University of Hawaiʻi, Board of Regents, 2444 Dole Street, Bachman 209, Honolulu, HI 96822
Telephone No. (808) 956-8213; Fax No. (808) 956-5156

Notice of Meeting

UNIVERSITY OF HAWAIʻI
BOARD OF REGENTS COMMITTEE ON INDEPENDENT AUDIT

Members: Regents McEnerney (Chair), Higaki (Vice-Chair), Acoba, Portnoy, and Shinsato

Date: Tuesday, November 27, 2018

Time: 8:45 a.m.

Place: University of Hawaiʻi Mānoa Innovation Center
Presentation Room, Suite #173
2800 Woodlawn Drive
Honolulu, Hawaiʻi 96822

AGENDA

I. Call Meeting to Order

II. Approval of Minutes of the October 4, 2018, Meeting

III. Public Comment Period for Agenda Items: All written testimony on agenda items received after posting of this agenda and up to 24 hours in advance of the meeting will be distributed to the board. Late testimony on agenda items will be distributed to the board within 24 hours of receipt. Written testimony may be submitted via US mail, email at bor@hawaii.edu, or facsimile at 956-5156. Individuals submitting written testimony are not automatically signed up for oral testimony. Registration for oral testimony on agenda items will be provided at the meeting location 15 minutes prior to the meeting and closed once the meeting begins. Oral testimony is limited to three (3) minutes. All written testimony submitted are public documents. Therefore, any testimony that is submitted verbally or in writing, electronically or in person, for use in the public meeting process is public information and will be posted on the board's website.

IV. Agenda Items

A. For Review and Acceptance:

1. University of Hawaiʻi Audited Financial Reports for the Year Ended June 30, 2018
2. University of Hawaiʻi at Mānoa Intercollegiate Athletics Audit Reports for the Year Ended June 30, 2018
3. Annual Report to the Legislature on Material Weaknesses and Fraud

V. Adjournment

ATTACHMENTS

Attachment A – Personnel actions posted for information only

For disability accommodations, contact the board office at 956-8213 or bor@hawaii.edu. Advance notice requested five (5) days in advance of the meeting.

Attachment A: Pursuant to §89C-4, Hawai'i Revised Statutes, the following proposed compensation action for excluded Executive/Managerial is disclosed for purposes of public comment.

Executive/Managerial

Campus	Last Name	First Name & Middle Initial	Proposed Title	Unit	Nature of Action	Monthly Salary	Effective Date
Windward CC	Eschenberg	Ardis	Chancellor	Windward Community College	Appointment	$13,918	January 2, 2019

RECEIVED
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UNIVERSITY OF HAWAII
PRESIDENT'S OFFICE

18 NOV 20 A10:31
UNIVERSITY OF HAWAII
BOARD OF REGENTS

UNIVERSITY of HAWAI'I SYSTEM

Kalbert K. Young
Vice President for Budget and Finance
Chief Financial Officer

November 21, 2018

RECEIVED

'18 NOV 21 P2:11

UNIVERSITY OF HAWAII
PRESIDENT'S OFFICE

UNIVERSITY OF HAWAII
BOARD OF REGENTS
'18 NOV 21 P2:12

TO: Lee Putnam
Chairperson, Board of Regents

Michael McEnerney
Chair, Committee on Independent Audit, Board of Regents

VIA: David Lassner
President

FROM: Kalbert K. Young
Vice President for B&F/CFO

SUBJECT: University of Hawai'i Audited Financial Reports for the Year Ended June 30, 2018

Attached are the University of Hawai'i (UH) audited financial reports for the year ended June 30, 2018. These reports are the item for review and acceptance at the Independent Audit Committee meeting on November 27, 2018.

These reports have been completed by Accuity LLP to satisfy annual audit requirements and expectations. The UH audited financial reports for the years ended June 30, 2018 are officially provided to the Board of Regents as a draft and subject to Board acceptance before designation as final. Mr. Cory Kubota, CPA of Accuity LLP will be attending the Committee meeting to present these reports and anticipates responding to any inquiries members may have.

Attachments:
1. Required Communications (Audit of the Consolidated Financial Statements)
2. Consolidated Financial Statements and Required Supplementary Information
3. Auditor Communications (Mānoa Intercollegiate Athletics Department Agreed-Upon Procedures)
4. University of Hawaii at Manoa Intercollegiate Athletics Report on Agreed-Upon Procedures
5. University of Hawaii at Manoa Intercollegiate Athletics Internal Control and Business Issues Report

cc: University Internal Auditor (w/o Attachments)
University Controller (w/o Attachments

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Honolulu, Hawai'i 96822
Telephone: (808) 956.8903 • Fax: (808) 956.5286
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Acuity LLP

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MOVING FORWARD

Working Together to Reach Your Goals

UNIVERSITY OF HAWAI‘I

Report to the Board of Regents
Committee on Independent Audit
Consolidated Financial Statement Audit
Year Ended June 30, 2018

BAKER TILLY INTERNATIONAL

To the Board of Regents Committee On Independent Audit
University of Hawai‘i

We are pleased to present you with our results of our consolidated financial statement audit of the University of Hawai‘i as of and for the year ended June 30, 2018. Statement on Auditing Standards Section 260 – *The Auditor’s Communication with Those Charged with Governance,* requires certain communications to be made verbally or in writing to those members of an organization’s governing board with oversight responsibility over the consolidated financial statement audit.

The ultimate goal of our engagement was to ensure that the audit procedures contemplated and performed were sufficient to render an opinion that the June 30, 2018 consolidated financial statements were free of material misstatement. We determined our audit scope by performing a risk assessment which, coupled with an evaluation of materiality, allowed us to determine the required level of audit effort.

We are pleased to inform you that we are prepared to issue an unmodified (“Clean”) opinion on the consolidated financial statements. Furthermore, we are not aware of any matters that require further communication or action by management or the Board of Regents other than those discussed in the following pages.

We would like to thank the management and staff of the University for the cooperation and assistance provided to us during our audit.

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Financial Highlights

We bring the following items to your attention from the 2018 consolidated financial statements:

- **Revenue Trends**
  - Tuition revenue decreased by 2.4% due to continued decline in enrollment
  - Increase in Federal contracts and grants revenue by 3.8% due to increase in awards primarily for the School of Ocean and Earth Science and Technology (“SOEST”).
  - Increase in State appropriations, both general (2.9%) and capital (15.7%), primarily for compensation increases as a result of collective bargaining agreements and construction at West O‘ahu.

Other Highlights

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We'd also like to bring the following items to your attention from the 2018 consolidated financial statements:

EB-5 Loan

- During fiscal year 2018, the University paid the $17 million loan with the assistance of a legislative capital assets appropriation.

Tax-Exempt Lease Purchase ("TELP")

- In November 2017, the University entered into 2 TELP agreements to purchase energy conservation equipment for its Oahu community college campuses and Maui College for a total of $30 million. The purchase was financed with a bank and funds of $30 million are being held with a custodian to fund payments for the purchase.

Pension and Other Post Employment Benefit ("OPEB") Obligations

- The University continues to record its proportionate share of the net pension obligation on behalf of the Employees' Retirement System of the State of Hawaii Plan. In fiscal year 2018, the University's net pension obligation increased by $56 million.
- Due to the implementation of Governmental Accounting Standards Board ("GASB") Statement No. 75, the University's net "OPEB" liability increased by approximately $1.0 billion.

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Other Highlights

Continued:

Series 2017 Bonds

- The University issued $110.8 million in bonds in December 2017 for the purpose of obtaining funds to renovate the Gregg M. Sinclair Library basement as well as refund the Series 2006A and Refunding Series 2006A University Bonds.

- The in substance defeasance of the refunded bonds resulted in a $6.9 million deferred loss on refunding.

Required Communications

Matter to be communicated	Our response
Auditors' responsibility under Generally Accepted Auditing Standards.	Our responsibilities are contained in our audit contract with the University (Contract No. C180086).
Planned scope and timing of the audit.	Except as discussed below, we performed the audit according to the planned scope and timing on our Contract No. C180086. We did not audit the assets, liabilities, revenues, or expenses of University of Hawai'i Foundation (the "Foundation"). Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors.
Significant accounting policies, including critical accounting policies and alternative treatments within GAAP and the auditors' judgement about the quality of accounting principles (continued on next page).	The University's significant accounting policies are disclosed in Note 1, and we believe they are appropriate and consistent with GAAP.

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Required Communications

Matter to be communicated	Our response
Significant accounting policies, including critical accounting policies and alternative treatments within GAAP and the auditors' judgement about the quality of accounting principles (continued from previous page).	The University adopted the following pronouncements in fiscal year 2018: Governmental Accounting Standards Board ("GASB") Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* The objective of this Statement is to establish standards of accounting and financial reporting for defined benefit and contribution OPEB. Statement No. 75 replaces GASB No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* as amended, and Statement No. 57*, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans.* The adoption of Statement No. 75 in fiscal year 2018 resulted in a restatement of the University's beginning net position. The beginning net position as of July 1, 2017 was restated by ($880.5) million from $729.5 million to ($151.0) million. GASB Statement No. 81, *Irrevocable Split-Interest Agreements.* The adoption of Statement No. 81 provides recognition and measurement guidance for irrevocable slit-interest agreements for situations in which a government is a beneficiary of the agreement. This statement did not have a material effect on the University's consolidated financial statements. Had the University recorded an adjustment, net position would have decreased by approximately $4 million. There were no other significant changes in the application of accounting policies during fiscal year 2018.

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Required Communications

Matter to be communicated	Our response
Management judgments and accounting estimates.	We reviewed management's methodologies and processes for developing significant estimates, which included: ▪ Allowance for uncollectible accounts and loans receivable ▪ Useful lives of depreciable assets ▪ Reserves for self-insured exposures ▪ Pension and other post employment benefits ▪ Reserves for litigation-related contingencies ▪ Valuation of investments ▪ Classification of current vs. noncurrent assets and liabilities
Audit adjustments.	There were no adjusting entries and two reclassifying entries made during the current year, which are discussed on page 10. The de minimis threshold used to evaluate unadjusted differences was \$6.0 million and \$5.0 million for the years ended June 30, 2018 and 2017, respectively. There were no unadjusted differences in 2018 or 2017.
Potential affect on the financial statements of any significant risks and exposures.	Significant risks and exposures are adequately disclosed in the consolidated financial statements.
Material uncertainties related to events and conditions, specifically going concern issues.	None noted.

Required Communications

Matter to be communicated	Our response
Other information in documents containing audited financial information.	Not applicable.
Disagreements with management.	None.
Consultation with other accountants.	We are not aware of any consultations made by management with other accountants.
Major issues discussed with management prior to retention.	None noted.
Difficulties encountered in performing the audit.	None noted.
Deficiencies in internal control over financial reporting.	We did not identify any matters that we consider to be material weaknesses or significant deficiencies in internal control over financial reporting. We noted other matters involving internal control and its operation, which will be communicated in our Internal Control and Business Issues Report.
Fraud and illegal acts.	None noted.
Independence.	We confirm that we are independent of the University of Hawaiʻi and its affiliated entities.

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Required Communications

Matter to be communicated	Our response
Other material written communications: • Engagement letter/audit contract. • Management representation letter. • Reports on observations and recommendations on accounting, auditing, internal controls or operational matters. .	The following written communications will be or have already been exchanged between management and Accuity and are available for the Board's review: • Audit Contract No. C180086. • Management representation letter. • Compliance audit report. • Internal Control and Business Issues Report.

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Reclassifying Journal Entries

(All dollars in thousands)

Reclassifying Journal Entry #1			
Dr.	Restricted – Expendable Net Position	30,531	
Cr.	Unrestricted Net Position		13,319
Cr.	Net Investment in Capital Assets		17,212
	To properly state Net Investment in Capital Assets.		

Reclassifying Journal Entry #2			
Dr.	Advances from Sponsors	12,013	
Cr.	Other Noncurrent Liabilities		12,013
	To properly classify the University's Perkins loan liability owed to the federal government as noncurrent.		

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CERTIFIED PUBLIC ACCOUNTANTS

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UNIVERSITY of HAWAIʻI®
SYSTEM

2018 Annual Financial Report
University of Hawaiʻi
State of Hawaiʻi

Research *Sustainability* *Hawaiian Place of Learning*

University of Hawai‘i
State of Hawai‘i
(A Component Unit of the State of Hawai‘i)
Index
June 30, 2018 and 2017

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CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditors

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

Report on the Consolidated Financial Statements
We have audited the accompanying consolidated financial statements of the University of Hawai‘i (the "University"), a component unit of the State of Hawai‘i, as of and for the years ended June 30, 2018 and 2017, 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 13.8 percent and 13.1 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, 2018 and 2017. 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, 2018 and 2017, 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

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Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University of Hawaiʻi, as of June 30, 2018 and 2017, 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.

Change in Accounting Principle
As discussed in Note 1 to the consolidated financial statements, effective July 1, 2017, the University adopted new accounting guidance under Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions – an amendment of GASB Statements No. 45 and 57.* As a result of adopting this standard and management's determination, the restatement of the consolidated financial statements as of and for the year ended June 30, 2017 is not practical because the University's postemployment health care and life insurance benefits information, prepared in accordance with the requirements of GASB Statement No. 75, was not available prior to July 1, 2017. Therefore, the University has restated the beginning net position for fiscal year ended June 30, 2018. 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 the proportionate share of the net pension liability, pension contributions, proportionate share of net OPEB liability and OPEB contributions 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.

Honolulu, Hawaiʻi
December __, 2018

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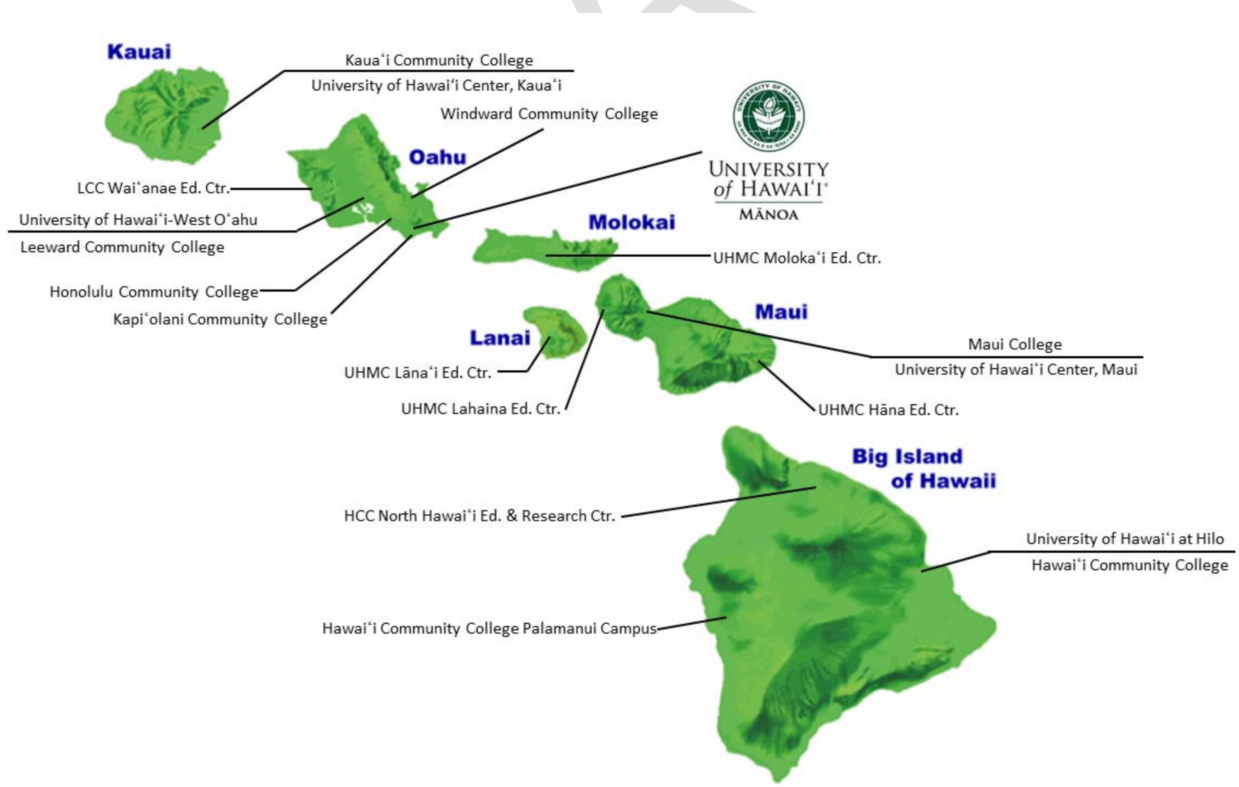
Introduction

The following discussion and analysis provides an overview of the consolidated financial position and activities of the University of Hawai‘i (the “University”) for the years ended June 30, 2018 and 2017, with selected information for the year ended June 30, 2016. 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 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.

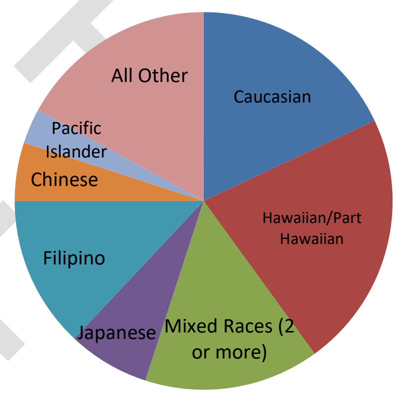


Students	Academic Year 2018	Academic Year 2017	Academic Year 2016
Undergraduate	46,375	47,903	50,011
Graduate	5,299	5,515	5,745
Total	**51,674**	**53,418**	**55,756**

Type of Degrees Awarded	727
Certificates: Community Colleges	188
Certificates: University	106
Associate degrees	131
Bachelor's degrees	145
Master's degrees	90
Doctoral degrees	60
Professional degrees	7

Residency	
Hawai'i	86%
Mainland	10%
Foreign	4%

Student Diversity (full time Students)	
Caucasian	18%
Hawaiian/Part Hawaiian	22%
Mixed Races (2 or more)	15%
Japanese	7%
Filipino	13%
Chinese	5%
Pacific Islander	3%
All Other	17%



Total Revenues ($ in thousands)	Fiscal Year 2018	% of Total	Fiscal Year 2017	Fiscal Year 2016
Net tuition and fees	$ 258,887	14%	$ 270,123	$ 272,306
Contracts and grants (including Pell grants)	437,586	23%	424,592	451,669
State appropriations	485,153	26%	471,453	441,373
Transfer from State for fringe benefits	255,311	14%	179,715	172,248
Sales and services	130,011	7%	130,867	134,787
Capital State appropriations	184,103	10%	159,094	16,547
Others	120,929	6%	202,376	79,701
Total	**$ 1,871,980**	**100%**	**$ 1,838,220**	**$ 1,568,631**

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 distinguish 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 Hawaiʻi 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 Hawaiʻi (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, 2018 and 2017 is presented in Note 17 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, 2018, 2017 and 2016 are summarized as follows (in thousands of dollars):

	2018	2017	FY 18 vs 17 Change	2016	FY 17 vs 16 Change
Current assets					
Cash and operating investments	$ 437,927	$ 424,276	$ 13,651	$ 401,881	$ 22,395
Receivables, net	105,247	98,041	7,206	104,838	(6,797)
Other current assets	24,013	21,741	2,272	21,712	29
Total current assets	567,187	544,058	23,129	528,431	15,627
Noncurrent assets					
Endowment and other investments	535,495	507,613	27,882	475,040	32,573
Capital assets, net	2,128,415	2,087,733	40,682	2,053,385	34,348
Other noncurrent assets	555,119	507,535	47,584	388,709	118,826
Total assets	3,786,216	3,646,939	139,277	3,445,565	201,374
Deferred outflows of resources					
Deferred loss on refunding	14,737	9,995	4,742	11,383	(1,388)
Deferred outflows on net pension and OPEB liability	510,916	557,225	(46,309)	134,715	422,510
Total deferred outflows of resources	525,653	567,220	(41,567)	146,098	421,122
Total assets and deferred outflows of resources	$ 4,311,869	$ 4,214,159	$ 97,710	$ 3,591,663	$ 622,496
Current liabilities	$ 271,840	$ 289,085	$ (17,245)	$ 266,951	$ 22,134
Noncurrent liabilities					
Long-term debt	506,655	524,565	(17,910)	543,680	(19,115)
Net pension liability and other postemployment benefits	3,432,460	2,493,243	939,217	1,867,321	625,922
Other noncurrent liabilities	146,535	112,568	33,967	105,896	6,672
Total liabilities	4,357,490	3,419,461	938,029	2,783,848	635,613
Deferred inflows of resources					
Deferred inflows on net pension and OPEB liability	53,497	65,171	(11,674)	111,364	(46,193)
Total deferred inflows of resources	53,497	65,171	(11,674)	111,364	(46,193)
Net position					
Net investment in capital assets	1,598,660	1,541,725	56,935	1,504,935	36,790
Restricted					
Nonexpendable	360,553	342,071	18,482	244,396	97,675
Expendable	606,866	586,825	20,041	561,093	25,732
Unrestricted	(2,665,197)	(1,741,094)	(924,103)	(1,613,973)	(127,121)
Total net position	(99,118)	729,527	(828,645)	696,451	33,076
Total liabilities, deferred inflows of resources and net position	$ 4,311,869	$ 4,214,159	$ 97,710	$ 3,591,663	$ 622,496

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Implementation of GASB Statements No. 75 and 82

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 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 beginning net position as of July 1, 2015 by $28 million.

