between expected and actual experience | \$ 33,943 | \$ 24,671 |
| Net difference between projected and actual investment earnings on pension plan investments | 104,272 | - |
| Change in assumptions | 320,145 | - |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | - | 40,500 |
| Contributions subsequent to the measurement date | 98,865 | - |
| Total deferred inflows and outflows of resources | <u>\$ 557,225</u> | <u>\$ 65,171</u> |
| 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 | 96,977 | - |
| Total deferred inflows and outflows of resources | <u>\$ 134,715</u> | <u>\$ 111,364</u> |

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The \$98,865 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 ended June 30, 2018. The \$96,977 reported as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date was recognized as a reduction of the net pension liability during the year ended June 30, 2017. 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, | |
|-----------------------------|---------------------|
| 2018 | \$ (72,251) |
| 2019 | (72,251) |
| 2020 | (103,439) |
| 2021 | (94,733) |
| 2022 | <u>(50,515)</u> |
| | <u>\$ (393,189)</u> |

Actuarial Assumptions

The total pension liability in the June 30, 2016 and 2015 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | 2017 | 2016 |
|---------------------------|-------------|-------------|
| Inflation | 2.50 % | 3.00 % |
| Payroll growth rate | 3.50 % | 3.50 % |
| Investment rate of return | 7.00 % | 7.65 % |

The June 30, 2016 valuation was determined using actuarial assumptions adopted by the Board of Trustees of the ERS on December 12, 2016, based on the most recent experience study dated July 5, 2016. The actuarial assumptions used in the June 30, 2015 valuation were based on the experience study dated December 20, 2010.

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

For the June 30, 2016 actuarial valuation, post-retirement mortality rates are based on the 2016 Public Retirees of Hawai'i mortality table with adjustments based on generational projections of the BB projection table for 2016 and full generational projection in future years. Pre-retirement mortality rates are based on multiples of RP-2014 mortality table based on the occupation of the member. For the June 30, 2015 actuarial valuation, post-retirement 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 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) 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

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the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

| Strategic Allocation (risk-based classes) | Target Allocation | Long-Term Expected Real Rate of Return |
|--|--------------------------|---|
| Broad growth | 63.0% | 8.35% |
| Principal protection | 7.0% | 2.20% |
| Real return | 10.0% | 6.15% |
| Crisis risk offset | <u>20.0%</u> | 5.50% |
| Total | <u>100.0%</u> | |

Discount Rate

The discount rate used to measure the net pension liability was 7.00 percent, a decrease from the 7.65 percent rate used at the prior measurement date. 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 7.00 percent and 7.65 percent, for the measurement date June 30, 2016 and 2015, 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 (6.00 percent and 6.65 percent, respectively) or one percentage point higher (8.00 percent and 8.65 percent, respectively) than the current rate:

| | 1% Decrease (6.00%) | Discount Rate (7.00%) | 1% Increase (8.00%) |
|---|----------------------------|------------------------------|----------------------------|
| 2017 | | | |
| The University's proportionate share of the net pension liability | <u>\$ 2,179,604</u> | <u>\$ 1,704,470</u> | <u>\$ 1,311,313</u> |
| | 1% Decrease (6.65%) | Discount Rate (7.65%) | 1% Increase (8.65%) |
| 2016 | | | |
| The University's proportionate share of the net pension liability | <u>\$ 1,440,967</u> | <u>\$ 1,144,564</u> | <u>\$ 848,162</u> |

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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, 2017 and 2016, the amount payable to the ERS was \$768 and \$1,184, respectively.

Other Benefits

The State absorbs the fringe benefit cost for employees paid from State and federal appropriations. In fiscal years 2016 and 2015, 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 \$223,116 and \$195,332 for fiscal years 2017 and 2016, 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, 2017 and 2016, accumulated sick leave approximated \$463,682 and \$454,343, 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 2017 and 2016 were \$3,556 and \$2,480, respectively. Temporary wage loss payments for fiscal years 2017 and 2016 amounted to \$1,156 and \$1,073, respectively.

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15. Postemployment Health Care and Life Insurance Benefits

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

Plan Description

The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH 2001, the State contributes to the Hawai'i Employer-Union Health Benefits Trust Fund ("EUTF"), an agent, multiple-employer defined benefit plan that replaced the Hawai'i Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees and their dependents. The EUTF issues an annual financial report that is available to the public. The report may be obtained by writing to:

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

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

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

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

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Funding Policy and Annual OPEB Cost

Effective July 1, 2006, the University implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*. Statement No. 43 establishes accounting and financial reporting standards for plans that provide OPEB other than pensions. Statement No. 43 requires defined benefit OPEB plans that are administered as trust or equivalent arrangements to prepare a statement of plan assets and a statement of changes in plan assets.