During fiscal year 2018, the University implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The adoption of Statement No. 75 has a significant impact on the University's consolidated financial statements, which requires us to report expenditures, liabilities, deferred outflows of resources and deferred inflows of resources in accordance with the provisions of Statement No. 75, rather than the accrual-based measurement under the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Readers of the fiscal year 2018 financial statements should notice that the University's balance sheet showed a significant financial impact by the full inclusion of the University's proportionate share of the postemployment benefits other than pensions ("OPEB") liability for the Hawai‘i Employer-Union Health Benefits Trust Fund ("EUTF").

The adoption of Statements No. 75 has resulted in the restatement of the University's beginning net position as of July 1, 2017 by $880.6 million from $729.5 million to a net deficit of $151.1 million, which reflects the retrospective effect of Statement No 75. Retroactive implementation of GASB Statement No. 75 was not deemed practical due to the cost and timing required to obtain and analyze the activity covering fiscal year 2017. As such, the University's fiscal year 2017 financial statements are presented in accordance with GASB Statement No. 45.

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, 2018, 2017 and 2016, working capital amounted to $294.7 million, $255.0 million and $261.5 million, respectively. The University is committed to maintaining a prudent level of working capital to fund operations, including pre-funding approximately $381.5 million in extramural grants which were mostly paid on a cost reimbursement basis. Based on the $1.7 billion of operating expenses (excluding depreciation) for the year ended June 30, 2018, the working capital at year end represents approximately 60 days of operating funds, as compared to 57 and 59 days of operating funds in 2017 and 2016, 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 $567.2 million, $544.0 million and $528.4 million at June 30, 2018, 2017 and 2016, respectively. Total current assets increased by $23.1 million, or 4.3 percent, at June 30, 2018, primarily due to a $13.7 million increase in cash and operating investments and a $4.7 million increase in accounts receivable. The cash increase was attributable to the operating surplus from tuition and fees. During fiscal years 2018 and 2017, with the anticipation of continued enrollment decline, the University continued to implement various cost control initiatives, which resulted in a surplus. In fiscal year 2018, the $4.7 million accounts receivable increase was due to the increase of federal awards compared to the $6.8 million accounts receivable reduction in fiscal year 2017 due to the decrease of federal awards. 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 an $8.6 million decrease in accounts receivable. The cash increase was attributable to the operating surplus from tuition and fees.

- 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 $271.8 million, $289.1 million and $267.0 million at June 30, 2018, 2017 and 2016, respectively. Total current liabilities decreased by $17.2 million, or 6.0 percent, at June 30, 2018, primarily due to the final payment of the $17.0 million note payable (“EB-5 loan”) with Hawaii Regional Center LP III in fiscal year 2018. In fiscal year 2017, 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 of the repayment of the $17.0 million EB-5 loan 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 $27.9 million, or 5.5 percent, to $535.5 million at June 30, 2018 as a result of additional gifts received, and favorable market conditions. The fiscal year 2017 increase of $32.6 million, or 6.9 percent, was primarily due to an $8.6 million gift, and favorable market conditions.

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Realized and unrealized net gains in fiscal years 2018 and 2017 totaled $22.5 million, and $34.7 million respectively. A summarized comparison of the University’s investments as of June 30, 2018, 2017 and 2016, is as follows (in millions of dollars):

	2018	2017	2016
University of Hawai‘i	$ 102.2	$ 100.1	$ 103.8
Foundation	433.3	407.5	371.2
Total	$ 535.5	$ 507.6	$ 475.0

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 2018, 2017 and 2016, 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 $2.7 million, $2.6 million and $2.6 million in fiscal years 2018, 2017 and 2016, 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, 2018, 2017 and 2016, total capital assets, net of accumulated depreciation, remained constant at $2.1 billion, which represented approximately 56 percent of the University’s total assets. Capital asset additions totaled $179.2 million, $173.1 million and $118.5 million in fiscal years 2018, 2017 and 2016, respectively, while depreciable capital asset disposals, net of accumulated depreciation, amounted to $10.9 million, $15.9 million and $8.8 million, respectively.

The increase of the additions in fiscal year 2018 was due to an increased number of strategic capital projects that are ongoing as of fiscal year end 2018. 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 were ongoing as of fiscal year end 2017.

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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 develops and constructs new facilities.

Significant capital projects completed during fiscal year 2018 and 2017 or in progress as of June 30, 2018 and 2017 include:

- **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.

- **William S. Richardson School of Law Clinical Building** – The $7.5 million William S. Richardson School of Law Clinical Building (Clinical Legal Outreach Center – CLOC) broke ground on September 30, 2016. The estimated completion date is October 2018.

- **Coconut Island Marine Laboratory 1 & 2** – The estimated completion date for the $21 million Coconut Island Marine Laboratory Buildings 1 & 2 renovation project is July 2019.

- **Daniel K. Inouye College of Pharmacy** – The $31.4 million Daniel K. Inouye College of Pharmacy broke ground in December 2014. The estimated completion date is October 2018.

- **University of Hawaiʻi West Oʻahu Allied Health and Administration Building** – The ground breaking for the University of Hawaiʻi West Oʻahu Allied Health and Administration building took place on November 28, 2016. This $29.9 million building is expected to be completed in December 2018.

- **University of Hawaiʻi at Mānoa Life Sciences Building** – The $49.5 million University of Hawaiʻi at Mānoa Life Sciences Building began in August 2017 with the demolition of Henke Hall. The estimated completion date is now February 2020.

- **Leeward Community College Theater** – The $10.5 million Leeward Community College Theater Project is scheduled to be completed in October 2018.

- **Coconut Island Utility Rehabilitation/Replacement** – The $10 million project to build new sewer and telecommunications infrastructure lines is expected to be completed in September 2018.

- **University of Hawaiʻi at Mānoa Substation "M"** – The $5 million Substation "M" building replacement project was placed in-service on February 28, 2018.

- **University of Hawaiʻi West Oʻahu Creative Media Building** – The $33.3 million Creative Media Building at the University of Hawaiʻi at West Oʻahu project has been awarded. The building is scheduled to be completed in June 2020.

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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 2018, 2017 and 2016, 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 2018, 2017 and 2016, $108.0 million, $111.3 million and $106.8 million, respectively, were appropriated.

- **Revenue bonds** – The University also issued revenue bonds to finance capital projects. These bonds are carried as liabilities of the University. Total revenue bond liabilities were $525.4 million, $543.7 million and $562.6 million for fiscal years 2018, 2017 and 2016, 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 received funds for debt service in the amount of $9.4 million, $11.8 million and $9.5 million in fiscal years 2018, 2017 and 2016, respectively. 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 2018, 2017 and 2016, $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 10 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 one and a half 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 matured on April 22, 2018, at which time the principal balance was paid off in full.

- **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, 2018, the outstanding balance on the Loan was $8.2 million.

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- **Equipment lease obligation:** In November 2017, the University entered into two tax-exempt lease purchase ("TELP") agreements to fund the acquisition of energy conservation measures at the four Oʻahu community college campuses (Honolulu, Kapiʻolani, Leeward, and Windward) and Maui College, for $24.2 million and $6.3 million, respectively. Purchases were financed with a bank and the proceeds were deposited into an acquisition fund held to provide for future payments. See Notes 10 and 12 for further information.

Net Position

Net position represents the residual interest in the University's assets after liabilities are deducted. At June 30, 2018, 2017 and 2016, total net position amounted to ($99.1) million, $729.5 million and $696.5 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, 2018, 2017 and 2016 is summarized as follows (in thousands of dollars):

	2018	2017	2016
Net investment in capital assets	$ 1,598,660	$ 1,541,725	$ 1,504,935
Restricted – Nonexpendable	360,553	342,071	244,396
Restricted – Expendable	606,866	586,825	561,093
Unrestricted	(2,665,197)	(1,741,094)	(1,613,973)
Total net position	$ (99,118)	$ 729,527	$ 696,451

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 $56.9 million in fiscal year 2018, primarily due to $127.6 million of depreciation expense, $10.9 million in net disposals offset by $17.9 million in related debt retirement and $179.2 million of capital asset additions. The increase was also due to $17.2 million in reclassifications related to restricted expendable and unrestricted net position. 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.

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 $360.6 million, $342.1 million and $244.4 million at June 30, 2018, 2017 and 2016, respectively. The increases of $18.5 million and $97.7 million in fiscal years 2018 and 2017, respectively, were primarily attributable to new permanent endowment gifts received. In fiscal year 2017, there was an additional receipt of three properties as part of the Shidler gift valued at $80.2 million. 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.

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Restricted expendable net position is subject to externally imposed restrictions governing their use. Net position was restricted for the following purposes at June 30, 2018, 2017 and 2016 (in thousands of dollars):

	2018	2017	2016
Plant facilities	$ 362,584	$ 354,780	$ 319,809
Donor-restricted activities	227,102	215,608	210,404
Loan activities	9,082	9,699	23,575
External sponsor activities	8,098	6,738	7,305
	$ 606,866	$ 586,825	$ 561,093

In fiscal year 2018, the overall increase of $20.0 million in restricted expendable net position was due to increases of $7.8 million and $11.5 million in capital asset related activity and donor-restricted activity, respectively. The fiscal year 2018 capital asset activity was mainly comprised of State capital appropriations offset by capital asset additions and operating expenses associated with capital assets. 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.

Net position that is not subject to externally imposed restrictions governing their use is classified as unrestricted for financial reporting purposes. At June 30, 2018, 2017 and 2016, unrestricted net positions amounted to deficits of $2.67 billion, $1.74 billion and $1.61 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 $45.9 million, $44.8 million and $37.6 million were designated for endowment activities at June 30, 2018, 2017 and 2016, respectively.

The reduction in unrestricted net positions for the years ended June 30, 2018 and 2017 was caused by the University's required accounting and recognition of the University's allocated share of the State's actuarially determined net pension and OPEB liabilities.

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

	2018	2017	2016
Unrestricted net position	$ (2,665,197)	$ (1,741,094)	$ (1,613,973)
Pension	1,308,560	2,001,189	1,843,970
OPEB	1,666,481	788,773	722,757
Adjusted net unrestricted position	$ 309,844	$ 1,048,868	$ 952,754

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Results of Operations

The Consolidated Statements of Revenues, Expenses and Changes in Net Position represent 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, 2018, 2017 and 2016 summarized to match revenues supporting core activities with expenses associated with core activities, are as follows (in thousands of dollars):

	2018	2017	FY 18 vs 17 Change	2016	FY 17 vs 16 Change
Revenues					
Operating					
Tuition and fees	$ 393,452	$ 403,177	$ (9,725)	$ 403,411	$ (234)
Less: Scholarship allowances	(134,565)	(133,054)	(1,511)	(131,105)	(1,949)
Grants and contracts	381,530	368,892	12,638	390,231	(21,339)
Sales and services	130,011	130,867	(856)	134,787	(3,920)
Other revenue	1,628	1,648	(20)	2,211	(563)
Total operating revenues	772,056	771,530	526	799,535	(28,005)
Nonoperating					
State appropriations	485,153	471,453	13,700	441,373	30,080
Federal Pell grant	56,056	55,701	355	61,438	(5,737)
Net investment income	37,129	42,509	(5,380)	679	41,830
Private gifts	39,895	31,233	8,662	32,382	(1,149)
Total nonoperating revenues	618,233	600,896	17,337	535,872	65,024
Total revenues supporting core activities	1,390,289	1,372,426	17,863	1,335,407	37,019
Expenses					
Operating					
Compensation and benefits	1,258,712	1,235,479	23,233	1,114,755	120,724
Supplies, services and cost of goods sold	188,572	193,411	(4,839)	202,157	(8,746)
Telecom and utilities	65,726	59,957	5,769	64,633	(4,676)
Scholarships and fellowships	42,746	41,771	975	43,440	(1,669)
Other expense	106,419	124,786	(18,367)	111,615	13,171
Total operating expenses	1,662,175	1,655,404	6,771	1,536,600	118,804
Nonoperating (revenues) expenses					
Transfers from State, net	(282,121)	(208,594)	(73,527)	(200,216)	(8,378)
Transfers (from) to Federal – capital assets	84	505	(421)	(4,081)	4,586
Transfers to other State agencies	5,924	-	5,924		
Interest expense	25,585	26,900	(1,315)	25,064	1,836
Total nonoperating revenues	(250,528)	(181,189)	(69,339)	(179,233)	(1,956)
Expenses associated with core activities before depreciation	1,411,647	1,474,215	(62,568)	1,357,367	116,848
Loss from core activities before depreciation	(21,358)	(101,789)	80,431	(21,960)	(79,829)
Depreciation	127,629	122,841	4,788	124,937	(2,096)
Expenses associated with core activities including depreciation	1,539,276	1,597,056	(57,780)	1,482,304	114,752
Loss from core activities	(148,987)	(224,630)	75,643	(146,897)	(77,733)
Other nonoperating activity					
Capital gifts and grants	190,415	171,652	18,763	28,122	143,530
Permanent endowment	14,354	96,024	(81,670)	9,254	86,770
Other expenses, net	(3,836)	(9,970)	6,134	(8,449)	(1,521)
Other nonoperating income, net	200,933	257,706	(56,773)	28,927	228,779
Increase (decrease) in net position	51,946	33,076	18,870	(117,970)	151,046
Net position					
Beginning of year	729,527	696,451		814,421	
Adjustment for change in accounting principle	(880,591)	-		-	
Beginning of year, as restated	(151,064)	696,451		814,421	
End of year	$ (99,118)	$ 729,527		$ 696,451	

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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 30 percent of the total 2018 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 $11.2 million, or 4.2 percent, to $258.9 million in fiscal year 2018. The decrease in fiscal years 2018 and 2017 was primarily attributable to the continued decline in enrollment; in fiscal year 2017, the decline in enrollment was offset by an increase in tuition rates between one percent and eight percent among all campuses. Scholarship allowances amounted to $134.6 million, $133.1 million and $131.1 million in fiscal years 2018, 2017 and 2016, respectively.

One of the largest sources of revenue (23 percent) continues to be grants and contracts. Total grants and contracts revenue increased by $12.6 million, or 3.4 percent in fiscal year 2018. The increase was mainly from a net increase of federal awards of approximately $11.3 million. The University experienced increases in funding from four primary federal agencies: Department of Commerce NOAA, Department of Education, Department of Defense Navy, and the National Science Foundation totaling $19.4 million. Increases were offset by the decrease of $6.0 million from the Department of Defense Air Force. 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.

Sales and services revenues, which are mainly comprised of bookstores, student and faculty housing, food services, parking and athletics remained relatively consistent in fiscal year 2018. Sales and services revenues decreased by $3.9 million, or 2.9 percent, to $130.9 million in fiscal year 2017 from fiscal year 2016. 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.

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 $13.7 million, or 2.9 percent, to $485.2 million in fiscal year 2018 and increased by $30.1 million, or 6.8 percent, to $471.5 million in fiscal year 2017. The increase in fiscal year 2018 was primarily attributable to an increased allotment of $10.1 million for salary increases of 2.1 percent as negotiated by the collective bargaining agreements. 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 University’s net investment income for fiscal year 2018, as compared to fiscal year 2017, went down by $5.4 million. The fiscal year 2018 decrease was mainly due to smaller market growth as compared to fiscal year 2017. The University’s net investment income for fiscal year 2017, as compared to fiscal year 2016, increased by $41.8 million mainly due to the increase in realized and unrealized gains of $40.9 million.

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The components of net investment income for the years ended June 30, 2018, 2017 and 2016 are as follows (in thousands of dollars):

	2018	2017	FY 18 vs 17 Change	2016	FY 17 vs 16 Change
Interest and dividend income	$ 13,194	$ 9,149	$ 4,045	$ 8,640	$ 509
Net realized gains	6,768	10,733	(3,965)	572	10,161
Net unrealized gains (losses)	14,811	23,974	(9,163)	(6,703)	30,677
Other, net	2,356	(1,347)	3,703	(1,830)	483
	$ 37,129	$ 42,509	$ (5,380)	$ 679	$ 41,830

Private gifts, most of which are restricted as to use, increased by $8.7 million, or 27.7 percent, to $39.9 million in fiscal year 2018. The fiscal year 2018 change is primarily due to an increase in RCUH cash contributions of $3.4 million and pledge contributions of $7.6 million. Private gifts remained relatively consistent at $31.2 million in fiscal year 2017 compared to $32.4 million in fiscal year 2016.

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 77.4 percent, 77.3 percent and 75.2 percent were related to compensation and benefits during fiscal years 2018, 2017 and 2016, respectively.

Compensation and benefits went up by $23.2 million, or 1.9 percent, to $1,259 million in fiscal year 2018 as compared to fiscal year 2017, and increased by $120.7 million, or 10.8 percent, to $1,235 million in fiscal year 2017 as compared to $1,115 million in fiscal year 2016. The fiscal year 2018 increase was attributable to increases in pension and OPEB expense of $19.3 million and $2.2 million, respectively. The fiscal year 2018 increase in pension expense was due to the University’s recording of the actuarially determined expense, and the increase in OPEB expense was due to the implementation of GASB Statement No. 75. The fiscal year 2017 increase was attributable to a $103.0 million increase in pension expense, and an increase in salary and non-pension and OPEB fringe benefits of $17.6 million. The fiscal year 2017 increase in pension expense was due to the University’s recording of the actuarially determined expense and the increase in salary was due to wage increases.

Supplies, services and cost of goods sold expense includes service fees, printing and binding, advertising, dues and subscriptions, controlled property acquisitions, cost of goods sold for resale items, and other miscellaneous operating costs. In fiscal year 2018, such expenses decreased by $4.8 million, or 2.5 percent, to $188.6 million as compared to fiscal year 2017. The fiscal year 2018 decrease was primarily attributable to the non-recurring federally funded equipment expense of $5.7 million in the prior year. There were no expenses of this nature in the current year. 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.