The reporting of active and retiree (including their respective beneficiaries) healthcare benefits provided through the same plan should separate those benefits for accounting purposes between active and retiree healthcare benefits. Accordingly, the University reports the retiree healthcare benefits as OPEB in conformity with Statement No. 43 and the active employee healthcare benefits as risk financing in conformity with GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, as amended.

The University is required by GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, to obtain an actuarial valuation every other year. Therefore, an actuarial valuation was performed as of July 1, 2015.

The University's base contribution levels to EUTF are established by statutes and the retiree is responsible to pay the difference if the base contribution is less than the cost of the monthly premium.

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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 in 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, 2017:

| | |
|--|---------------------|
| Annual required contribution | \$ 105,500 |
| Interest on net OPEB obligation | 50,593 |
| Adjustment to annual required contribution | <u>(40,377)</u> |
| Annual OPEB cost | 115,716 |
| Contributions made | <u>(49,700)</u> |
| Increase in net OPEB obligation | 66,016 |
| Net OPEB obligation | |
| Beginning of year | <u>722,757</u> |
| End of year | <u>\$ 788,773</u> |
| Actuarial accrued liability ("AAL") July 1, 2015 | \$ 1,262,765 |
| Funded OPEB plan assets | <u>(30,076)</u> |
| Unfunded actuarial accrued liability ("UAAL") July 1, 2015 | <u>\$ 1,232,689</u> |
| Funded ratio | 2.4% |
| Covered payroll | \$ 587,203 |
| UAAL as percentage of covered payroll | 209.9% |

The University remitted \$93,101 and \$68,184 in State-assessed OPEB contributions for the years ended June 30, 2017 and 2016, respectively. The University's actuarially determined minimum OPEB contribution was \$49,700 and \$45,100 for the years ended June 30, 2017 and 2016, respectively. The difference between the State assessed and University actuarially determined OPEB contribution is reported net with Transfers from State for Fringe Benefits in the accompanying Consolidated Statements of Revenues, Expenses and Changes in Net Position.

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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 2017 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, 2017 | \$115,716 | 42.9% | \$788,773 |
| June 30, 2016 | \$117,052 | 38.5% | \$722,757 |
| June 30, 2015 | \$113,009 | 36.6% | \$650,805 |

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 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% |

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The July 1, 2015 actuarial valuation was used to determine the amounts reported in the University's consolidated financial statements for the year ended June 30, 2017. The July 1, 2013 actuarial valuation was used to determine the amounts reported in the University's consolidated financial statements for the year ended June 30, 2016.

Effective July 1, 2017, the active employee health benefit contracts were extended through June 30, 2018.

16. Other Noncurrent Liabilities

Other noncurrent liabilities at June 30, 2017 and 2016 are comprised of:

| | 2017 | 2016 |
|--|------------------|------------------|
| Liabilities under split interest agreements | \$ 12,608 | \$ 10,565 |
| Amounts held for others | 3,882 | 3,369 |
| Refundable advance from the Federal Perkins loan program | 13,596 | - |
| Other | 3,404 | 3,210 |
| | <u>\$ 33,490</u> | <u>\$ 17,144</u> |

17. State Appropriations

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

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

Act 124, SLH 2016 Section 39, provided \$111,314 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, 2017.

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.

The net amount of the University's State general and capital appropriations for the years ended June 30, 2017 and 2016 were \$471,453 and \$159,094 and \$441,373 and \$16,547, respectively.

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Net general and capital appropriations for the year ended June 30, 2017 were as follows:

| | |
|--|-------------------|
| General appropriations | |
| Act 119, SLH 2015, Appropriation Warrant No. 10 | \$ 433,581 |
| Act 51, SLH 2016, Appropriation Warrant No. 74 | 2,560 |
| Act 150, SLH 2016, Appropriation Warrant No. 91-A | 750 |
| Act 208, SLH 2016, Appropriation Warrant No. 105 | 560 |
| Act 262, SLH 2016, Appropriation Warrant No. 118 | 450 |
| Total funds lapsed | (3) |
| Executive restriction | (2,297) |
| Collective bargaining adjustment | <u>35,852</u> |
| Total general appropriations | <u>\$ 471,453</u> |
| Capital appropriations | |
| Sections 47 & 83 of Act 119, SLH 2015, Amended by Act 124 SHL 2016 | \$ 150,600 |
| Section 47 of Act 119, SLH 2015, Amended by Act 124 SLH 2016 | 9,000 |
| Total funds lapsed | <u>(506)</u> |
| Total capital appropriations | <u>\$ 159,094</u> |

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 | <u>17,562</u> |
| Total general appropriations | <u>\$ 441,373</u> |
| 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 | <u>(45,788)</u> |
| Total capital appropriations | <u>\$ 16,547</u> |

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18. Blended Component Information

The following condensed combining information summarizes the individual components of the University's consolidated financial position, results of operations and cash flows as of and for the years ended June 30, 2017 and 2016:

Condensed Consolidating Statements of Net Position

| | 2017 | | | | Total |
|--|--------------|----------------------|------------|---------------------------|--------------|
| | University | Research Corporation | Foundation | Consolidation Adjustments | |
| Assets and Deferred Outflows of Resources | | | | | |
| Current assets | \$ 492,372 | \$ 24,799 | \$ 26,887 | \$ - | \$ 544,058 |
| Interdepartmental receivables | 7,705 | 15,813 | 5,866 | (29,384) | - |
| Capital assets, net | 2,074,693 | 2,527 | 10,513 | - | 2,087,733 |
| Other assets | 493,031 | - | 522,117 | - | 1,015,148 |
| Total assets | 3,067,801 | 43,139 | 565,383 | (29,384) | 3,646,939 |
| Deferred outflows of resources | 567,220 | - | - | - | 567,220 |
| Total deferred outflows of resources | 567,220 | - | - | - | 567,220 |
| Total assets and deferred outflows of resources | \$ 3,635,021 | \$ 43,139 | \$ 565,383 | \$ (29,384) | \$ 4,214,159 |
| Liabilities, Deferred Inflows of Resources and Net Position | | | | | |
| Current liabilities | \$ 259,153 | \$ 25,898 | \$ 4,034 | \$ - | \$ 289,085 |
| Interdepartmental payables | 17,828 | 1,649 | 3,877 | (23,354) | - |
| Noncurrent liabilities | 3,100,502 | 5,184 | 24,713 | (23) | 3,130,376 |
| Total liabilities | 3,377,483 | 32,731 | 32,624 | (23,377) | 3,419,461 |
| Deferred inflows of resources | 65,171 | - | - | - | 65,171 |
| Total deferred inflows of resources | 65,171 | - | - | - | 65,171 |
| Net position | | | | | |
| Net investment in capital assets | 1,536,885 | 2,527 | 2,313 | - | 1,541,725 |
| Restricted | | | | | |
| Nonexpendable | 10,494 | - | 337,443 | (5,866) | 342,071 |
| Expendable | 393,585 | - | 193,240 | - | 586,825 |
| Unrestricted | (1,748,597) | 7,881 | (237) | (141) | (1,741,094) |
| Total net position | 192,367 | 10,408 | 532,759 | (6,007) | 729,527 |
| Total liabilities, deferred inflows of resources and net position | \$ 3,635,021 | \$ 43,139 | \$ 565,383 | \$ (29,384) | \$ 4,214,159 |

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| | 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 | <u>2,992,931</u> | <u>47,123</u> | <u>479,840</u> | <u>(74,329)</u> | <u>3,445,565</u> |
| Deferred outflows of resources | 146,098 | - | - | - | 146,098 |
| Total deferred outflows of resources | <u>146,098</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>146,098</u> |
| Total assets and deferred outflows of resources | <u>\$ 3,139,029</u> | <u>\$ 47,123</u> | <u>\$ 479,840</u> | <u>\$ (74,329)</u> | <u>\$ 3,591,663</u> |
| 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 | <u>2,762,482</u> | <u>36,512</u> | <u>17,992</u> | <u>(33,138)</u> | <u>2,783,848</u> |
| Deferred inflows of resources | 111,364 | - | - | - | 111,364 |
| Total deferred inflows of resources | <u>111,364</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>111,364</u> |
| 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 | <u>(1,616,353)</u> | <u>8,590</u> | <u>(4,039)</u> | <u>(2,171)</u> | <u>(1,613,973)</u> |
| Total net position | <u>265,183</u> | <u>10,611</u> | <u>461,848</u> | <u>(41,191)</u> | <u>696,451</u> |
| Total liabilities, deferred inflows of resources and net position | <u>\$ 3,139,029</u> | <u>\$ 47,123</u> | <u>\$ 479,840</u> | <u>\$ (74,329)</u> | <u>\$ 3,591,663</u> |