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The University is committed to providing affordable yet quality education to its students. To accomplish this goal, student aid is provided in the form of scholarships and fellowships, including tuition and fee waivers applied to student accounts and reflected as reductions and allowances to student tuition and student housing revenues, and scholarship and fellowship payments (mostly academic and athletic) made directly to students.

Total aid to students increased by $2.5 million, or 1.4 percent, in fiscal year 2018 as compared to prior year. The increase was primarily due to an increase in scholarship allowance from the additional State funding for the Hawai’i Promise scholarship. Total aid to students of $174.8 million in fiscal year 2017 remained relatively consistent as compared to fiscal year 2016.

Other operating expenses decreased by $18.4 million, or 14.7 percent, to $106.4 million in fiscal year 2018 and increased by $13.2 million, or 11.8 percent, to $124.8 million in fiscal year 2017. The increase in fiscal year 2017 and subsequent decrease in fiscal year 2018 are both a result of the University’s recording of a one-time expense in fiscal year 2017 of $13.6 million. 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. The return of the FCC was recorded in accordance with GASB Statement No. 33.

The University depreciates its capital assets over their estimated useful lives using the straight-line method. Depreciation expense increased by $4.8 million, or 3.9 percent, to $127.6 million during fiscal year 2018 as compared to fiscal year 2017. The increase in fiscal year 2018 was primarily attributable to an increase in depreciable assets relating to buildings and infrastructure. 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.

Transfer from the State, net amounted to $282.1 million, $208.6 million and $200.2 million in fiscal years 2018, 2017 and 2016, respectively. Transfers from State were primarily for fringe benefit expense paid by the State for the University, the tobacco settlement funds 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, net for both fiscal years 2018 and 2017 was primarily attributable to the increase in fringe benefit rates.

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 2018, capital gifts and grants, including state capital appropriations and transfers, increased by $18.8 million, or 10.9 percent, to $190.4 million as compared to $171.7 million in fiscal year 2017. The State of Hawai‘i Legislature continues its strong financial support to the University’s capital improvement programs as the increase in fiscal year 2018 was primarily attributable to the increase of capital appropriations from the State by $25.0 million, or 15.7 percent, to $184.1 million as compared to the capital appropriations in fiscal year 2017 of $159.1 million. This increase is primarily due to increased

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allotments for maintenance and renewal of capital assets, offset by federal capital grants decreases by $6.1 million due to the substantial completion of two grants related to capital projects during 2017. The increase in fiscal year 2017 was primarily attributable to the increase of capital appropriations from the State by $142.5 million, or 861.5 percent, to $159.1 million compared to the decrease of capital appropriations in fiscal year 2016 of $145.3 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 2018, additions to the permanent endowment decreased by $81.7 million to $14.4 million, when compared to $96.0 million in fiscal year 2017. The spike in additions to the permanent endowment in fiscal year 2017 was due to the generosity of alumnus Jay H. Shidler, who provided the $80.2 million in endowed gifts.

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, 2018, 2017 and 2016 is as follows (in thousands of dollars):

	2018	2017	FY 18 vs 17 Change	2016	FY 17 vs 16 Change
Cash received from operations	$ 773,933	$ 789,810	$ (15,877)	$ 799,112	$ (9,302)
Cash payments for operations	(1,330,798)	(1,313,781)	(17,017)	(1,293,552)	(20,229)
Net cash used in operating activities	(556,865)	(523,971)	(32,894)	(494,440)	(29,531)
Net cash provided by noncapital financing activities	609,958	578,881	31,077	560,769	18,112
Net cash used in capital and related financing activities	(46,026)	(51,003)	4,977	(43,518)	(7,485)
Net cash provided by (used in) investing activities	46,714	(37,990)	84,704	(9,443)	(28,547)
Net increase (decrease) in cash	53,781	(34,083)	87,864	13,368	(47,451)
Cash					
Beginning of year	69,096	103,179	(34,083)	89,811	13,368
End of year	$ 122,877	$ 69,096	$ 53,781	$ 103,179	$ (34,083)

The University’s cash and cash equivalents increased by $53.8 million, or 77.8 percent, to $122.9 million at June 30, 2018 from $69.1 million at June 30, 2017. 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 $103.2 million at June 30, 2016. During fiscal year 2018, $556.9 million in cash was used for operating activities, offset by $610.0 million in cash provided by noncapital financing activities. Net cash used in capital and related financing activities and net cash provided by investing activities amounted to $46.0 million and $46.7 million in fiscal year 2018.

The net cash used in operating activities increased by $32.9 million in fiscal year 2018 and increased by $29.5 million in fiscal year 2017. The increase in fiscal year 2018 was largely due to an increase in payments to employees caused by an increase in personnel costs coupled with a decrease in student tuition and fees caused by a decrease in enrollment. The increase in fiscal year 2017 was largely due to an increase in personnel costs.

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The $5.0 million decrease in net cash used in capital and related financing activities in fiscal year 2018 as compared to fiscal year 2017 was primarily attributable to the change in cash inflows: $48.3 million increase in capital appropriations, $7.3 million decrease in proceeds from capital debt, $3.7 million decrease in capital gifts and grants, offset by the change in cash outflows: $18.7 million increase in purchases of capital assets and $12.7 million increase in principal paid on capital debt and leases (cash outflow). 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 Hawaiʻi in fiscal year 2016, offset by an increase in capital asset purchases of $44.6 million.

There was net difference of $84.7 million in investing activity cash flows as there was $46.7 million in net cash provided by investing activities in fiscal year 2018 compared to $38.0 million in net cash used in investing activities in fiscal year 2017. The increase in net cash flows provided by investing activities in fiscal year 2018 was primarily due to a $162 million decrease in cash outflows related to purchases of investments, offset by an $81 million decrease in cash inflows related to proceeds from sales and maturities of investments. 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.

Looking Forward

The University of Hawaiʻi is the sole provider of public higher education in Hawaiʻi, known for generating streams of talent, knowledge and social benefits, and has always been at the center of the Hawaiʻi economic engine. The University's programs attract students and faculty from Hawaiʻi, 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.

The University of Hawaiʻi is well recognized for its academic excellence and value in higher education both nationally and internationally.

- *U.S. News and World Report* released its 2019 Best Graduate Schools list that includes:
  - The University at Mānoa School of Nursing in the top tier, 35th out of 154 schools, for Best Online Graduate Nursing Programs in 2018.
  - The John A. Burns School of Medicine ranked 41st nationally in medical research and 59th in medical primary care among 177 medical schools in America.
  - The William S. Richardson School of Law's evening part-time program moved up 8 points into the top 25 in the annual national rankings.
  - The Myron B. Thompson School of Social Work ranked 59th of 234, placing it in the top 25 percent of programs nationally for the past five years.
  - The part-time master of business administration program (Global MBA, 36-month plan) at the Shidler College of Business ranked 152nd among 360 part-time MBA programs that qualified for the ranking.
  - The College of Education moved up 5 points and ranked 64th of 267 schools.

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- The Community College System was ranked in the top 20 by WalletHub, placing 15th from a sample of 715 schools in 2018. WalletHub ranked community colleges based on cost, education and career outcomes.

- The University of Hawai‘i at Mānoa jumped 39 spots on the 2019 Quacquarelli Symonds World University Ranking (QSWUR), rising to 302 from 341 last year. The QSWUR is the ranking most used and referenced by international students.

- The University Mānoa campus’s upward mobility on the QSWUR follows another positive showing in 2018. The Center for World University Rankings, the largest academic ranking of global universities, revealed in late May that the Mānoa campus is number 306, up from 446 last year out of 18,000 universities they review.

The University of Hawai’i’s strength is further demonstrated through its credit ratings. The University was rated Aa2 with stable outlook by Moody’s Investors Service and AA with stable outlook by Fitch Ratings in December 2017. 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 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. This will guide the University’s priorities for the next three biennia to achieve the outcomes directed by the Board of Regents.

The strategic directions for the University were updated in October 2018 to reflect the institutional priorities through 2021 as listed below:

- Hawai’i Graduation Initiative.

- Hawai’i Innovation Initiative.

- 21st Century Facilities.

- Mission Focused System.

- High Performing System.

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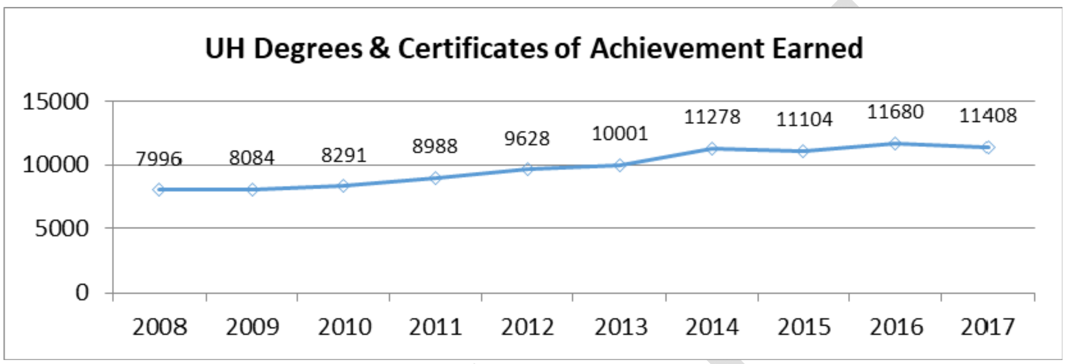
Hawai‘i Graduation Initiative

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 the number of educated citizens within the State. In 2010, the Hawai‘i Graduation Initiative ("HGI") was established with a set of goals to increase the graduation rate between 4 percent and 5 percent annually. Because of the focused efforts, the University of Hawai‘i increased its degrees and certificates of achievement earned by 43 percent since 2008.



As part of the HGI's tactical plans, the *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, 66 percent of all freshmen take 12 or more credits at the community colleges, and more than 90 percent at the 4-year campuses. According to our analysis, students taking 15 credits per semester had significantly higher retention at all levels of academic preparation.

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 helps with their registration and creates a path for the students based on where they are and where they want to go and adds in default 15 credit academic maps. With registration through GPS, more students are enrolled in 15 credits per semester.

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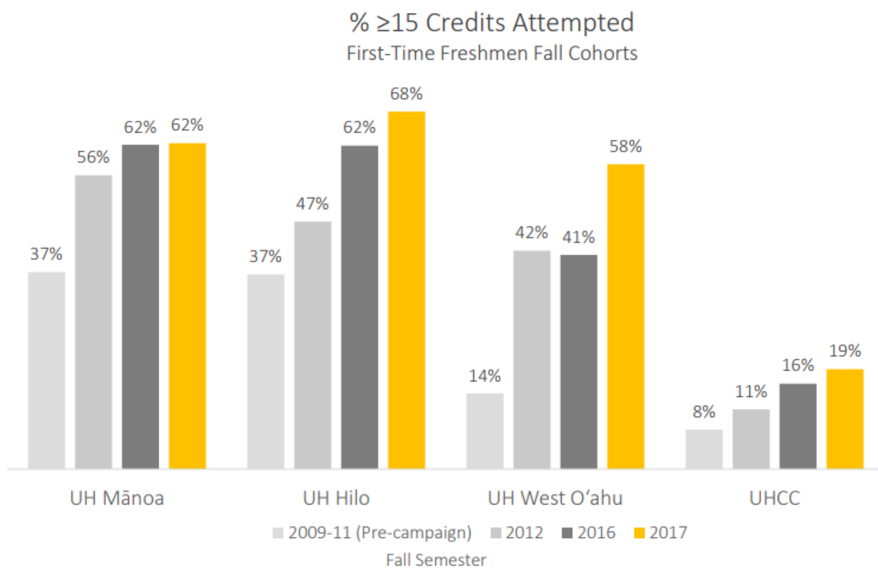

Another part HGI's tactical plan is the Early College program, which is a collaboration between the University and the Hawai'i State Department of Education (DOE), offering students the opportunity to take college courses at their high schools while simultaneously earning credit toward both high school and college diplomas. The program started in 2012 as a joint project with Leeward Community College and the State DOE, with funding from the McInerny Foundation. This past school year (2017-2018), 270 Early College classes were being offered by the University at 40 public high schools and charter schools across the state, and more than 375 classes are planned for next school year. Thanks to the Early College program, sixteen public high school students from across the state earned college degrees in spring 2018, before their high school graduations and one student earned her degree from one of the community colleges in fall 2017.

HGI is a winning strategy because it not only helps the University to sustain enrollment during this expanding economic period but also 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 2018 to 51,063 total students, a decrease of 611 students, or 1.2 percent compared to fall 2017, as Hawai'i's robust economy continues. As of September 2018, the State unemployment rate was at 2.2 percent. The overall enrollment decline was no surprise, as the University continues to graduate more students on time while competing for students in a tight local labor market experiencing extraordinarily low unemployment. The largest decrease in enrollments were at the Community Colleges and the Hilo campus, as more students tend to enroll in college during recessionary periods and conversely, choose to forego college and enter the job market during stronger economic periods.

Looking forward to fiscal year 2019, the enrollment at the University of Hawai‘i at Mānoa was up by 0.6 percent, which is a reversal of the past year’s trend. West O‘ahu enrollment continued to grow and is up by 1.5 percent from fall 2017. The Mānoa enrollment increase is mainly attributable to the successful implementation of the 2017-2020 Enrollment Management Plan launched in 2017, while the West O‘ahu campus continued to enjoy the growth 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.

Fall census headcount comparisons are as follows:

	Fall 2018	Fall 2017	% Change	Fall 2016	% Change
Mānoa	17,710	17,612	0.6	18,056	-2.5
Hilo	3,406	3,539	-3.8	3,666	-3.5
West O‘ahu	3,128	3,082	1.5	2,939	4.9
Community Colleges	26,819	27,441	-2.3	28,757	-4.6
Total	51,063	51,674	-1.2	53,418	-3.3

The 2017-2020 Enrollment Management Plan was developed 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.

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 $2.5 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 2018 and 2019. The program is a “last dollar” scholarship that would provide financial assistance towards financial need unmet 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.

On October 11, 2011, the Board approved a 5-year tuition schedule. Fiscal year 2015-16, was the fourth year of the schedule. Tuition rates for fiscal year 2015-16 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 5 percent. On July 21, 2016, the Board approved a new 3-year tuition increase schedule for fiscal year to begin July 1, 2018. This new schedule had no increases for fiscal year 2016-17, and tuition increases in fiscal years 2017-18 and 2018-19 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 40–50 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 77th by National Science Foundation “NSF” among 1,040 public and private universities for research and development expenditures in fiscal year 2016.

The extramural awards totaled $386 million in fiscal year 2018, remaining almost flat from the previous year’s tally. As we continue to endure the ups and downs in federal funding and work to make adjustments in our strategy, we can find some solace in that we have managed to keep our extramural funding relatively stable in the neighborhood of $400 million over the last few years. Despite the significant reductions in federal support that have put a strain on research institutions across the county, 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 2018:

- The Hawai‘i Natural Energy Institute (“HNEI”) received an award from the Office of Naval Research (“ONR”) for its Asia-Pacific Research Initiative for Sustainable Energy Systems. The ONR also awarded HNEI for its Asian Pacific Regional Energy System Assessment.

- The John A. Burns School of Medicine received an award from the U.S. Department of Health and Human Services for its Ola Health and Wellness Achieved by Impacting Inequalities (“Ola HAWAII”) program designed to tackle genetic, environmental and socio-economic related disparities in health/healthcare for underrepresented populations in the state.

- The Pacific Disaster Center received an award from the U.S. Department of Defense to enable UH’s continued management and resources of the Maui-based unit that fosters disaster resiliency and risk reduction through the use of science, information and technology.

This past fiscal year saw the University of Hawai‘i at Mānoa’s School of Ocean and Earth Science and Technology (“SOEST”) bring in a record $93 million in extramural funding. With its multiple disciplines, SOEST researchers have been highly visible with their work on recent “hot topic” areas including volcanology, sea level rise, sustainable energy, microbiome, and coral reef studies. SOEST continues to be one of the most prestigious schools in the nation as shown by the broader impact of research and scholarship conducted by its faculty and students.

Facilities and Infrastructure

Improvement and modernization of the University’s physical assets are vital to delivering the University’s strategic directions that strives for 21st century facilities for learning, teaching, and research. The University has developed a 6-year plan for fiscal years 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 upgrades to the interior/exterior structures, building roofs, mechanical and electrical systems, pedestrian pathways, roadways, and (3) changes the paradigm on how the University manages its space.

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To fulfill our commitment to 21st century facilities for learning, teaching, and research, the University has embarked on major construction projects. There are approximately $270 million worth of ongoing and completed new construction and capital improvement projects during fiscal year 2018. Below highlights some of the major projects:

- $49.5 million new construction for Life Sciences Building at the Mānoa campus. This new Life Sciences Building will play a critical role in expanding interdisciplinary educational and research opportunities for our students and faculty and supports multi-disciplinary shared spaces that inspire learning and advancement. The building will include teaching and research laboratories, laboratory support spaces and office spaces for the College of Natural Sciences biology, microbiology and botany departments along with the Pacific Biosciences Research Center, which operates the state's only transmission electron microscope.

- $33.4 million capital improvement projects on Coconut Island, O‘ahu. The Hawai‘i Institute of Marine Biology at the University at Mānoa is a world-renowned research institute situated on Coconut Island in Kaneohe Bay. Coconut Island provides excellent opportunities for research as it covers approximately twenty-nine acres with six acres enclosed in lagoons that are used for keeping organisms in captivity for study. The ongoing research projects on the island cover many disciplines of tropical marine science conducted by researchers from all over the world. To provide 21st century facilities for marine biology research, the capital improvement project will include utility rehabilitation and replacements, pier and seawall repairs, and laboratory building improvements and other general repairs.

- $31.3 million new construction project for School of Pharmacy. A new permanent building for pharmacy students at the University at Hilo is expected to be completed at the end of 2018. This new construction project will provide a two-story 45,000-square-foot building that will consolidate student laboratories, faculty offices and Student Affairs under a single roof. It will also provide faculty and student lounges, private study rooms, and a lecture hall. In addition, the building will include a simulated mannequin lab which features two highly realistic mannequins that, with the aid of computers, can physically respond to stimuli and upon which students can learn and practice medical procedures before treating real-life patients.

- $29.9 million new construction project for West O‘ahu – Administration & Allied Health Facility. To meet the increasing enrollment, this new construction will 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 West O‘ahu campus broke ground for its newest addition – Allied Health/Administration building and is expected to be completed by the end of 2018. The building will house the allied health, community health, health information management, long term care and biology programs and some 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 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 region. There will also 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.

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- $22.7 million new construction project for Hawai‘i Community College – Culinary Arts Building Phase 1A and Health Science and Student Services Building Phase 1B “Pālamanui”. Pālamanui is a branch campus of Hawai‘i Community College and is the newest addition. It offers certificates and associate degrees from Hawai'i Community College and is a gateway for residents of West Hawai‘i to undertake programs from other University of Hawai‘i campuses while continuing to live in West Hawai‘i. Programs from other UH campuses enroll and deliver courses to students in West Hawai'i using a combination of formats including: online any-time, site-to-site real-time interactive video conferencing, and face-to-face participation. Local students have the advantage of campus-based resources and support (library, counseling, student activities) plus the opportunity to access an entire spectrum of associate, bachelor's and graduate degrees.