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

| | 2017 | | | | |
|--|------------|----------------------|------------|---------------------------|-------------|
| | University | Research Corporation | Foundation | Consolidation Adjustments | Total |
| Operating revenues | | | | | |
| Student tuition and fees, net | \$ 270,375 | \$ - | \$ - | \$ (252) | \$ 270,123 |
| Federal appropriations, grants and contracts | 295,349 | - | - | (5) | 295,344 |
| State and local grants and contracts | 38,417 | 1,958 | - | (1,201) | 39,174 |
| Nongovernmental sponsored programs | 48,949 | - | - | (14,575) | 34,374 |
| Sales and services of educational departments, other | 31,456 | 5,452 | 5,027 | (8,507) | 33,428 |
| Auxiliary enterprises | 97,439 | - | - | - | 97,439 |
| Other operating revenues | 535 | - | 1,113 | - | 1,648 |
| Total operating revenues | 782,520 | 7,410 | 6,140 | (24,540) | 771,530 |
| Operating expenses | | | | | |
| Depreciation | 122,310 | 448 | 83 | - | 122,841 |
| Other operating expenses | 1,617,942 | 7,296 | 63,707 | (33,541) | 1,655,404 |
| Total operating expenses | 1,740,252 | 7,744 | 63,790 | (33,541) | 1,778,245 |
| Operating income (loss) | (957,732) | (334) | (57,650) | 9,001 | (1,006,715) |
| Nonoperating activity | | | | | |
| Nonoperating revenues | 511,928 | 131 | 64,434 | (2,398) | 574,095 |
| Capital contributions and additions to permanent and term endowments | 164,899 | - | 64,127 | 28,581 | 257,607 |
| Transfers | 208,089 | - | - | - | 208,089 |
| Total nonoperating activity | 884,916 | 131 | 128,561 | 26,183 | 1,039,791 |
| Increase (decrease) in net position | (72,816) | (203) | 70,911 | 35,184 | 33,076 |
| Net position | | | | | |
| Beginning of year | 265,183 | 10,611 | 461,848 | (41,191) | 696,451 |
| End of year | \$ 192,367 | \$ 10,408 | \$ 532,759 | \$ (6,007) | \$ 729,527 |

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| | 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 | <u>807,896</u> | <u>6,738</u> | <u>6,438</u> | <u>(21,537)</u> | <u>799,535</u> |
| Operating expenses | | | | | |
| Depreciation | 124,553 | 319 | 65 | - | 124,937 |
| Other operating expenses | 1,496,300 | 6,310 | 57,960 | (23,970) | 1,536,600 |
| Total operating expenses | <u>1,620,853</u> | <u>6,629</u> | <u>58,025</u> | <u>(23,970)</u> | <u>1,661,537</u> |
| Operating income (loss) | (812,957) | 109 | (51,587) | 2,433 | (862,002) |
| Nonoperating activity | | | | | |
| Nonoperating revenues | 483,129 | 107 | 30,779 | (3,491) | 510,524 |
| Capital contributions and additions to permanent and term endowments | 21,003 | - | 8,316 | (108) | 29,211 |
| Transfers | 204,297 | - | - | - | 204,297 |
| Total nonoperating activity | <u>708,429</u> | <u>107</u> | <u>39,095</u> | <u>(3,599)</u> | <u>744,032</u> |
| Increase (decrease) in net position | (104,528) | 216 | (12,492) | (1,166) | (117,970) |
| Net position | | | | | |
| Beginning of year | 397,711 | 10,395 | 474,340 | (40,025) | 842,421 |
| Adjustment for change in accounting principle | (28,000) | - | - | - | (28,000) |
| Beginning of year, as restated | <u>369,711</u> | <u>10,395</u> | <u>474,340</u> | <u>(40,025)</u> | <u>814,421</u> |
| End of year | <u>\$ 265,183</u> | <u>\$ 10,611</u> | <u>\$ 461,848</u> | <u>\$ (41,191)</u> | <u>\$ 696,451</u> |