- $7.4 million new Law School Addition and Renovation. The Community Legal Outreach Center at the William S. Richardson School of Law on the University Mānoa campus will be added to the School of Law and will serve as a space for the growing clinical services offered by law school students and faculty. Currently, students provide thousands of hours of free legal help to some of the Hawai‘i’s most vulnerable people, including the elderly, troubled and incarcerated youth, veterans, and families living at or near poverty levels. The new building will provide much-needed space for these invaluable service offerings.

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 2018–2019 and 2015–2017 fiscal biennia that were approximately $365.5 million and $390.0 million, respectively. At the conclusion of the 2018 Legislative Session, the Legislature provided an additional $110.0 million in General Obligation Bond appropriations for Fiscal Year 2018-2019 Capital Improvement Projects. In addition to the $159.8 million appropriated in the 2017 Legislative Session, this brings the total General Obligation bond appropriation for the 2017-2019 fiscal biennium to $269.7 million.

Fundraising

The University and the University of Hawai‘i Foundation 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 2018, the University had raised $180.3 million as compared to $77.6 million in fiscal year 2017 and $66.1 million in fiscal year 2016. As of June 30, 2018, the campaign generated $713.9 million, which exceeded the original goal by $214.0 million or 42.8 percent.

By partnering with donors, the University has raised funds to benefit the University students, faculty, and research programs.

Purpose	**Campaign Total ($ in Millions)**
Faculty and Academic Support	$ 237.5
Student Opportunity and Access	245.3
Research	131.5
Special Programs	55.1
Others	44.5
Total	**$ 713.9**

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A limited example of philanthropic gifts which have directly benefited academic programs and students, include generous gifts from donors Barry and Virginia Weinman and academic teaching partners Hawaiʻi Pacific Health and The Queen's Health Systems, where more than $3.66 million have been committed to fund 23 full scholarships for Hawaiʻi residents starting their medical education in July 2018. This is about one third of the seventy-two students that make up the incoming class of 2022. These 23 future doctors will be free from worry over the expense of a medical education while they study.

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 Hawaiʻi's economy. Looking toward the future, Hawaiʻi'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. Hawaiʻi's robust economy has kept the unemployment rate low at 2.2 percent as of September 2018.

The State of Hawaiʻi continues to provide strong support to the University as the sole provider of public higher education in Hawaiʻi. When compared to other universities in the nation, the University is well supported by the State and was ranked 6th in the category of higher education operating appropriation per full-time equivalent according to State Higher Education Finance fiscal year 2017 report. The Hawaiʻi Governor supported, and the State Legislature appropriated, an increase of $5.8 million, or 1.2 percent in general funds to the University's fiscal year 2019 operating budget. These funds were allocated throughout the campuses primarily to fund student success initiatives, the College of Tropical Agriculture and Human Resources, health and safety at West Oʻahu, the Health Sciences Academy at West Oʻahu, and online learning.

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 mixed signs. The State ended fiscal year 2018 with a general fund surplus totaling approximately $750 million, although it was a single point of data. The Council's current forecast for fiscal year 2019 revenues projects 5.0 percent growth compared to fiscal year 2018. As of September 2018, general fund collections are up 0.4 percent compared to the same period for fiscal year 2018. To continue to provide quality and affordable education to the residents of Hawaiʻi, the University has been working hard with lawmakers to advance the University's needs and priorities.

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University of Hawai‘i
State of Hawai‘i
(A Component Unit of the State of Hawai‘i)
Consolidated Statements of Net Position
Years Ended June 30, 2018 and 2017
(All dollars reported in thousands)

	2018	2017
Assets and Deferred Outflows of Resources		
Current assets		
Cash and cash equivalents	$ 122,877	$ 69,096
Operating investments	315,050	355,180
Due from State of Hawai‘i	1,269	1,355
Accounts receivable, net	82,938	78,270
Current portion of notes and contributions receivable, net	19,042	17,035
Accrued interest receivable	1,998	1,381
Inventories	8,428	7,902
Prepaid expenses and other current assets	15,585	13,839
Total current assets	567,187	544,058
Noncurrent assets		
Due from State of Hawai‘i	403,164	378,310
Endowment and other investments	535,495	507,613
Notes and contributions receivable, net	32,113	34,619
Capital assets, net	2,128,415	2,087,733
Other noncurrent assets	119,842	94,606
Total noncurrent assets	3,219,029	3,102,881
Total assets	3,786,216	3,646,939
Deferred outflows of resources		
Deferred loss on refunding	14,737	9,995
Deferred outflows on net pension and OPEB liability	510,916	557,225
Total deferred outflows of resources	525,653	567,220
Total assets and deferred outflows of resources	$ 4,311,869	$ 4,214,159
Liabilities, Deferred Inflows of Resources and Net Position		
Current liabilities		
Accounts payable	$ 63,458	$ 60,696
Accrued payroll and fringe benefits	63,076	62,119
Advances from sponsors	30,532	31,607
Unearned revenue	43,256	48,657
Due to State of Hawai‘i	6,140	6,117
Current portion of long-term liabilities	58,645	72,989
Other current liabilities	6,733	6,900
Total current liabilities	271,840	289,085
Noncurrent liabilities		
Accrued vacation	44,837	45,280
Accrued workers’ compensation	11,096	12,186
Net pension liability	1,648,600	1,704,470
Other postemployment benefits	1,783,860	788,773
Revenue bonds payable	506,655	524,565
Premium on bonds payable	22,185	13,412
Equipment lease obligation	28,428	-
Note payable	8,200	8,200
Other noncurrent liabilities	31,789	33,490
Total noncurrent liabilities	4,085,650	3,130,376
Total liabilities	4,357,490	3,419,461
Deferred inflows of resources		
Deferred inflows on net pension and OPEB liability	53,497	65,171
Total deferred inflows of resources	53,497	65,171
Commitments and contingencies		
Net position		
Net investment in capital assets	1,598,660	1,541,725
Restricted		
Nonexpendable	360,553	342,071
Expendable	606,866	586,825
Unrestricted	(2,665,197)	(1,741,094)
Total net position	(99,118)	729,527
Total liabilities, deferred inflows of resources and net position	$ 4,311,869	$ 4,214,159

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

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University of Hawai‘i
State of Hawai‘i
(A Component Unit of the State of Hawai‘i)
Consolidated Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2018 and 2017
(All dollars reported in thousands)

	2018	2017
Operating revenues		
Student tuition and fees	$ 393,452	$ 403,177
Less: Scholarship allowances	134,565	133,054
Net student tuition and fees	258,887	270,123
Federal appropriations, grants and contracts	306,679	295,344
State and local grants and contracts	41,086	39,174
Nongovernmental sponsored programs	33,765	34,374
Sales and services of educational departments, other	35,279	33,428
Auxiliary enterprises		
Bookstores	18,213	19,598
Student housing (net of scholarship allowances of $1,863 and $1,867)	31,310	31,952
Other auxiliary enterprises revenues	45,209	45,889
Other operating revenues	1,628	1,648
Total operating revenues	772,056	771,530
Operating expenses		
Compensation and benefits	1,258,712	1,235,479
Supplies, services and cost of goods sold	188,572	193,411
Depreciation	127,629	122,841
Telephone and utilities	65,726	59,957
Scholarships and fellowships	42,746	41,771
Travel expenses	33,412	32,989
Repairs and maintenance	24,117	30,011
Rental expenses	11,306	11,198
Other operating expenses	37,584	50,588
Total operating expenses	1,789,804	1,778,245
Operating loss	(1,017,748)	(1,006,715)
Nonoperating revenues (expenses)		
State appropriations	485,153	471,453
Federal Pell grants	56,056	55,701
Private gifts	39,895	31,233
Net investment income	37,129	42,509
Interest expense	(25,585)	(26,900)
Net transfers from State of Hawai‘i for		
Fringe benefits	255,311	179,715
Hawai‘i Barrel Tax	2,578	2,536
School of Nursing	1,053	124
University of Hawai‘i Cancer Center	5,913	6,546
Loss on disposal of capital assets	(4,645)	(10,069)
Other, net	809	99
Net nonoperating revenues before capital and endowment additions (deductions)	853,667	752,947
Capital – state appropriations	184,103	159,094
Capital – federal grants/subsidies	5,021	11,174
Capital – gifts and grants	3,127	1,776
Net transfers to State of Hawai‘i for capital assets	(1,836)	(392)
Transfers from State of Hawai‘i, Tobacco settlement	9,397	11,799
Transfers from State of Hawai‘i, University of Hawai‘i Cancer Center	7,869	7,874
Transfers to other State agencies	(5,924)	-
Net transfers from to Federal – capital assets	(84)	(505)
Additions to permanent endowments	14,354	96,024
Total other revenues	216,027	286,844
Net nonoperating revenues	1,069,694	1,039,791
Change in net position	51,946	33,076
Net position		
Beginning of year	729,527	696,451
Adjustment for change in accounting principle (Note 1)	(880,591)	-
Beginning of year, as restated	(151,064)	696,451
End of year	$ (99,118)	$ 729,527

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

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University of Hawai‘i
State of Hawai‘i
(A Component Unit of the State of Hawai‘i)
Consolidated Statements of Cash Flows
Years Ended June 30, 2018 and 2017
(All dollars reported in thousands)

	2018	2017
Cash flows from operating activities		
Student tuition and fees	$ 253,385	$ 274,315
Grants and contracts	389,080	382,764
Other revenues	131,468	132,731
Payments to employees	(909,639)	(899,457)
Payments to suppliers and other	(378,413)	(372,553)
Payments for scholarships and fellowships	(42,746)	(41,771)
Net cash used in operating activities	(556,865)	(523,971)
Cash flows from noncapital financing activities		
State appropriations	485,240	470,200
Gifts and grants for other than capital purposes	107,530	99,457
Transfer from State of Hawai‘i for		
Hawai‘i Barrel Tax	2,578	2,536
School of Nursing	1,053	124
University of Hawai‘i Cancer Center	5,913	6,546
Other receipts	7,644	18
Net cash provided by noncapital financing activities	609,958	578,881
Cash flows from capital and related financing activities		
Capital appropriations	157,581	109,255
Capital gifts and grants	8,883	12,558
Proceeds from other note payable	861	8,200
Purchases of capital assets	(172,815)	(154,106)
Proceeds from sale of capital assets	59	21
Principal paid on capital debt and leases	(31,794)	(19,069)
Interest paid on capital debt and leases (net of amounts capitalized)	(26,067)	(27,535)
Transfer from State of Hawai‘i for		
Tobacco Settlement	9,397	11,799
University of Hawai‘i Cancer Center	7,869	7,874
Net cash used in capital and related financing activities	(46,026)	(51,003)
Cash flows from investing activities		
Interest and dividends on investments, net	11,202	7,481
Proceeds from sales and maturities of investments	749,429	793,427
Purchase of investments	(713,917)	(838,898)
Net cash provided by (used in) investing activities	46,714	(37,990)
Net increase (decrease) in cash and cash equivalents	53,781	(34,083)
Cash and cash equivalents		
Beginning of year	69,096	103,179
End of year	$ 122,877	$ 69,096

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

University of Hawai‘i
State of Hawai‘i
(A Component Unit of the State of Hawai‘i)
Consolidated Statements of Cash Flows
Years Ended June 30, 2018 and 2017
(All dollars reported in thousands)

	2018	2017
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	$ (1,017,748)	$ (1,006,715)
Adjustments to reconcile operating loss to net cash used in operating activities		
On behalf payments by State for fringe benefits	255,311	223,116
Depreciation expense	127,629	122,841
Pension and other post retirement health care benefit expense	93,261	113,818
Bad debt expense, net	(591)	2,436
Changes in operating assets and liabilities		
Accounts receivable	(3,165)	6,386
Notes and contributions receivable	382	565
Inventories	(526)	2,348
Prepaid expenses and other assets	(373)	944
Accounts payable	(3,414)	(2,700)
Accrued payroll and benefits	1,502	(3,437)
Accrued workers' compensation liability	(1,234)	333
Advances from sponsors	10,938	11,201
Other, net	(18,837)	4,893
Net cash used in operating activities	$ (556,865)	$ (523,971)
Supplemental information of noncash transactions		
Noncash contributions	$ 2,377	$ 87,634
Net transfers to State of Hawai‘i for capital assets	(1,836)	(392)
Net transfers to Federal for capital assets	(84)	(505)
Net transfers to Other State Agencies	(5,924)	-
Accounts payable for capital assets	36,848	30,674
Bond proceeds deposited immediately into escrow	116,876	-
Refunding and defeasance of outstanding revenue bond principal	(109,935)	-
Proceeds from equipment lease liability	30,486	-

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

1. Organization and Summary of Significant Accounting Policies

Financial Reporting Entity

The accompanying consolidated financial statements of the University of 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.

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, and unspent cash, cash equivalents and investments that were deposited into an acquisition fund held in trust by the acquisition fund custodian for capital lease obligations, 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

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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.
- **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 private gifts revenue 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. Deferred inflows of resources 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. Private gifts revenue is recognized when the related resources become available to the Foundation as stipulated in the irrevocable split-interest agreement. 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.

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

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

Capital Assets
Capital assets are recorded at cost, or if donated, at an appraised value at the date of the gift. Depreciation of capital assets is provided for on a straight-line basis over the estimated useful lives (3 to 100 years) of the respective assets. The University's policy is to capitalize tangible, nonexpendable personal property having an estimated useful life of more than one year. Interest incurred on tax-exempt construction financing, net of investment income on any unspent financing proceeds, is capitalized as a cost of construction. When taxable debt is incurred specifically for a project, interest is capitalized on amounts expended on the project using the weighted-average cost of outstanding borrowings. The capitalization of interest ceases when the project is substantially complete or construction activity is suspended for more than a brief period. The University incurred interest cost of $25,715 and $27,183 for the years ended June 30, 2018 and 2017, respectively, of which capitalized interest as a cost of construction amounted to $130 and $283, 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 the net pension and other

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postemployment benefits (“OPEB”) liabilities are amortized over five years and University contributions to the pension plan subsequent to the measurement date of the actuarial valuations for the respective plans and OPEB will be recognized as a reduction of the net pension liabilities and OPEB in the subsequent fiscal year.

Advances from Sponsors
Advances from sponsors represent amounts received from grant and contract sponsors which have not been earned under the terms of the agreement.

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

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

Other Postemployment Benefits
For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Hawai‘i Employer-Union Health Benefits Trust Fund (“EUTF”) and additions to/deductions from the EUTF’s fiduciary net position have been determined on the same basis as they are reported by the EUTF. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at their fair value.

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

Capital Lease Obligations
Obligations for equipment leased under capital leases to fund the installation and acquisition of energy conservation measurements are recorded based on the present value of the future minimum lease payments using the appropriate interest rate. Refer to Notes 10 and 12 for more information regarding the University’s capital lease obligations.

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 the net pension and OPEB liabilities 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

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outstanding principal balances of debt attributable to the acquisition, construction or improvement of those capital assets.

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

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

Net Position Restricted by Enabling Legislation
GASB Statement No. 46*, Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34*, requires that limitations on the use of net position imposed by enabling legislation be reported as restricted net position. GASB Statement No. 46 also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Restricted net position at June 30, 2018 and 2017 amounted to $967,419 and $928,896, respectively, of which $373,164 and $348,726 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.

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

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

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

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

With respect to workers’ compensation insurance, the University is self-insured for the first $650 per occurrence and annual aggregate, and obtains excess insurance of $50,000 from a commercial insurance company. The University records a liability for risk financing and insurance related losses if it is determined that a loss has been incurred and the amount can be reasonably estimated. The University uses a third-party actuary to estimate its workers’ compensation liability. Changes in the liability are the result of claims payments made during the fiscal year, new claims filed, and changes in the estimates of existing claims. Anticipated payments by the third party for the next fiscal year are considered current and payments thereafter are considered noncurrent. The liability represents the University’s best estimate of workers’ compensation liabilities based on available information. The University’s estimated liability for workers’ compensation claims is included in “Other Liabilities” in the accompanying Consolidated Statements of Net Position (see Note 10).

The University also uses a third-party actuary to estimate its net pension and OPEB liabilities. Beginning in fiscal year 2018, the net OPEB liability was actuarially determined at the State level. The University records its proportional share of the State’s share of the EUTF net OPEB liability through the State’s allocation schedules to its component units and proprietary funds. The actuarial assumptions used to determine the liabilities are described in Notes 13 and 14.

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.

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

New Accounting Pronouncements
During fiscal year 2018, the University implemented GASB Statement No. 75*, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Statement No. 75 establishes standards of accounting and financial reporting for defined benefit OPEB and defined contribution OPEB that are provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements in which:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets, also are legally protected from creditors of the plan members.

Statement No. 75 replaces GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans.*

The adoption of Statement No. 75 resulted in the restatement of the University's beginning net position as of July 1, 2017 by $880,591 from $729,527 to a net deficit of $151,064, which reflects the retrospective effect of Statement No. 75. The restatement of the University's beginning net position as of July 1, 2017 is the combined impact from the University's employees covered under both the EUTF and Research Corporation's defined benefit postemployment benefit of $879,485 and $1,106, respectively. The Research Corporation's net OPEB liability is reported separately as a component of other noncurrent liabilities on the consolidated statements of net position as it is immaterial to the University's consolidated financial statements as a whole. Net OPEB liability of $1,761,176 and deferred outflows of resources related to OPEB of $92,918 were reported as of July 1, 2017. Retroactive implementation of GASB Statement No. 75 was not deemed practical due to the cost and timing required to obtain and analyze the activity covering fiscal year 2017. As such, the net OPEB liability on the University's fiscal year 2017 consolidated financial statements is presented in accordance with GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions, as amended. Refer to Note 14 for more information regarding the University's OPEB with EUTF.

During fiscal year 2018, the University implemented GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The adoption of Statement No. 81 provides recognition and measurement guidance for irrevocable split-interest agreements for situations in which a government is a beneficiary of the agreement. This Statement did not have a material effect on the University's consolidated financial statements.

During fiscal year 2018, the University implemented GASB 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. This statement did not have a material effect on the University's consolidated financial statements.

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During fiscal year 2018, the University implemented GASB 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. Management has adopted the new standard as presented in the University's consolidated financial statements.

The GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve accounting and financial reporting for debts incurred by governments. 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. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this Statement are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period, and to simplify accounting for interest cost incurred before the end of a construction period. The Statement supersedes Statement No. 62. 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.

The GASB issued Statement No. 90, *Major Equity Interests*. The objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. 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.

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, 2018 and 2017, classified as cash and cash equivalents and operating investments, were $140,594 and $230,039, with corresponding bank balances of $131,174 and $230,511, 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 $121,537 at June 30, 2018 and $225,690 at June 30, 2017. Additional cash equivalent balances of $2,568 at June 30, 2018 and $4,119 at June 30, 2017 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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(All dollars reported in thousands)

As a result of market fluctuations, the fair market value of certain donor-restricted endowments was less than the historical cost of such funds by $3,901 and $4,855 at June 30, 2018 and 2017, 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 2018 and 2017, 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, 2018 and 2017, the University's investments were comprised of the following:

	2018		2017	
	Fair Value	**Cost**	**Fair Value**	**Cost**
Money market funds	$ 8,190	$ 8,190	$ 4,716	$ 4,716
Fixed income securities	308,656	313,500	283,541	284,620
Equity securities	1,234	1,267	6,328	5,122
Mutual funds	202,369	170,499	183,210	173,137
Time certificates of deposit	109,933	109,933	161,022	161,022
Limited partnerships	120,596	61,584	121,954	74,267
Absolute return	17,798	11,601	16,322	11,741
Real estate	31,710	37,267	23,161	28,721
Other investments	50,059	55,375	62,539	52,927
Total investments	850,545	769,216	862,793	796,273
Less: Current portion	315,050	317,844	355,180	355,686
Total noncurrent investments	$ 535,495	$ 451,372	$ 507,613	$ 440,587

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(All dollars reported in thousands)

Changes in the University's investments for the year ended June 30, 2018 were as follows:

	Fair Value	Cost Basis	Net Unrealized Gain (Loss)	Net Realized Gain
University Endowment Pool				
End of year	$ 72,692	$ 65,825	$ 6,867	
Beginning of year	69,054	62,793	6,261	
Net change	3,638	3,032	606	$ 3,107
Foundation Endowment Pool				
End of year	306,353	227,804	78,549	
Beginning of year	283,469	223,970	59,499	
Net change	22,884	3,834	19,050	1,737
Associated Students of the University of Hawai‘i				
End of year	8,896	8,880	16	
Beginning of year	8,768	7,566	1,202	
Net change	128	1,314	(1,186)	1,478
School of Medicine				
End of year	2,733	2,731	2	
Beginning of year	5,540	5,540	-	
Net change	(2,807)	(2,809)	2	2
University Bond System				
End of year	17,588	17,565	23	
Beginning of year	16,738	16,738	-	
Net change	850	827	23	14
Operating investments				
End of year	315,050	317,844	(2,794)	
Beginning of year	355,180	355,686	(506)	
Net change	(40,130)	(37,842)	(2,288)	52
Other				
End of year	127,233	128,567	(1,334)	
Beginning of year	124,044	123,980	64	
Net change	3,189	4,587	(1,398)	378
Total investments				
End of year	850,545	769,216	81,329	
Beginning of year	862,793	796,273	66,520	
Net change	$ (12,248)	$ (27,057)	$ 14,809	$ 6,768

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(All dollars reported in thousands)

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

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(All dollars reported in thousands)

	2018	2017
Summary of net investment income		
Change in unrealized net gain	$ 14,809	$ 23,974
Net realized gain	6,768	10,733
	21,577	34,707
Interest and dividend income	13,195	9,329
Other	3,739	(212)
Investment income before management fees	38,511	43,824
Less: Management fees	1,382	1,315
Net investment income	$ 37,129	$ 42,509

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, 2018 and 2017 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
2018					
Money market funds	$ 8,190	$ 8,190	$ -	$ -	$ -
Fixed income securities	308,656	164,146	136,900	-	7,610
Equity securities	1,234	1,234	-	-	-
Mutual funds	202,369	196,249	-	-	6,120
Time certificates of deposit	109,933	-	-	-	109,933
Limited partnerships	120,596	-	-	-	120,596
Absolute return	17,798	-	-	-	17,798
Real estate	31,710	-	-	15,348	16,362
Other investments	50,059		-	1,681	48,378
Total investments	$ 850,545	$ 369,819	$ 136,900	$ 17,029	$ 326,797
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	$ 862,793	$ 311,922	$ 140,504	$ 17,006	$ 393,361

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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, 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 $43,947 at June 30, 2018.

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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(All dollars reported in thousands)

Concentration Risk

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

Credit Risk

Credit risk for fixed income securities is the risk that the issuer will not fulfill its obligations. Nationally recognized statistical rating organizations, such as Moody's and Standard and Poor's ("S&P"), assign credit ratings to security issuers and issues that indicate a measure of potential credit risk to investors. Certain fixed-income securities, primarily obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are considered to have minimal credit risk. To manage credit risk, the University specifies that no more than 15 percent of the fixed income investments may be lower than investment grade.

The composition of fixed income securities at June 30, 2018 and 2017, along with credit quality ratings, is summarized below:

		Credit Quality Rating						
		U.S. Govt-Exempt	AAA	AA	A	BBB	BB or Lower	Not Rated
2018								
U.S. Treasury	$ 164,135	$ 164,135	$ -	$ -	$ -	$ -	$ -	$ -
U.S. government agencies	131,474	-	-	131,474	-	-	-	-
Municipal bonds	3,547	-	762	2,166	619	-	-	-
Corporate bonds	9,500	-	-	2,308	4,158	2,666	368	-
Mutual bond funds	93,184	-	6,726	-	4,326	-	-	82,132
Total fixed income securities	$ 401,840	$ 164,135	$ 7,488	$ 135,948	$ 9,103	$ 2,666	$ 368	$ 82,132

		Credit Quality Rating						
		U.S. Govt-Exempt	AAA	AA	A	BBB	BB	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	$ 383,307	$ 126,823	$ 4,107	$ 156,295	$ 4,583	$ 162	$ -	$ 91,337

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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(All dollars reported in thousands)

At June 30, 2018, the composition of the University's fixed income investments and maturities are summarized below:

		Investment Maturities (in Years)			
	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
U.S. Treasury	$ 164,135	$ 49,547	$ 106,741	$ 7,690	$ 157
U.S. government agencies	131,474	31,160	99,683	-	631
Municipal bonds	3,547	548	1,476	1,523	-
Corporate bonds	9,500	-	5,620	3,635	245
Mutual bond funds	93,184	7,693	52,133	32,453	905
Total fixed income securities	$ 401,840	$ 88,948	$ 265,653	$ 45,301	$ 1,938

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, 2018 and 2017, the University's exposure to foreign currency risk expressed in U.S. dollars was not significant.

3. Accounts Receivable

The composition of accounts receivable, net of allowance for uncollectable receivables, of $28,686 and $30,457 at June 30, 2018 and 2017, respectively, is summarized as follows:

	2018	2017
U.S. government	$ 49,803	$ 44,448
State and local government	9,186	9,405
Private agencies	7,749	9,333
Student tuition and fees	8,456	7,350
Other	7,744	7,734
	$ 82,938	$ 78,270

4. U.S. Government Funding

The federal government reimburses the University for certain overhead costs (e.g., facilities and administrative costs) incurred in support of federally-sponsored programs based on cost reimbursement rates negotiated with the University's cognizant agency, the U.S. Department of Health and Human Services. These reimbursements amounted to approximately $44,021 in 2018 and $42,464 in 2017 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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(All dollars reported in thousands)

5. Notes and Contributions Receivable

The composition of notes and contributions receivable at June 30, 2018 and 2017 is summarized as follows:

	2018	2017
Student notes		
Federal loan programs	$ 15,085	$ 16,653
State loan programs	7,868	7,528
University loan funds	67	67
Other notes receivable	77	43
Total student and other notes outstanding	23,097	24,291
Less: Allowance for uncollectible receivables	7,488	7,393
Total student and other notes receivable, net	15,609	16,898
Contributions receivable	38,127	36,965
Less: Allowance for uncollectible pledges	1,967	1,801
Less: Discount to present value	614	408
Total contributions receivable, net	35,546	34,756
Total student notes and contributions receivable, net	51,155	51,654
Less: Current portion, net	19,042	17,035
	$ 32,113	$ 34,619

The allowance for uncollectible receivables at June 30, 2018 and 2017 is comprised of:

	2018	2017
Federal Perkins loan program	$ 3,712	$ 3,806
State of Hawai‘i Higher Education loans	3,739	3,545
Nursing/Health Profession loans	6	10
Short-term loans	31	32
	$ 7,488	$ 7,393

Payments on contributions receivable at June 30, 2018 are expected to be collected in:

Less than one year	$ 17,735
One year to five years	20,392
	$ 38,127

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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(All dollars reported in thousands)

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

During the years ended June 30, 2018 and 2017, the University distributed $1,740 and $2,359 in student loans through the U.S. Department of Education Federal Perkins Loan Program, respectively, and $143,204 and $150,389 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 $6,323 and $5,866 at June 30, 2018 and 2017, 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, 2018 and 2017 are summarized below:

		2018	2017
University of Hawai‘i Bookstore merchandise inventory	Lower of cost or market using the first-in, first-out retail inventory method.	$ 5,146	$ 5,051
University of Hawai‘i Chemistry Stockroom	Cost applied on the first-in, first-out basis.	891	888
University of Hawai‘i Facilities Management Warehouse	Cost applied on the first-in, first-out basis.	890	695
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.	1,066	944
University of Hawai‘i other inventory	Lower of cost or market using the weighted average cost method.	435	324
		$ 8,428	$ 7,902

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(All dollars reported in thousands)

7. Capital Assets

A summary of capital assets at June 30, 2018 and 2017 is as follows:

	Beginning Balance	Additions	Deductions	Transfers	Ending Balance
2018					
Nondepreciable capital assets					
Land	$ 55,195	$ -	$ -	$ 27	$ 55,222
Construction in progress	170,027	151,322	6,283	(93,145)	221,921
Total capital assets not being depreciated	225,222	151,322	6,283	(93,118)	277,143
Depreciable capital assets					
Land improvements	131,745	151	-	7,624	139,520
Infrastructure	243,030	662	-	9,654	253,346
Buildings	2,421,881	10,244	15,316	74,015	2,490,824
Equipment	397,471	14,144	10,733	1,825	402,707
Library materials	171,605	2,698	-	-	174,303
Total capital assets being depreciated	3,365,732	27,899	26,049	93,118	3,460,700
Less: Accumulated depreciation	1,503,221	127,629	21,422	-	1,609,428
Capital assets, net	$ 2,087,733	$ 51,592	$ 10,910	$ -	$ 2,128,415
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

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(All dollars reported in thousands)

8. Other Noncurrent Assets

Other noncurrent assets at June 30, 2018 and 2017 were comprised of:

	2018	2017
Interest in beneficial trusts held by others	$ 96,782	$ 94,081
Funds on deposit with custodian	22,598	-
Prepaid bond insurance	-	275
Other	462	250
	$ 119,842	$ 94,606

In November 2017, the University entered into two tax-exempt lease purchase (“TELP”) agreements with a Company to purchase energy conservation equipment for Honolulu, Kapi‘olani, Leeward and Windward Community Colleges (collectively “Oahu Campuses”) and Maui College for $24,183 and $6,302, respectively. The purchases were financed with a bank and proceeds of $24,183 and $6,302 were deposited to an acquisition fund held in trust by an acquisition fund custodian (“Custodian”) to provide for future payments as requested by the University. At June 30, 2018, funds on deposit with the Custodian are reported as $22,598. See Note 10 for terms of the lease obligation.

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, 2018 and 2017 were as follows:

	2018		2017	
	Due from	Due to	Due from	Due to
State appropriations for current operations	$ 1,269		$ 1,355	
State capital appropriations – noncurrent	403,164		378,310	
Total due from State of Hawai‘i	$ 404,433		$ 379,665	
Imprest/petty cash advances		$ 77		$ 80
Advance		6,000		6,000
Employee fringe adjustments		63		37
Total due to State of Hawai‘i		$ 6,140		$ 6,117

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(All dollars reported in thousands)

10. Long-Term Liabilities

Long-term liability activity for the years ended June 30, 2018 and 2017 is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
2018					
Bonds payable					
Revenue bonds payable	$ 543,680	$ 110,795	$ 129,050	$ 525,425	$ 18,770
Other liabilities					
Workers' compensation	18,433	4,556	5,790	17,199	6,103
Accrued vacation	75,907	29,956	29,357	76,506	31,669
Net pension liability (Note 13)	1,704,470	229,360	285,230	1,648,600	-
Postemployment health care/life insurance benefits (Note 14)	788,773	1,090,340	95,253	1,783,860	-
Equipment lease obligation	-	30,531	-	30,531	2,103
Long-term debt	25,200	-	17,000	8,200	
Total other liabilities	2,612,783	1,384,743	432,630	3,564,896	39,875
Total long-term liabilities	$ 3,156,463	$ 1,495,538	$ 561,680	$ 4,090,321	$ 58,645
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 13)	1,144,564	657,300	97,394	1,704,470	-
Postemployment health care/life insurance benefits (Note 14)	722,757	115,716	49,700	788,773	-
Long-term debt	17,000	8,200	-	25,200	17,000
Total other liabilities	1,977,595	811,874	176,686	2,612,783	53,874
Total long-term liabilities	$ 2,540,215	$ 811,874	$ 195,626	$ 3,156,463	$ 72,989

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(All dollars reported in thousands)

Revenue Bonds Payable

The University’s revenue bonds payable at June 30, 2018 and 2017 is as follows:

	Series	Date Issued	Authorized	2018	2017
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
University Health & Wellness Center (interest rate, 3.5% to 5.0%)	Ref 2006A	October 25, 2006	133,810	-	16,045
Various acquisition and construction projects (interest rate, 2.5% to 6.0%)	2009A	April 15, 2009	100,000	5,690	84,765
University's Cancer Center (interest rate, 2.5% to 6.0%)	2010A-1, 2010A-2	October 7, 2010	138,640	118,195	121,455
Various construction projects (interest rate, 2.5% to 6.0%)	2010B-1, 2010B-2	October 7, 2010	154,090	135,355	138,995
Student Housing System at Mānoa and Telecommunications System (interest rate, 2.0% to 5.0%)	2012A(R)	February 22, 2012	8,575	240	1,775
Hilo College of Pharmacy and Law School Expansion and Modernization (interest rate, 1.0% to 4.7%)	2015A	September 24, 2015	8,575	8,220	8,400
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	12,725	15,510
University Health & Wellness Center (interest rate, 0.8% to 2.8%)	2015D(R)	September 24, 2015	25,715	19,795	24,835
University Health & Wellness Center (interest rate, 5.0%)	2015E(R)	April 20, 2016	67,400	67,400	67,400
Sinclair Library Basement Renovation (interest rate, 2.0% to 5.0%)	2017A	December 28, 2017	3,990	3,990	-
University Health & Wellness Center (interest rate, 3.0%)	2017B(R)	December 28, 2017	12,040	12,040	-
University Health & Wellness Center (interest rate, 3.28% to 3.38%)	2017C(R)	December 28, 2017	4,110	4,110	-
Frear Hall Construction, Student Housing System at Mānoa, Food Service System and Student Housing System at Hilo (interest rate, 3.0%)	2017D(R)	December 28, 2017	13,185	13,185	-
Frear Hall Construction, Student Housing System at Mānoa, Food Service System and Student Housing System at Hilo (interest rate, 3.28% to 3.65%)	2017E(R)	December 28, 2017	4,450	4,450	-
Various acquisition and construction projects (interest rate, 5.0%)	2017F(R)	December 28, 2017	52,275	52,275	-
Various acquisition and construction projects (interest rate, 2.10% to 3.85%)	2017G(R)	December 28, 2017	20,745	20,745	-
			$ 912,195	$ 525,425	$ 543,680

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In December 2017, the University issued $110,795 in Series 2017A ($3,990, tax-exempt new money), 2017B ($12,040, tax-exempt refunding), 2017C ($4,110, taxable refunding), 2017D ($13,185, tax-exempt refunding), 2017E ($4,450, taxable refunding), 2017F ($52,275, tax-exempt refunding) and 2017G ($20,745, taxable refunding) bonds (collectively, the “Series 2017 Bonds”) for the purpose of financing the costs of a University project, the renovation of the Gregg M. Sinclair Library basement, and refunding previously issued bonds. All Series 2017 bonds were delivered on December 28, 2017. Total premium for the Series 2017 Bonds approximated $10,607.

The proceeds of the Series 2017B, 2017C, 2017D, 2017E, 2017F and 2017G bonds were deposited into an irrevocable trust with an escrow agent to provide for the redemption of the outstanding principal of the Series 2006A University Bonds and Refunding Series 2006A University Bonds, and to provide for the defeasance and redemption of a portion of the Series 2009A University Revenue 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, 2018, $33,535 of bonds outstanding from the Series 2006A University Revenue Bonds and Refunding Series 2006A University Revenue Bonds were refunded on a current basis, and $76,400 of bonds outstanding from the Series 2009A University Revenue Bonds were considered defeased. The refunding and defeasance resulted in an accounting gain of $17,502 and an economic gain (difference between the present values of the debt service payment on the old and new debt) of $15,550. The coupon interest rates for the Series 2017 Bonds range from two percent to five percent (the first interest payment was paid on April 1, 2018) with the last maturity on October 1, 2038.

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

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

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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), 2015E(R), 2017B and 2017C bonds to finance the cost of construction of the medical school facility. The funds received from the State of Hawai‘i Tobacco Settlement Special Fund for debt service amounted to $9,397 and $11,799 in 2018 and 2017, respectively.

The revenue bonds are paid from certain unrestricted revenues in annual installments, including semi-annual interest payments ranging from $12 to $12,843 with the final payment due in October 2044. Series 2006A, 2009A, 2010, 2012A(R), 2015 and Series 2017 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), 2015 and Series 2017 bonds, interest and premiums (if any).

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

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(All dollars reported in thousands)

At June 30, 2018, future maturities of revenue bonds are as follows:

	Principal	Interest
Year ending June 30,		
2019	$ 18,770	$ 25,382
2020	19,165	24,751
2021	19,695	24,083
2022	20,305	23,352
2023	21,050	22,479
2024–2028	117,885	96,384
2029–2033	141,110	65,566
2034–2038	112,245	31,469
2039–2043	54,200	4,934
2044–2045	1,000	47
	$ 525,425	$ 318,447

Bond Premiums

Activity related to the premiums on revenue bonds for the years ended June 30, 2018 and 2017 is as follows:

	Series	Beginning Balance	Additions	Reductions	Ending Balance
2018					
John A. Burns School of Medicine	Ref 2006A	$ 178	$ -	$ 178	$ -
University's Cancer Center	2010A	249	-	147	102
Various construction projects	2010B	405	-	236	169
Student Housing	2015B(R)	5,170	-	285	4,885
John A. Burns School of Medicine	2015E(R)	7,410	-	582	6,828
Sinclair Library basement renovation	2017A	-	536	25	511
John A. Burns School of Medicine	2017B	-	275	11	264
Student Housing	2017D	-	128	19	109
Student Housing	2017F	-	9,668	351	9,317
Total bond premiums		$ 13,412	$ 10,607	$ 1,834	$ 22,185
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		$ 14,754	$ -	$ 1,342	$ 13,412

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(All dollars reported in thousands)

Equipment Lease Obligation

As discussed in Note 8, in November 2017, the University entered into TELP agreements to acquire energy conservation equipment for its Oahu Campuses and Maui College. For the Oahu Campuses, payments will commence on August 1, 2018 and continue through August 1, 2031 at a tax-exempt interest rate of 2.55 percent. For Maui College, payments will commence on December 1, 2018 and continue through December 1, 2031 at a tax-exempt interest rate of 2.55 percent.

Year ending June 30,	**Principal**	**Interest**
2019	$ 2,103	$ 602
2020	1,437	724
2021	1,539	688
2022	1,565	649
2023	1,709	609
2024–2028	10,899	2,317
2029–2032	11,279	727
	$ 30,531	$ 6,316

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 Oʻahu campus located in Kapolei, Hawaiʻi.

The Note bore interest at the rate of 1.5 percent per annum and was due and payable semi-annually to the Lender on January 1 and July 1 each year until the Note was paid in full. Under the terms of the Note, repayment each fiscal year was limited and subject to specific appropriations by the State to make such payments. As of June 30, 2017, $17,000 remained outstanding. Final payment was made in April 2018.

11. 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, 2019. 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 4.00 and 3.28 percent at June 30, 2018 and 2017, respectively. At June 30, 2018 and 2017, 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, 2018 and 2017, the outstanding balance on the Loan was $8,200.

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(All dollars reported in thousands)

12. Property Leases

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

	Lease Amount
Year ending June 30,	
2019	$ 1,884
2020	913
2021	640
2022	584
2023	324
2024–2028	625
2029–2033	450
Thereafter	1,534
	$ 6,954

Rent expense for outside space for the years ended June 30, 2018 and 2017 approximated $7,129 and $6,420, respectively.

13. 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

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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.