Condensed Consolidating Statements of Cash Flows

| | 2017 | | | |
|--|------------------|-------------------------|-----------------|------------------|
| | University | Research Corporation | Foundation | Total |
| Net cash provided by (used in) | | | | |
| Operating activities | \$ (502,943) | \$ (7,673) | \$ (13,355) | \$ (523,971) |
| Noncapital financing activities | 568,647 | - | 10,234 | 578,881 |
| Capital and related financing activities | (58,249) | (954) | 8,200 | (51,003) |
| Investing activities | (24,892) | (6,374) | (6,724) | (37,990) |
| Total change in cash | <u>(17,437)</u> | <u>(15,001)</u> | <u>(1,645)</u> | <u>(34,083)</u> |
| Cash and cash equivalent balances | | | | |
| Beginning of year | <u>71,485</u> | <u>23,157</u> | <u>8,537</u> | <u>103,179</u> |
| End of year | <u>\$ 54,048</u> | <u>\$ 8,156</u> | <u>\$ 6,892</u> | <u>\$ 69,096</u> |

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| | 2016 | | | Total |
|--|--------------|----------------------|------------|--------------|
| | University | Research Corporation | Foundation | |
| 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 |

19. Litigation, Other Contingent Liabilities and Commitments

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

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

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

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

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

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(All dollars reported in thousands)

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 \$294,017 and \$217,163 as of June 30, 2017 and 2016.

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 15 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.

As part of the State, 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.

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In 2017, the relevant Employer Groups and the Hawai'i Government Employees Association ("HGEA") engaged in interest arbitration over salaries and other cost items for Units 2, 3, 4, 8, and 9. In each case, the parties entered into two year contracts for the period of July 1, 2017 to June 30, 2019 and covering both cost and non-cost items, including the adoption of uniform coverage and options for the Employer-Union Health Benefits Trust Fund. All of these contracts have subsequently been ratified by the respective union membership and approved by the relevant legislative bodies. The salary increases for each Unit are as follows:

| Major Salary Adjustments | Unit 1 | Unit 2 | Unit 3 | Unit 4 | Unit 7 | Unit 8 | Unit 9 | Unit 10 |
|---------------------------------|---------------------------|---------------|--------------------------------|--------------------------------|-----------------------------|---------------|---------------|----------------|
| July 2017 | no increase | 2.00% | 2% and \$150 one-time bonus | 2% and \$150 one-time bonus | 2.13% and \$500 to base pay | 2.00% | 2.00% | no increase |
| October 2017 | — | — | — | — | — | — | — | 2.00% |
| November 2017 | \$1,000 one-time lump sum | — | — | — | — | — | — | — |
| January 2018 | — | 1.20% | 1.50% | 1.50% | — | 1.20% | 2.25% | — |
| June 2018 | 3.20% | — | — | — | — | — | — | — |
| July 2018 | — | 2.25% | 2.25% and \$150 one-time bonus | 2.25% and \$150 one-time bonus | 2.82% and \$500 to base pay | 2.25% | 1.20% | — |
| November 2018 | \$1,000 one-time lump sum | — | — | — | — | — | — | — |
| January 2019 | — | 1.20% | 1.25% | 1.25% | — | 1.20% | 1.25% | — |
| April 2019 | — | — | — | — | — | — | — | 1.35% |
| May 2019 | 3.45% | — | — | — | — | — | — | — |
| June 2019 | — | — | — | — | 6.89% | — | — | — |
| July 2019 | 2.00% | — | — | — | 2.00% | — | — | 2.00% |
| July 2020 | 2.00% | — | — | — | 2.00% | — | — | 2.00% |

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

University of Hawai'i

State of Hawai'i

(A Component Unit of the State of Hawai'i)

Schedule of Proportionate Share of the Net Pension Liability (Unaudited)

Schedule of Contributions (Unaudited)

Year Ended June 30, 2017

(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, 2017 | 12.75% | \$1,704,470 | \$587,203 | 290% | 51.28% |
| 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, 2017 | \$98,865 | \$98,865 | \$0 | \$587,203 | 16.84% |
| 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 2017, 2016, 2015, and 2014.

2. Changes of Assumptions

There were significant changes in actuarial assumptions effective in the University's fiscal year 2017 based on the Five-Year Experience Study report dated July 5, 2016 that resulted in a significant increase in the measurement of the total pension liability. Primary drivers for the increase include a decrease in the investment return assumption and discount rate from 7.65 percent as of June 30, 2015 to 7.00 percent as of June 30, 2016; and a decrease in the mortality assumptions for longer life expectancy and an explicit assumption for continued future mortality improvement (generational approach).

In fiscal year 2016, the only significant change in actuarial assumptions was the investment return assumption which decreased from 7.75 percent to 7.65 percent. There were no changes of assumptions in 2015 or 2014.

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Schedule of Funding Progress (Unaudited)
Year Ended June 30, 2017
(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% |