- 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

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of credited service but are payable immediately, without an actuarial reduction, and at a minimum of 30 percent of average final compensation.

- Death Benefits – For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50 percent of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

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

Contributory Class for Members Hired After June 30, 2012

- Retirement Benefits – General employees' retirement benefits are determined as 1.75 percent of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 60.

- Disability and Death Benefits – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 50 percent of their average final compensation plus refund of contributions and accrued interest. Ten years of credited service is required for ordinary disability.

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

Hybrid Class for Members Hired Prior to July 1, 2012

- Retirement Benefits – General employees' retirement benefits are determined as two percent of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 62. General employees with 30 years of credited service are eligible to retire at age 55.

- Disability Benefits – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35 percent of their average final compensation plus refund of their contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25 percent of average final compensation.

- Death Benefits – For service-connected deaths, the designated surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued

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interest plus a monthly benefit of 50 percent of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

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

Hybrid Class for Members Hired After June 30, 2012

- Retirement Benefits – General employees' retirement benefits are determined as 1.75 percent of average final compensation multiplied by the years of credited service. General employees with 10 years of credited service are eligible to retire at age 65. Employees with 30 years of credited service are eligible to retire at age 60.

- Disability and Death Benefits – Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least 10 years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest, 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 18 percent and 17 percent for fiscal years 2018 and 2017, respectively. Contributions to the pension plan from the University for the years ended June 30, 2018 and 2017 were $111,436 and $98,865, 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, 2018 and 2017, the University reported a liability of $1,648,600 and $1,704,470, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and 2016, 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, 2017 and 2016, the University's proportion was 12.73 percent and 12.75 percent, respectively, which was a decrease of 0.02 percent and 0.36 percent from its proportion measured as of June 30, 2016 and 2015, respectively.

There was no change in actuarial assumptions as of June 30, 2016 to June 30, 2017. There were no other changes between the measurement date, June 30, 2017, and the reporting date, June 30, 2018, that are expected to have a significant effect on the proportionate share of the net pension liability.

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(All dollars reported in thousands)

For the years ended June 30, 2018 and 2017, the University recognized pension expense of $208,927 and $190,485, respectively. At June 30, 2018 and 2017, 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
2018		
Difference between expected and actual experience	$ 26,420	$ 17,667
Net difference between projected and actual investment earnings on pension plan investments	-	4,881
Change in assumptions	251,735	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,543	28,614
Contributions subsequent to the measurement date	111,436	-
Total deferred inflows and outflows of resources	$ 391,134	$ 51,162
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	$ 557,225	$ 65,171

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(All dollars reported in thousands)

The $111,436 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, 2019. 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. 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,	
2019	$ (49,064)
2020	(80,296)
2021	(71,569)
2022	(27,281)
2023	(326)
	$ (228,536)

Actuarial Assumptions

The total pension liability in the June 30, 2017 and 2016 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 %
Payroll growth rate	3.50 %
Investment rate of return	7.00 %

The actuarial assumptions used in the June 30, 2017 and 2016 valuation were 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 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, 2017 and 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.

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 the target asset allocation percentage and by adding expected inflation. The target allocation and

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(All dollars reported in thousands)

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%	5.80%
Principal protection	7.0%	0.20%
Real return	10.0%	3.60%
Crisis risk offset	20.0%	3.10%
Total	100.0%	

Discount Rate

The discount rate used to measure the net pension liability was seven percent, consistent with the 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 seven percent, for the measurement dates June 30, 2017 and 2016, 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 (six percent) or one percentage point higher (eight percent) than the current rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
2018			
The University’s proportionate share of the net pension liability	$ 2,136,421	$ 1,648,600	$ 1,246,368

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
2017			
The University’s proportionate share of the net pension liability	$ 2,179,604	$ 1,704,470	$ 1,311,313

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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, 2018 and 2017, the amount payable to the ERS was $1,279 and $768, respectively.

Other Benefits

The State absorbs the fringe benefit cost for employees paid from State and federal appropriations. In fiscal years 2017 and 2016, 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 $255,042 and $223,116 for fiscal years 2018 and 2017, 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, 2018 and 2017, accumulated sick leave approximated $469,824 and $463,682, 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 2018 and 2017 were $3,253 and $3,556, respectively. Temporary wage loss payments for fiscal years 2018 and 2017 amounted to $885 and $1,156, respectively.

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14. Postemployment Health Care and Life Insurance Benefits

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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(All dollars reported in thousands)

Employees Covered by Benefit Terms
At July 1, 2017, the following number of plan members were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	35,374
Inactive plan members entitled to but not yet receiving benefits	8,124
Active plan members	50,101
Total plan members	93,599

Contributions
Contributions are governed by HRS Chapter 87A and may be amended through legislation. Contributions to the OPEB plan from the University was $92,918 for the fiscal year ended June 30, 2018. The employer is required to make all contributions for members.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB
At June 30, 2018, the University reported a net OPEB liability of approximately $1.78 billion. The net OPEB liability was measured as of July 1, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

There were no changes between the measurement date, July 1, 2017, and the reporting date, June 30, 2018, that are expected to have a significant effect on the net OPEB liability.

For the year ended June 30, 2018, the University recognized OPEB expense of approximately $117,937. At June 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	$ -	$ 2,335
Contributions subsequent to the measurement date	119,714	-
Total deferred inflows and outflows of resources	$ 119,714	$ 2,335

The $119,714 reported as deferred outflows of resources related to OPEB resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years ending June 30,	
2019	$ (584)
2020	(584)
2021	(584)
2022	(583)
	$ (2,335)

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(All dollars reported in thousands)

Actuarial Assumptions

The total OPEB liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions adopted by the Board of Trustees of the Hawaii Employer-Union Health Benefits Trust Fund of the State of Hawaii, on January 8, 2018, based on the experience study covering the five year period ended June 30, 2015:

Inflation	2.50%
Payroll growth rate	3.50% - 7.00%
Investment rate of return	7.00%
Healthcare inflation rates	
PPO	6.60%, 6.60% and 9.00% initial, 4.86% after 14 years
HMO	9.00% initial, 4.86% after 14 years
Dental	3.50%
Vision	2.50%
Medicare Part B	2.00% and 5.00% initial, 4.70% after 14 years

Mortality rates are based on system-specific mortality tables utilizing scale BB to project generational morality improvement.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each asset class are summarized in the following table:

Strategic Allocation	Long-Term Target Allocation	Long-Term Expected Real Rate of Return
U.S. equity	19 %	5.50%
International equity	19 %	7.00%
U.S. microcap	7 %	7.00%
Private equity	10 %	9.25%
REITs	6 %	5.85%
Core real estate	10 %	3.80%
Global options	7 %	5.50%
Core bonds	3 %	0.55%
Long treasuries	7 %	1.90%
Trend following	7 %	1.75%
TIPS	5 %	0.50%
Total	100 %	

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(All dollars reported in thousands)

Single Discount Rate

The discount rate used to measure the net OPEB liability was 7.00 percent, based on the expected rate of return on OPEB plan investments of 7.00 percent and the municipal bond rate of 3.56 percent (based on the daily rate closest to but not later than the measurement date of the Fidelity “20-year Municipal GO AA index”). Beginning with the fiscal year 2019 contribution, the University’s funding policy is to pay the recommended actuarially determined contribution, which is based on layered, closed amortization periods. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in Net OPEB Liability

The following table represents a schedule of changes in the net OPEB liability. The ending balances are as of the measurement date, July 1, 2017.

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Beginning balance	$ 1,853,649	$ 92,473	$ 1,761,176
Service cost	31,124	-	31,124
Interest on the total OPEB liability	94,505	-	94,505
Employer contributions	-	92,918	(92,918)
Net investment income	-	9,303	(9,303)
Benefit payments	(46,725)	(46,725)	-
Administrative expense	-	(23)	23
Other	-	747	(747)
Net changes	78,904	56,220	22,684
Ending balance	$ 1,932,553	$ 148,693	$ 1,783,860

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates

The following table presents the University’s net OPEB liability calculated using the discount rate of seven percent, as well as what the University’s net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (six percent) or one percentage point higher (eight percent) than the current discount rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
The University’s proportionate share of the net OPEB liability	$ 2,093,685	$ 1,783,860	$ 1,533,147

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(All dollars reported in thousands)

The following table presents the University's net OPEB liability calculated using the assumed healthcare cost trend rate, as well as what the University's net OPEB liability would be if it were calculated using the trend rate that is one percentage point lower or one percentage point higher than the current healthcare cost trend rate:

	1% Decrease	Healthcare Cost Trend Rate	1% Increase
The University's proportionate share of the net OPEB liability	$ 1,518,711	$ 1,783,860	$ 2,118,508

Payables to the OPEB Plan
At June 30, 2018 and 2017, the University had no payables to EUTF.

As the University's consolidated financial statements are comparative, the following disclosures have been included as they are relevant to the OPEB liability and related balances in fiscal year 2017 prior to the adoption of Statement No. 75 in fiscal year 2018.

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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(All dollars reported in thousands)

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	(40,377)
Annual OPEB cost	115,716
Contributions made	(49,700)
Increase in net OPEB obligation	66,016
Net OPEB obligation	
Beginning of year	722,757
End of year	$ 788,773
Actuarial accrued liability ("AAL") July 1, 2015	$ 1,262,765
Funded OPEB plan assets	(30,076)
Unfunded actuarial accrued liability ("UAAL") July 1, 2015	$ 1,232,689
Funded ratio	2.4%
Covered payroll	$ 587,203
UAAL as percentage of covered payroll	209.9%

The University remitted $93,101 in State-assessed OPEB contributions for the year ended June 30, 2017. The University's actuarially determined minimum OPEB contribution was $49,700 for the year ended June 30, 2017. 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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(All dollars reported in thousands)

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 these 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
Actuarial cost method	Entry age normal
Amortization method	Level percent, closed
Remaining amortization period	27 years
Asset valuation method	Market
Actuarial assumptions	
Investment rate of return	7.0%
Projected salary increases	3.5%
Healthcare inflation rates	
PPO	9.0% initial, 5.0% after 8 years
HMO	7.0% initial, 5.0% after 8 years
Dental	4.0%
Vision	3.0%
Medicare Part B	3.0% initial, 5.0% after 2 years

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(All dollars reported in thousands)

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.

15. Other Noncurrent Liabilities

Other noncurrent liabilities at June 30, 2018 and 2017 are comprised of:

	2018	2017
Liabilities under split interest agreements	$ 12,566	$ 12,608
Amounts held for others	3,936	3,882
Refundable advance from the Federal Perkins loan program	12,013	13,596
Other	3,274	3,404
	$ 31,789	$ 33,490

16. 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 $108,031 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, 2018.

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.

The net amount of the University's State general and capital appropriations were $485,153 and $184,103 for the year ended June 30, 2018 and $471,453 and $159,094 for the year ended June 30, 2017.

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(All dollars reported in thousands)

Net general and capital appropriations for the year ended June 30, 2018 were as follows:

General appropriations	
Act 49, SLH 2017, Appropriation Warrant No. 10	$ 475,757
Act 61, SLH 2017, Appropriation Warrant No. 70	200
Total funds lapsed	(13)
Executive restriction	(2,203)
Collective bargaining adjustment	11,412
Total general appropriations	$ 485,153
Capital appropriations	
Sections 47, 83 & 93 of Act 119, SLH 2015, Amended by Act 124 SHL 2016	$ 35,000
Section 47 & 83 of Act 119, SLH 2015, Amended by Act 124 SLH 2016	29,700
Section 49, SLH 2017 Sections 30 & 56	120,220
Total funds lapsed	(817)
Total capital appropriations	$ 184,103

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	35,852
Total general appropriations	$ 471,453
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	(506)
Total capital appropriations	$ 159,094

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(All dollars reported in thousands)

17. 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, 2018 and 2017:

Condensed Consolidating Statements of Net Position

	2018				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Assets and Deferred Outflows of Resources					
Current assets	$ 505,165	$ 32,055	$ 29,967	$ -	$ 567,187
Interdepartmental receivables	22,241	6,327	6,323	(34,891)	-
Capital assets, net	2,114,726	3,145	10,544	-	2,128,415
Other assets	541,489	-	549,125	-	1,090,614
Total assets	3,183,621	41,527	595,959	(34,891)	3,786,216
Deferred outflows of resources	525,585	68	-	-	525,653
Total deferred outflows of resources	525,585	68	-	-	525,653
Total assets and deferred outflows of resources	$ 3,709,206	$ 41,595	$ 595,959	$ (34,891)	$ 4,311,869
Liabilities, Deferred Inflows of Resources and Net Position					
Current liabilities	$ 241,928	$ 26,953	$ 2,959	$ -	$ 271,840
Interdepartmental payables	19,769	644	7,799	(28,212)	-
Noncurrent liabilities	4,056,220	4,728	24,702	-	4,085,650
Total liabilities	4,317,917	32,325	35,460	(28,212)	4,357,490
Deferred inflows of resources	53,497	-	-	-	53,497
Total deferred inflows of resources	53,497	-	-	-	53,497
Net position					
Net investment in capital assets	1,593,171	3,145	2,344	-	1,598,660
Restricted					
Nonexpendable	10,493	-	356,383	(6,323)	360,553
Expendable	404,093	-	202,773	-	606,866
Unrestricted	(2,669,965)	6,125	(1,001)	(356)	(2,665,197)
Total net position	(662,208)	9,270	560,499	(6,679)	(99,118)
Total liabilities, deferred inflows of resources and net position	$ 3,709,206	$ 41,595	$ 595,959	$ (34,891)	$ 4,311,869

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(All dollars reported in thousands)

	2017				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
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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(All dollars reported in thousands)

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

	2018				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Operating revenues					
Student tuition and fees, net	$ 259,205	$ -	$ -	$ (318)	$ 258,887
Federal appropriations, grants and contracts	306,672	-	-	7	306,679
State and local grants and contracts	40,405	1,788	-	(1,107)	41,086
Nongovernmental sponsored programs	50,031	-	-	(16,266)	33,765
Sales and services of educational departments, other	33,509	5,863	4,978	(9,071)	35,279
Auxiliary enterprises	94,732	-	-	-	94,732
Other operating revenues	673	-	955	-	1,628
Total operating revenues	785,227	7,651	5,933	(26,755)	772,056
Operating expenses					
Depreciation	126,847	570	212	-	127,629
Other operating expenses	1,621,498	7,445	60,584	(27,352)	1,662,175
Total operating expenses	1,748,345	8,015	60,796	(27,352)	1,789,804
Operating income (loss)	(963,118)	(364)	(54,863)	597	(1,017,748)
Nonoperating activity					
Nonoperating revenues	528,963	332	64,886	(724)	593,457
Capital contributions and additions to permanent and term endowments	182,952	-	17,717	(545)	200,124
Transfers	276,113	-	-	-	276,113
Total nonoperating activity	988,028	332	82,603	(1,269)	1,069,694
Increase (decrease) in net position	24,910	(32)	27,740	(672)	51,946
Net position					
Beginning of year	192,367	10,408	532,759	(6,007)	729,527
Adjustment for change in accounting principle	(879,485)	(1,106)	-	-	(880,591)
Beginning of year, as restated	(687,118)	9,302	532,759	(6,007)	(151,064)
End of year	$ (662,208)	$ 9,270	$ 560,499	$ (6,679)	$ (99,118)

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(All dollars reported in thousands)

	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

Condensed Consolidating Statements of Cash Flows

	2018			
	University	Research Corporation	Foundation	Total
Net cash provided by (used in)				
Operating activities	$ (552,009)	$ 8,153	$ (13,009)	$ (556,865)
Noncapital financing activities	592,126	-	17,832	609,958
Capital and related financing activities	(44,808)	(1,218)	-	(46,026)
Investing activities	50,994	(1,077)	(3,203)	46,714
Total change in cash	46,303	5,858	1,620	53,781
Cash and cash equivalent balances				
Beginning of year	54,048	8,156	6,892	69,096
End of year	$ 100,351	$ 14,014	$ 8,512	$ 122,877

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(All dollars reported in thousands)

	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	(17,437)	(15,001)	(1,645)	(34,083)
Cash and cash equivalent balances				
Beginning of year	71,485	23,157	8,537	103,179
End of year	$ 54,048	$ 8,156	$ 6,892	$ 69,096

18. Litigation, Other Contingent Liabilities and Commitments

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

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

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

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

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

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

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

Construction and Other Contracts
The University is committed under contracts awarded for construction and other services. These commitments amounted to approximately $312,859 and $294,017 as of June 30, 2018 and 2017, respectively.

Collective Bargaining Agreements
The Hawaii State Constitution under Article XIII, Section 2, grants public employees in the State the right to organize for the purpose of collective bargaining as provided by law. Chapter 89, Hawai'i Revised Statutes ("HRS"), provides for 14 recognized bargaining units for all public employees throughout the State, including State and county 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 the University is part of the State, most employees working at the University are included in a bargaining unit as defined in HRS §89-6(a), and depending on the nature of their positions. 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 Units 1, 2, 3, 4, 9 and 10. The University's non-civil service personnel are Board appointees, and include faculty members and administrative, professional and technical (APT) staff, who are included in Units 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.

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Some employees (e.g., certain contractual hires) are not parties to any recognized bargaining unit.

Units 1, 7, and 10, have CBAs that are effective through June 30, 2021. The salary increases for these units through the term of the CBAs have been reported in the University's previous financial statement.

For Unit 2, 3, 4, 8, and 9, the CBAs are effective through June 30, 2019. For these units, the University has participated in multi-employer caucuses beginning in November of 2017, and continuing to the present. The University has also participated in multi-employer collective bargaining with the HGEA beginning in July of 2018. However, negotiations are currently held in abeyance by the parties until the general election in November of 2018 is completed, and until the State has a firmer estimate of its budget to be presented to the State Legislature in January 2019.

For Unit 7, the current CBA requires that, not less than ninety days before the beginning of the 2019 legislative session, the parties shall meet to bargain in good faith on a salary enhancement to be effective on January 2, 2020, and a salary enhancement to be effective on January 1, 2021, equivalent to the average negotiate step movement plans in other bargaining units or 1.2%, whichever is higher. The parties shall also negotiate contributions to the EUTF, to be effective as of July 1 2019, and thereafter. In meeting this obligation, the University and the UHPA met on September 19, 2018, to open negotiations.

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Required Supplementary Information Other Than Management's Discussion and Analysis

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Schedule of Proportionate Share of the Net Pension Liability (Unaudited)
Year Ended June 30, 2018
(All dollars reported in thousands)

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, 2018	12.73%	$1,648,600	$586,658	281%	54.80%
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%

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(All dollars reported in thousands)

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Pension 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, 2018	$111,436	$111,436	$0	$586,658	19.00%
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 2018, 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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(All dollars reported in thousands)

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Proportionate Share of Net OPEB Liability

	2018
Total OPEB liability	
Service cost	$ 31,124
Interest on the total OPEB liability	94,505
Benefit payments	(46,725)
Net change in total OPEB liability	78,904
Total OPEB liability – beginning	1,853,649
Total OPEB liability – ending	$ 1,932,553
Plan fiduciary net position	
Employer contributions	$ 92,918
Net investment income	9,303
Benefit payments	(46,725)
OPEB plan administrative expense	(23)
Other	747
Net change in plan fiduciary net position	56,220
Plan fiduciary net position – beginning	92,473
Plan fiduciary net position – ending	148,693
Net OPEB liability – ending	$ 1,783,860
Plan fiduciary net position as a percentage of OPEB liability	7.69%
Covered-employee payroll	$ 586,658
Net OPEB liability as a percentage of covered-employee payroll	304.07%

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University of Hawai‘i
State of Hawai‘i
(A Component Unit of the State of Hawai‘i)
Schedule of OPEB Contributions (Unaudited)
Year Ended June 30, 2018
(All dollars reported in thousands)

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of OPEB Contributions

	2018
Actuarially determined contribution	$ 135,072
Contributions in relation to the actuarially required contribution	119,714
Contributions deficiency	$ 15,358
University's covered-employee payroll	$ 586,658
Contributions as a percentage of covered employee payroll	20.41%

1. 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 for fiscal year ending June 30, 2018 were as follows:

Actuarial valuation date	July 1, 2015
Actuarial cost method	Entry age normal
Amortization method	Level percent, closed
Remaining amortization period	27 years
Asset valuation method	Market
Actuarial assumptions	
Investment rate of return	7.0%
Projected salary increases	3.5%
Healthcare inflation rates	
PPO	9.0% initial, 5.0% after 8 years
HMO	7.0% initial, 5.0% after 8 years
Dental	4.0%
Vision	3.0%
Medicare Part B	3.0% initial, 5.0% after 2 years

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UNIVERSITY OF HAWAI'I

Office of Intercollegiate Athletics • 1337 Lower Campus Road • Honolulu, Hawai'i 96822-2370

RECEIVED

November 13, 2018

MEMORANDUM

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UNIVERSITY OF HAWAII
PRESIDENT'S OFFICE

18 NOV 21 P2:12

UNIVERSITY OF HAWAII
BOARD OF REGENTS

TO: Mike McEnerney
Chair, Board of Regents Committee on Independent Audit

VIA: David Lassner
President, University of Hawai'i

VIA: Kalbert Young
Vice President for Budget and Finance, CFO

VIA: David Lassner
Interim Chancellor, University of Hawai'i at Mānoa

FROM: David Matlin
Director, University of Hawai'i at Mānoa Intercollegiate Athletics DAKM

SUBJECT: University of Hawai'i at Mānoa Intercollegiate Athletics Audit Reports for the year ended June 30, 2018

The following and attached University of Hawai'i at Mānoa Intercollegiate Athletics reports for the year ended June 30, 2018 are submitted for the Board of Regents Committee on Independent Audit review and acceptance.

1. Report on Agreed-Upon Procedures
2. Internal Control and Business Issues Report

Accuity, LLP has prepared the Report on Agreed-Upon Procedures and the Internal Control and Business Issues Report.

Attachments

Copy: Glenn Shizumura, Director of the Office of Internal Audit
Kathy Cutshaw, Vice Chancellor for Administration, Finance & Operations

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Accuity LLP
CERTIFIED PUBLIC ACCOUNTANTS
Quality. Integrity. Insight.

University of Hawai‘i at Mānoa
Intercollegiate Athletics Department

Report to the Board of Regents
Year Ended June 30, 2018

an independent member of BAKER TILLY INTERNATIONAL

To the Board of Regents
University of Hawai‘i

We are pleased to present you with our agreed-upon procedures report in accordance with National Collegiate Athletics Association (“NCAA”) Bylaw 3.2.4.15 for the year ended June 30, 2018.

The ultimate goal of our agreed-upon procedures engagement was to ensure that the University of Hawai‘i at Mānoa Intercollegiate Athletics’ Statement of Revenues and Expenses for the year ended June 30, 2018 was presented in compliance with NCAA Bylaw 3.2.4.15.

We are able to report to you that our agreed-upon procedures engagement did not detect any material misstatements in the University of Hawai‘i at Mānoa Intercollegiate Athletics’ Statement of Revenues and Expenses for the year ended June 30, 2018. However, we did identify a recurring deficiency in the University of Hawai‘i at Mānoa Intercollegiate Athletics’ reporting of athletic student aid.

We would like to thank the management and staff of the University for the cooperation and assistance provided to us during our agreed-upon procedures engagement.

Auditor Communications

The University of Hawaiʻi at Mānoa Intercollegiate Athletics ("Mānoa Athletics") is responsible for the sufficiency of the agreed-upon procedures. We are responsible for carrying out the procedures and reporting any findings in accordance with AT Section 201, *Agreed-Upon Procedures Engagements*.

Based on the subject matter and procedures as defined in the NCAA Bylaws and as agreed upon by Mānoa Athletics, we noted a finding related to athletic student aid meriting inclusion in our agreed-upon procedures report.

We have no responsibility to determine the differences between the agreed-upon procedures performed and any procedures that would have been performed had we been engaged to perform another form of attest engagement.

an independent member of BAKER TILLY INTERNATIONAL

Auditor Communications

Other matters for communication to the Board of Regents include:

- Our responsibilities are contained in our contract with the University (Contract No. 180086).
- We were not engaged to perform a separate audit of Mānoa Athletics as of and for the year ended June 30, 2018.
- We identified certain deficiencies in Mānoa Athletics internal control procedures that are included in our Internal Control and Business Issues Report.

an independent member of BAKER TILLY INTERNATIONAL

Accuity LLP

CERTIFIED PUBLIC ACCOUNTANTS

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CERTIFIED PUBLIC ACCOUNTANTS

University of Hawaiʻi at Mānoa Intercollegiate Athletics (Athletics Department)

Report on Agreed-Upon Procedures

June 30, 2018

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Accuity LLP
CERTIFIED PUBLIC ACCOUNTANTS

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Report of Independent Accountants

To the Board of Regents
University of Hawaiʻi

We have performed the procedures enumerated below, which were agreed to by the University of Hawaiʻi at Mānoa Intercollegiate Athletics (the "Athletics Department"), solely to assist the University of Hawaiʻi (the "University") in evaluating whether the accompanying Statement of Revenues and Expenses (the "Statement") of the Athletics Department is in compliance with the National Collegiate Athletics Association ("NCAA") Bylaw 3.2.4.15 for the year ended June 30, 2018.

Management of the Athletics Department is responsible for the Statement and the Statement's compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

A. We obtained the Athletics Department's Statement (see Appendix Number 1) and supporting worksheets, and compared each of the revenue and expense amounts on the Statement to management's worksheets.

   No differences greater than $51,000 were found as a result of these comparisons. Based upon agreement with the Athletics Department's management, differences less than $51,000 were not investigated.

B. We compared amounts on management's worksheets to the University's general ledger.

   No differences greater than $51,000 were found as a result of these comparisons. Based upon agreement with the Athletics Department's management, differences less than $51,000 were not investigated.

C. We compared individual revenue and expense accounts appearing on the Statement which were greater than 10% of total revenues and expenses, respectively, to prior year amounts and investigated variances exceeding 10% of the reported revenues and expenses (see Appendix Number 1).

   All individual revenue and expense accounts that were greater than 10% of total revenues and expenses, respectively, and whose variances exceeded 10% of the reported revenues and expenses had supporting documentation and reasonable explanations.

999 Bishop Street, Suite 1900
Honolulu, Hawaii 96813
Telephone: 808 531 3400 Facsimile: 808 531 3433

D. We compared each contribution of cash, services or goods that were received by the Athletics Department and that constituted 10% or greater of all contributions received by the Athletics Department to supporting documentation maintained by the Athletics Department's business office.

No exceptions were noted as a result of these comparisons.

E. We selected a sample of four broadcast, television, radio and internet rights revenue receipts, which aggregated $2,040,778, and compared the revenue receipts to supporting documentation maintained by the Athletics Department.

No exceptions were noted as a result of these comparisons.

F. We selected a sample of twelve royalty, advertisement and sponsorship revenue receipts, which aggregated $2,653,355, and compared the revenue receipts to supporting documentation maintained by the Athletics Department.

No exceptions were noted as a result of these comparisons.

G. We selected a sample of ten tournament revenue receipts, which aggregated $4,004,261, and compared the revenue receipts to supporting documentation maintained by the Athletics Department.

No exceptions were noted as a result of these comparisons.

H. We compared total direct institutional support receipts of $12,983,997 to supporting documentation maintained by the Athletics Department.

No exceptions were noted as a result of these comparisons.

I. We selected a sample of ten concession revenue receipts, which aggregated to $337,914, and compared the revenue receipts to supporting documentation maintained by the Athletics Department.

No exceptions were noted as a result of these comparisons.

J. We selected one rental revenue receipt, which amounted to $94,744, and compared the revenue receipt to supporting documentation maintained by the Athletics Department.

No exceptions were noted as a result of this comparison.

K. We selected a sample of two guarantee revenue receipts, which aggregated $1,000,000, and compared the revenue receipts to supporting documentation maintained by the Athletics Department.

No exceptions were noted as a result of these comparisons.

L. We read four sports camp contracts and obtained an understanding of the Athletics Department's revenue recognition policy. We selected a sample of five camp participants from camp participant listings for each of the four sports camps selected, and compared the revenue receipts from these participants to supporting documentation maintained by the Athletics Department.

No exceptions were noted as a result of our procedures performed over individual camp participants.

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M. We selected season ticket office sales reports for football, men's basketball and women's volleyball. We recalculated revenue totals related to tickets sold, and compared the ticket revenues to the general ledger.

No exceptions were noted for the items recalculated or as a result of these comparisons.

We selected a sample of ten individual football ticket sales receipts and compared the tickets sales to supporting documentation maintained by the Athletics Department.

No exceptions were noted as a result of these comparisons.

N. We selected a sample of forty students who received institutional financial aid and compared the award amounts per the students' account detail to the related award letters sent to the students.

No exceptions were noted as a result of these comparisons. However, for 2 out of 40 student-athletes selected for testing, we noted that the total institutional financial aid amount as stated per the student scholarship detail prepared by the Student Affairs division of the Athletics Department did not agree to the information as recorded in the NCAA Compliance Assistant program.

For one of the affected student-athletes, we noted that the institutional financial aid amounts as recorded in the NCAA Compliance Assistant program were accurate. Furthermore, although the institutional financial aid amount as recorded in the NCAA Compliance Assistant program was inaccurate for the second affected student-athlete, we noted that neither student-athlete received financial aid in excess of the maximum limits.

O. We obtained a listing of coaches employed by the Athletics Department. We selected three head coaches and compared their salaries recorded in the Statement to their employment contracts in force. We also compared the coaches' compensation for the 2017 calendar year to their W-2 statements.

No exceptions were noted as a result of these comparisons.

P. We obtained a listing of administrative employees employed by the Athletics Department. We selected three administrative employees and compared their pay information per their respective payroll notification forms to the general ledger and related expense line item in the Statement. We also compared the employees' compensation for the 2017 calendar year to their W-2 statements.

No exceptions were noted as a result of these comparisons.

Q. We obtained and read the Athletics Department's recruiting and travel policies and compared the policies to the NCAA policies.

No differences were noted between the Athletics Department and NCAA policies with respect to allowable recruiting and travel.

R. We obtained and documented an understanding of the University's methodology for allocating indirect facilities and administrative support to the Athletics Department. We summed the indirect facilities and administrative support totals reported by the Athletics Department in the Statement.

No matters came to our attention as a result of the procedures performed.

S. We selected a sample of twenty operating expense transactions, which aggregated $262,541, and compared the expense transactions to supporting documentation maintained by the Athletics Department.

No exceptions were noted as a result of these comparisons.

T. We selected a sample of two contracts pertaining to amounts paid to visiting institutions, which aggregated $500,000, and compared the expense transactions to supporting documentation maintained by the Athletics Department.

No exceptions were noted as a result of these comparisons.

U. We obtained and read the audited financial statements of the University of Hawaii Foundation (the "Foundation") and obtained and reviewed the general ledger of ‘Ahahui Koa Ānuenue.

We noted no comments or other matters related to the booster organization accounts maintained by the Foundation and ‘Ahahui Koa Ānuenue.

V. We compared the amounts in the booster organizations' statements of revenues and expenditures to their respective general ledgers. A summary of the cash transactions of booster organization accounts maintained by the Foundation and ‘Ahahui Koa Ānuenue is presented as Appendix Number 2.

No exceptions were noted as a result of these comparisons.

W. We obtained schedules of expenditures made by the booster organizations for or on behalf of the Athletics Department and its employees, and compared such amounts to the accounting records of the Athletics Department.

No exceptions were noted as a result of these comparisons.

X. We selected a sample of thirty booster organization cash receipts of the Foundation and ten booster organization cash receipts of ‘Ahahui Koa Ānuenue, which aggregated $869,584 and $75,839, respectively, and compared the cash receipts to deposit records, membership applications where applicable, and other supporting documents.

No exceptions were noted as a result of these comparisons.

Y. We selected a sample of thirty booster organization cash disbursements of the Foundation and thirty booster organization cash disbursements of ‘Ahahui Koa Ānuenue, which aggregated $250,519 and $208,644, respectively, and compared the disbursements to canceled checks, invoices and other supporting documents.

No exceptions were noted as a result of these comparisons.

Z. We obtained and read the minutes of ‘Ahahui Koa Ānuenue's governing body to gain an understanding of the potential financial transactions made for or on behalf of the Athletics Department. We selected a sample of two financial transactions and compared them to the accounting records of the booster organizations.

No matters came to our attention as a result of the procedures performed.

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AA. We obtained and documented an understanding of the internal controls in place surrounding the recordation of revenues and expenses related to booster organizations.

No matters came to our attention as a result of the procedures performed.

BB. We compared the sports sponsored by the Athletics Department as reported in the NCAA Membership Financial Reporting System to the squad lists as maintained by the Athletics Department. The information compared was for sports sponsored during the 2016 – 2017 academic year, as reported to the NCAA during the year ended June 30, 2018.

No matters came to our attention as a result of the procedures performed.

CC. We compared the Sports Sponsorship and Demographics Forms Report maintained by the Athletics Department to the information as reported in the NCAA Membership Financial Reporting System. We also noted that the sports and contests reported by the Athletics Department met the minimum requirements of NCAA Bylaw 20.9.6.3. The information compared was for sports and contents held during the 2016 – 2017 academic year, as reported to the NCAA during the year ended June 30, 2018.

No matters came to our attention as a result of the procedures performed.

DD. We agreed the total number of student-athletes who received a Pell Grant award during the academic year and the total value of these Pell Grants as reported in the NCAA Membership Financial Reporting System to a report generated out of the University's financial aid records. The information compared was for Pell Grants awarded during the 2016 – 2017 academic year, as reported to the NCAA during the year ended June 30, 2018.

No matters came to our attention as a result of the procedures performed.

* * * * * * *

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the compliance of the accompanying Statement. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. The accompanying Statement for the year ended June 30, 2018, has not been audited, reviewed or compiled by us and, accordingly, we do not express an opinion or any other form of assurance on it.

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This report is intended solely for the information and use of University management and the Board of Regents and is not intended to be and should not be used by anyone other than these specified parties.

Honolulu, Hawaiʻi
December __, 2018

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University of Hawai‘i at Mānoa
Intercollegiate Athletics Department
Statement of Revenues and Expenses
Year Ended June 30, 2018

Appendix 1

	Football	Men's Basketball	Women's Volleyball	Women's Basketball	Other Sports	Nonprogram Specific	Total	
Revenues								
Ticket sales	$ 2,751,921	$ 962,491	$ 883,148	$ 42,740	$ 766,231	$ -	$ 5,406,531	
Student fees	-	-	-	-	-	1,509,897	1,509,897	
Away-game sales and guarantees	1,000,000	105,000	-	25,000	27,849	-	1,157,849	
Contributions	1,192,748	349,592	69,055	178,202	396,269	3,083,311	5,269,177	(1)
Direct state or other government support	-	-	-	-	-	2,700,000	2,700,000	
Direct institutional support	2,355,166	369,724	387,439	500,321	4,159,344	5,212,003	12,983,997	
Indirect facilities and administrative support	-	-	-	-	-	3,177,732	3,177,732	
NCAA including all tournament revenues	-	-	19,610	-	32,726	1,217,454	1,269,790	
Conference distributions	-	8,694	-	7,194	33,320	1,764,420	1,813,628	
Broadcast, television, radio and internet rights	-	-	-	-	-	2,230,778	2,230,778	
Program sales, concessions, novelty sales and parking	-	-	-	-	-	1,041,986	1,041,986	
Royalties, advertisements and sponsorships	475,755	101,247	80,811	51,672	530,364	4,366,063	5,605,912	(2)
Sports camp revenues	35,310	50,160	77,165	4,840	236,437	63,848	467,760	
Investment income (loss), net of investment expenses	9,790	(1,366)	2,334	(1,236)	(4,041)	583,282	588,763	
Other	114,623	69,672	9,949	20,287	278,341	678,606	1,171,478	
Total revenues	7,935,313	2,015,214	1,529,511	829,020	6,456,840	27,629,380	46,395,278	
Expenses								
Athletic student aid	3,071,884	520,709	480,704	649,962	5,145,104	894,032	10,762,395	
Guarantees	1,299,554	349,571	173,584	124,033	634,215	-	2,580,957	
Coaching salaries paid by department	2,511,762	1,007,160	348,578	640,545	2,957,610	23,633	7,489,288	
Support staff salaries paid by department	407,375	101,212	39,267	98,150	98,132	9,355,774	10,099,910	
Severance payments	5,150	-	-	-	-	-	5,150	
Recruiting	256,948	110,605	42,658	99,437	308,412	600	818,660	
Team travel	1,289,693	282,071	145,644	360,687	2,096,246	48,322	4,222,663	
Equipment, uniforms and supplies	633,585	56,292	47,668	66,418	475,680	79,146	1,358,789	
Game expenses	754,866	124,774	36,733	105,271	234,058	-	1,255,702	
Fund raising, marketing and promotion	81,852	74,324	7,206	13,594	107,037	617,617	901,630	
Sport-camp expenses	7,984	8,219	12,152	2,297	27,851	12,813	71,316	
Direct facilities, maintenance and rental	44,675	9,117	6,947	2,113	37,937	220,446	321,235	
Spirit groups	-	-	-	-	-	115,155	115,155	
Athletic facilities debt service, leases and rent	-	-	-	-	158,915	263,602	422,517	
Indirect facilities and administrative support	-	-	-	-	-	3,177,732	3,177,732	
Medical and medical insurance expenses	160,155	7,282	7,919	4,818	124,851	434,728	739,753	
Dues and subscriptions	6,890	12,075	12,436	6,935	17,487	243,704	299,527	
Student athlete meals	293,107	26,989	16,296	15,549	297,084	196,661	845,686	
Other operating expenses	827,834	93,898	39,705	51,464	265,785	1,512,147	2,790,833	
Total expenses	11,653,314	2,784,298	1,417,497	2,241,273	12,986,404	17,196,112	48,278,898	
Net expenses							$ (1,883,620)	

NOTES:

(1) Contributions increased by approximately $1,064,000 in comparison to fiscal 2017. The increase was primarily attributable to additional contributions from ‘Ahahui Koa Ānuenue.

(2) Royalties, advertisements and sponsorships increased approximately $1,642,000 in comparison to fiscal 2017. The increase was primarily attributable to a new multimedia rights partnership agreement in fiscal 2018.

DRAFT

1. Basis of Presentation

The preparation of the statement of revenues and expenses (the "Statement") of the University of Hawaiʻi at Mānoa Intercollegiate Athletics (the "Athletics Department") is presented in conformity with the terms of the National Collegiate Athletic Association's ("NCAA") legislation, which requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

In addition to the accounts maintained by the University for the Athletics Department, the accompanying Statement also includes the accounts maintained by the University of Hawaii Foundation (the "Foundation") for the Athletics Department and booster organizations that are not organized separately under Internal Revenue Code Section 501(c)(3). The financial statements do not include the assets, liabilities, net assets, and revenues and expenses of separate 501(c)(3) booster organizations which may have financially assisted the Athletics Department and/or its student athletes.

In February 2014, the memorandum of understanding between ʻAhahui Koa Ānuenue, the Athletics Department, the University and the Foundation was amended. Among other items, the amendment authorized ʻAhahui Koa Ānuenue to establish a separate bank account, or accounts that would be controlled by ʻAhahui Koa Ānuenue. The bank accounts shall be established to pay for the general operating and fundraising costs of ʻAhahui Koa Ānuenue and shall be funded via the transfer of monies from ʻAhahui Koa Ānuenue's existing assets maintained by the Foundation. In December 2015, an additional amendment to the memorandum of understanding between ʻAhahui Koa Ānuenue, the Athletics Department, the University and the Foundation was executed. Among other items, the additional amendment authorized ʻAhahui Koa Ānuenue to collect and deposit cash receipts associated with certain defined "Base Fundraising Activities" into a bank account established by ʻAhahui Koa Ānuenue. Expenditures associated with the "Base Fundraising Activities" shall also be funded via monies previously deposited into the bank account established by ʻAhahui Koa Ānuenue.

The basis of presentation of the Statement is significantly different from the presentation of financial statements in accordance with accounting principles generally accepted in the United States of America. NCAA legislation requires that in-kind goods and services revenue and expense and indirect facilities and administrative support be included in the Statement. Revenues and expenses related to endowment activities are excluded from the Statement.

2. Contributions

The Athletics Department received contributions from various corporations and organizations. During the year ended June 30, 2018, ʻAhahui Koa Ānuenue contributed $2,100,000 primarily to support the operations of the Athletics Department.

The amounts contributed by ʻAhahui Koa Ānuenue during 2018 were comprised of $2,100,000 in pledges for the year ended June 30, 2018. No pledges were outstanding as of June 30, 2018.

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3. Capital Assets

Capital assets are recorded at cost or, if donated, at appraised value at the date of gift. The Athletics Department's policy is to capitalize tangible non-expendable personal property having an estimated useful life of more than one year. Depreciation on the Athletics Department's capital assets is computed using the straight-line method over the estimated useful lives of the assets. The Athletics Department's capital assets are mainly comprised of furniture, fixtures and equipment with useful lives ranging from 3 to 18 years. Capital assets retired or otherwise disposed of, including transfers between the Athletics Department and other University units, are removed from the appropriate asset and related accumulated depreciation accounts. Gains and losses on disposal and the net book value of transfers of capital assets are charged to operations.

The land and buildings on which the facilities of the Athletics Department are located and related infrastructure assets are not reflected in the financial statements of the Athletics Department but are reported in the consolidated financial statements of the University.

Capital asset activity for the year ended June 30, 2018 was as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Capital assets	$ 1,279,222	$ 5,610	$ (172,872)	$ 1,111,960
Less: Accumulated depreciation	(893,306)	(63,515)	137,289	(819,532)
Capital assets, net	$ 385,916	$ (57,905)	$ (35,583)	$ 292,428

4. Endowment Assets

The Athletics Department's endowment includes contributions that are subject to externally-imposed constraints and are required to be maintained in perpetuity. During the year ended June 30, 2018, the endowment fund balance increased by approximately $142,403, which consisted primarily of unrealized gains on the endowment assets.

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University of Hawai‘i at Mānoa
Intercollegiate Athletics Department
Summary of Cash Transactions
Year Ended June 30, 2018

Appendix 2

Organization	Cash Balance July 1, 2017	Cash Receipts (3)	Net Cash Transfers to Investments (4)	Direct Payments to Mānoa Athletics (5)	Other Disbursements (6)	Cash Balance June 30, 2018 (7, 8)
University of Hawai‘i Foundation – Booster Organization Accounts (1)	$ 5,310,967	$ 3,386,622	$ (70,063)	$ (577,465)	$ (2,554,999)	$ 5,495,062
‘Ahahui Koa Ānuenue – Booster Organization Accounts (2)	68,644	31,181	-	-	(10,487)	89,338
	$ 5,379,611	$ 3,417,803	$ (70,063)	$ (577,465)	$ (2,565,486)	$ 5,584,400

NOTES:

(1) Booster organizations have cash balances maintained at the Foundation. These organizations have, as one of their principal purposes, the generation of donations to these organizations for the support of athletic programs at the University.

(2) Cash balances held by ‘Ahahui Koa Ānuenue are not reflected in the financial statements of the Athletics Department.

(3) Cash receipts are comprised of contributions, fundraising activities and membership dues.

(4) Certain cash contributions have temporary or permanent restrictions and are maintained in quasi-endowment and endowment accounts held at the Foundation. These accounts are a part of the Foundation investment pool.

(5) The Booster organizations make certain cash disbursements, primarily for athletic scholarships, directly to the Athletics Department. Receipt of such amounts is recorded in the restricted and self-funded funds of the Athletics Department.

(6) The Booster organizations make certain cash disbursements, primarily for professional services, receptions and banquets, and administrative expenses.

(7) The ending cash balance excludes quasi-endowment and endowment investment accounts held with the Foundation, which amounted to $4,750,752 at June 30, 2018.

DRAFT

(8) The ending cash balance of the accounts maintained separately by ʻAhahui Koa Ānuenue amounted to $2,108,314 at June 30, 2018.

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University of Hawai‘i at Mānoa Intercollegiate Athletics (Athletics Department)

Internal Control and Business Issues Report

June 30, 2018

Quality Integrity Insight

University of Hawai‘i at Mānoa Intercollegiate Athletics (Athletics Department)
Index

Page

Current Year Comments and Observations

Accuity LLP
CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Regents
University of Hawaiʻi

In planning and performing our National Collegiate Athletics Association ("NCAA") agreed-upon procedures engagement for University of Hawaiʻi at Mānoa Intercollegiate Athletics ("Mānoa Athletics") for the year ended June 30, 2018, in accordance with NCAA Bylaw 3.2.4.15, we gained an understanding of Mānoa Athletics' internal control over financial reporting ("internal control").

We present for your consideration, observations and recommendations we noted during the performance of our agreed-upon procedures engagement.

This communication is intended solely for the information and use of the Board of Regents and management of Mānoa Athletics and is not intended to be, and should not be, used by anyone other than these specified parties.

Honolulu, Hawaiʻi
November __, 2018

Current Year Comments and Observations

Comment No. 18-01 – ʻAhahui Koa Ānuenue Fundraising Activities

ʻAhahui Koa Ānuenue (“AKA”) is a not-for-profit organization tasked with performing fundraising activities for the benefit of University of Hawaiʻi at Mānoa Intercollegiate Athletics (the “Athletics Department” or “Mānoa Athletics”). During our fiscal 2015 through 2018 engagements, we noted that AKA has not conducted any substantial fundraising activities or events on behalf of the Athletics Department as originally intended by the Amended and Restated Memorandum of Understanding Between AKA, Mānoa Athletics, and the University of Hawaiʻi at Mānoa Foundation and the Grant of Exclusive Rights Agreement, both dated February 21, 2014.

The Athletics Department’s fiscal 2018 net loss approximated $1.905M. As AKA is tasked with performing fundraising activities for the benefit of the Athletics Department, AKA has a fiduciary duty to provide support to the Athletics Department.

However, we noted that in fiscal 2018 and continuing into fiscal 2019 the Athletics Department and AKA implemented certain procedures and took certain actions designed to assist AKA in fulfilling its fiduciary obligation to the Athletics Department. These include, but are not limited to the following:

- Active involvement by the Board of Directors of AKA, including the establishment of Governance and Fundraising committees.
- The Fundraising Committee was tasked with overseeing the “Green and White Celebration” which led to an increase in revenues from the event of approximately $31,000 in fiscal 2018 to $102,000 in fiscal 2019.
- Review and update of the AKA bylaws to better align the bylaws with the future operational goals of AKA.

We recommend that AKA personnel continue to take actions that will better enable AKA to support the Athletics department, including the development of an annual fundraising plan which includes detailed monetary goals. We also recommend that this plan be initially reviewed by the appropriate University constituents, and that AKA’s actual fundraising results be reviewed on an annual basis by the respective parties.

Comment No. 18-02 – Athletic Student Aid Reporting

We noted the following matter related to the Mānoa Athletics’ reporting of athletic student aid:

- For 2 out of 40 student-athletes selected for testing, the total aid amount as stated per the student scholarship detail prepared by the Student Affairs division of Mānoa Athletics did not agree to the information as recorded in the NCAA Compliance Assistant program.

The recordation of incorrect information in the student scholarship detail may expose Mānoa Athletics to an undue risk of ultimately reporting inaccurate information to the NCAA and an undue risk of awarding institutional financial aid in excess of the maximum limits, which may result in the student athlete becoming ineligible for participation in intercollegiate athletics and potential infractions being levied against Mānoa Athletics by the NCAA.

For one of the affected student-athletes, we noted that the institutional financial aid amounts as recorded in the NCAA Compliance Assistant program were accurate. Furthermore, although the institutional financial aid amount as recorded in the NCAA Compliance Assistant program was inaccurate for the second affected student-athlete, we noted that neither student-athlete received financial aid in excess of the maximum limits.

We recommend that Mānoa Athletics perform a detailed review of the information input into the student scholarship detail to ensure the accuracy of such information prior to its use for inputting information in the NCAA Compliance Assistant program.

Comment No. 18-03 – Fiscal Deficit

The following is a trend analysis of the net loss of Mānoa Athletics' over the past five years (in thousands):

	2018	**2017**	**2016**	**2015**	**2014**
Net loss	$ (1,905)	$ (871)	$ (3,784)	$ (4,590)	$ (3,218)

The following table shows the composition of Mānoa Athletics' net deficit as of June 30, 2018, 2017 and 2016 (in thousands):

	2018	**2017**	**2016**
Invested in capital assets	$ 292	$ 382	$ 361
Restricted			
Nonexpendable	4,772	4,635	4,178
Expendable	3,837	3,192	3,918
Unrestricted	(12,596)	(10,035)	(9,412)
	$ (3,695)	$ (1,826)	$ (955)

During fiscal year 2018, the financial condition of the Athletics Department declined due to a decrease in ticket sales, services, and guarantee revenues subsequently offset by a decrease in operating expenses.

Further, liquidity continues to be a concern as the Athletics Department requires significant borrowings from the University. During the years ended June 30, 2018 and 2017, borrowings from the University totaled $11.0M and $7.4M, respectively.

The financial condition of the Athletics Department continues to be fragile due to the ongoing struggle to generate operating and fundraising revenues, while continuing to manage operating expenses. These conditions will likely necessitate future recurring institutional support in order to sustain the Athletics Department.

We recommend that the Athletics Department management work with University administration to develop and implement a long-term financial plan to assure the financial stability of the Department.

Summary Schedule of Prior Comments and Observations

University of Hawai‘i at Mānoa Intercollegiate Athletics (Athletics Department)
Summary Schedule of Prior Comments and Observations
Year Ended June 30, 2018

Finding	Description	Type	Resolved	Unresolved	Current Year Finding
17-01	‘Ahahui Koa Ānuenue Fundraising Activities	Observation		X	18-01
17-02	Athletic Student Aid Reporting	Observation		X	18-02
17-03	Fiscal Deficit	Observation		X	18-03

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UNIVERSITY OF HAWAI'I

Office of Intercollegiate Athletics • 1337 Lower Campus Road • Honolulu, Hawai'i 96822-2370

RECEIVED

November 13, 2018

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UNIVERSITY OF HAWAII PRESIDENT'S OFFICE

'18 NOV 21 P2:12

UNIVERSITY OF HAWAII BOARD OF REGENTS

MEMORANDUM

TO: Mike McEnerney
Chair, Board of Regents Committee on Independent Audit

VIA: David Lassner
President, University of Hawai'i

VIA: Kalbert Young
Vice President for Budget and Finance, CFO

VIA: David Lassner
Interim Chancellor, University of Hawai'i at Mānoa

FROM: David Matlin
Director, University of Hawai'i at Mānoa Intercollegiate Athletics

SUBJECT: Corrective Action Responses to Accuity LLP Internal Control and Business Issues Report

The following are responses to the management comments of the FY 2018 Mānoa Intercollegiate Athletics audit.

Comment No. 18-01 – 'Ahahui Koa Ānuenue Fundraising Activities

'Ahahui Koa Ānuenue ("AKA") is a not-for-profit organization tasked with performing fundraising activities for the benefit of University of Hawai'i at Mānoa Intercollegiate Athletics (the "Athletics Department" or "Mānoa Athletics"). During our fiscal 2015 through 2018 engagements, we noted that AKA has not conducted any substantial fundraising activities or events on behalf of the Athletics Department as originally intended by the Amended and Restated Memorandum of Understanding Between AKA, Mānoa Athletics, and the University of Hawai'i at Mānoa Foundation and the Grant of Exclusive Rights Agreement, both dated February 21, 2014.

The Athletics Department's fiscal 2018 net loss approximated $1.905M. As AKA is tasked with performing fundraising activities for the benefit of the Athletics Department, AKA has a fiduciary duty to provide support to the Athletics Department.

However, we noted that in fiscal 2018 and continuing into fiscal 2019 the Athletics Department and AKA implemented certain procedures and took certain actions designed to assist AKA in fulfilling its fiduciary obligation to the Athletics Department. These include, but are not limited to the following:

- Active involvement by the Board of Directors of AKA, including the establishment of Governance and Fundraising committees.
- The Fundraising Committee was tasked with overseeing the "Green and White Celebration" which led to an increase in revenues from the event of approximately $31,000 in fiscal 2018 to $102,000 in fiscal 2019.

An Equal Opportunity/Affirmative Action Institution

- Review and update of the AKA bylaws to better align the bylaws with the future operational goals of AKA.

Recommendation:
We recommend that AKA personnel continue to take actions that will better enable AKA to support the Athletics department, including the development of an annual fundraising plan which includes detailed monetary goals. We also recommend that this plan be initially reviewed by the appropriate University constituents, and that AKA's actual fundraising results be reviewed on an annual basis by the respective parties.

Comments/Corrective Action:
Department management continues to review fundraising efforts and results with ʻAhahui Koa Ānuenue AKA Board, and staff with the goal of continuing to improve performance.

The AKA Board has set a goal of raising funds annually to support student-athlete success in academics, competition and in life. Specifically, the AKA Board is committed to supporting cost of attendance (scholarships), summer school, and nutrition costs that the Department is unable to meet in full. The Board and staff are developing an annual fund-raising plan to achieve this goal. The first effort was to provide a leadership role related to fundraising for the Green and White Celebration which proved successful this past September. Additional fundraising activities will be added during the next 12 months.

Significant results have been achieved in reducing costs (mostly personnel) and efficiencies resulting in an annual reduction in expenses of more than $400,000 from FY15 compared to our budget for FY18.

Responsible Person:
UHM Athletic Director and Associate Athletics Directors

Corrective Action Completion Date:
Continuous

Comment No. 18-02 – Athletic Student Aid
We noted the following matter related to the Mānoa Athletics' reporting of athletic student aid:

- For 2 out of 40 student-athletes selected for testing, the total aid amount as stated per the student scholarship detail prepared by the Student Affairs division of Mānoa Athletics did not agree to the information as recorded in the NCAA Compliance Assistant program.

The recordation of incorrect information in the student scholarship detail may expose Mānoa Athletics to an undue risk of ultimately reporting inaccurate information to the NCAA and an undue risk of awarding institutional financial aid in excess of the maximum limits, which may result in the student athlete becoming ineligible for participation in intercollegiate athletics and potential infractions being levied against Mānoa Athletics by the NCAA.

For one of the affected student-athletes, we noted that the institutional financial aid amounts as recorded in the NCAA Compliance Assistant program were accurate. Furthermore, although the institutional financial aid amount as recorded in the NCAA Compliance Assistant program was inaccurate for the second affected student-athlete, we noted that neither student-athlete received financial aid in excess of the maximum limits.

Recommendation:
We recommend that Mānoa Athletics perform a detailed review of the information input into the student scholarship detail to ensure the accuracy of such information prior to its use for inputting information in the NCAA Compliance Assistant program.

Comments/Corrective Action:
The UH Manoa Athletic Department will perform a detailed review of the student scholarship detail to ensure information inputted into the NCAA Compliance Assistant software is accurate.

Responsible Person:
Director of Student-Athlete Services and Associate Athletics Director

Corrective Action Completion Date:
December 2018

Comment No. 18-03 – Fiscal Deficit
The financial condition of the Athletics Department continues to be fragile due to the ongoing struggle to generate operating and fundraising revenues, while continuing to manage operating expenses. These conditions will likely necessitate future recurring institutional support in order to sustain the Athletics Department.

Recommendation:
We recommend that the Athletics Department management work with University administration to develop and implement a long-term financial plan to assure the financial stability of the Department.

Comments/Corrective Action:
The Department's financial condition continues to be a great concern to the Department's administration and the Department will continue to require financial support from the University, the State, `'Ahahui Koa Ānuenue (AKA), Foundation, booster clubs and other external entities to assist with its future fiscal position.

The department did a recent analysis that discovered the following information:
- *The level of student fee support is low compared to our peers;*
- *Due to our location we have a $7.2 million financial burden that other mainland schools do not have;*
- *Department labor benefit costs have increased $1.6 million from 45% to 62% in the last five years*
- *If our goal is to get to a balanced financial model, in addition to the continued efforts of the Department to maximize revenues and control expenses, we will need additional support from the University, the Legislature and other external entities.*

Progress was made for fiscal year 2015, 2016, 2017 and 2018. The Athletics Department (excluding Foundation accounts) has improved annual losses from$4.2M in 2015 to $3.2M in 2016 to $1.7M in 2017 to $2.1M in 2018. In 2018, the Athletics Department entered into a ten-year multimedia rights agreement with IMG worth $27.7M in cash increasing annual revenue by $0.7M. The Athletics Department also entered into a five-year agreement with Under Armour to provide an all sports apparel deal worth over $1.5M in cash and $8.7M in trade. The Athletics Department also entered into an agreement with Hawaiian Airlines as the official airline partner saving the department over $0.3M in 2018. AKA also increased their annual donation to the Athletics Department by $0.6M due to cost containment.

While the Department strives for financial stability and efficient use of resources, it is increasingly more difficult to sustain athletics competitiveness on its current operating budget and limited financial resources. The Department will work with University administration to develop and implement a long-term financial plan that considers all possibilities for revenue while continuing to exercise strong cost control.

Responsible Person:
Director of Athletics

Corrective Action Completion Date:
Continuous

UNIVERSITY OF HAWAIʻI SYSTEM
ANNUAL REPORT

REPORT TO THE 2019 LEGISLATURE

Annual Report on
Material Weaknesses and Fraud

December 2018

Report to the 2019 Hawai‘i State Legislature

Annual Report on
Material Weakness and Fraud

Hawai‘i Revised Statutes §304A- 321

Hawai‘i Revised Statutes §304A-321 requires the Committee on Independent Audit (Audit Committee) of the University of Hawai‘i Board of Regents (BOR) to submit an annual report to the Legislature and BOR with respect to the following matters:

(a) all instances of material weaknesses in internal control, including the responses of University of Hawai‘i (University) management; and
(b) all instances of fraud, including the responses of University of Hawai‘i management.

At a November 27, 2018 Audit Committee meeting, the Audit Committee reviewed and accepted the University's consolidated financial statements for the years ended June 30, 2018 and 2017 audited by Accuity LLP (Accuity). Accuity presented a document at this meeting containing required auditor's communication in accordance with auditing standards generally accepted in the United States of America. Accuity's document (excerpts attached) noted that they did not identify any matters that they considered to be material weaknesses in internal control over financial reporting and noted no instances of fraud or illegal acts.

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