



UNIVERSITY *of* HAWAII[®]

SYSTEM

**2014 Annual Financial Report,
Required Supplementary Information
and Other Supplemental Information
University of Hawaii
State of Hawaii**



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

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Report of Independent Auditors

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

Report on the Financial Statements

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Other Matters*Required Supplementary Information*

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

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

Honolulu, Hawai'i
February 12, 2015

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

Introduction

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

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

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

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June 30, 2014 and 2013

Using the Financial Statements

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

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

Related Entities

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

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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, 2014, 2013 and 2012 are summarized as follows (in thousands):

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

Current Assets and Liabilities

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

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

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

Endowment and Other Investments

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

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

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

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

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

Capital and Debt Activities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Net Position

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

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

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

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

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

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

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

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

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Results of Operations

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

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

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Revenues Supporting Core Activities

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

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

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

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

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

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

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

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

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

Expenses Associated with Core Activities

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

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

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

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

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

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

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

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

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

Other Nonoperating Activities

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

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

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

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Cash Flows

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

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

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

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

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

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Looking Forward

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

Enrollment and Tuition

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

Extramural Funds

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

Facilities and Infrastructure

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

Fundraising

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

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State General Fund Appropriations

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

New Campuses

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

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

University of Hawai'i 15 to Finish Campaign

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

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

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

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

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

University of Hawai'i

State of Hawai'i

Management's Discussion and Analysis (Unaudited)

June 30, 2014 and 2013

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

Hawai'i Innovation Initiative

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

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

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

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

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

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

University of Hawai'i
State of Hawai'i
Consolidated Statements of Net Position
June 30, 2014 and 2013
(All dollars reported in thousands)

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

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

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

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

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

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

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

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

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

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

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

University of Hawai'i
State of Hawai'i
Notes to Consolidated Financial Statements
June 30, 2014 and 2013
(All dollars reported in thousands)

1. Organization and Summary of Significant Accounting Policies

Financial Reporting Entity

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

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

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

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

Basis of Presentation

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

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

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

University of Hawai'i
State of Hawai'i
Notes to Consolidated Financial Statements
June 30, 2014 and 2013
(All dollars reported in thousands)

Cash, Cash Equivalents and Investments

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

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

Investments

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

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

Due from and Due to State

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

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

Perpetual Trusts

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

University of Hawai'i
State of Hawai'i
Notes to Consolidated Financial Statements
June 30, 2014 and 2013
(All dollars reported in thousands)

Split Interest Agreements

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

Accounts Receivable

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

Contributions

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

Capital Assets

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

University of Hawai'i
State of Hawai'i
Notes to Consolidated Financial Statements
June 30, 2014 and 2013
(All dollars reported in thousands)

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

Deferred Loss on Refunding

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

Advances from Sponsors

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

Unearned Revenue

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

Other Postemployment Benefits

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

Revenue Bonds Payable

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

Net Position

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

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

University of Hawai'i
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Notes to Consolidated Financial Statements
June 30, 2014 and 2013
(All dollars reported in thousands)

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

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

Net Position Restricted by Enabling Legislation

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

Operating and Nonoperating Activities

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

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

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

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

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

Scholarships and Fellowships

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

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State Appropriations

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

Management's Estimates

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

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

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

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

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

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

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New Accounting Pronouncements

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

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

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

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

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Reclassifications

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

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

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2. Cash and Investments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Investment Risk Factors

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

Concentration Risk

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

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Credit Risk

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

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

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

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

Interest Rate Risk

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

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

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

Foreign Currency Risk

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

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

3. Accounts Receivable

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

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

4. U.S. Government Funding

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

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

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5. Notes and Contributions Receivable

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

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

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

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

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

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

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

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

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

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

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

6. Inventories

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

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

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7. Capital Assets

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

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

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

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

8. Other Noncurrent Assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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11. Long-Term Liabilities

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

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

Revenue Bonds Payable

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

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

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

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

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

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

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

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

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

Bond Premiums

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

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

Note Payable

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

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

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12. Line of Credit (Research Corporation)

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

13. Property Leases

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

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

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

14. Employee Benefits

Employees' Retirement System

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

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

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

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

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

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

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

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

Basis of Accounting

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

Method Used to Value Investments

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

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Other Benefits

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

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

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

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

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

15. Postemployment Benefits Other than Pensions

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

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Plan Description

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

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

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

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

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

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Funding Policy and Annual OPEB Cost

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

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

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

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

OPEB Summary

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

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Funded Status

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

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

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

Actuarial Methods and Assumptions

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

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

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16. Other Noncurrent Liabilities

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

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

17. State Appropriations

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

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

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

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

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

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

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

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

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

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18. Blended Component Information

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

Condensed Consolidating Statements of Net Position

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

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

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

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

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

Condensed Consolidating Statements of Cash Flows

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

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

19. Litigation, Other Contingent Liabilities and Commitments

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

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

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

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

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

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

Risk Management

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

Construction and Other Contracts

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

Collective Bargaining Agreements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Postemployment Benefits Other than Pensions

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress

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

Other Supplementary Information

Report of Independent Auditors on Supplemental Information

To the Board of Regents
University of Hawai'i

The report on our audits of the consolidated financial statements of the University of Hawai'i as of June 30, 2014 and 2013, and for the years then ended, appears on pages 1 and 2. Those audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplemental information (Schedules I, II, III, IV, V, VI, VII, VIII and IX) included hereinafter is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Acuity LLP

Honolulu, Hawai'i
February 12, 2015

University of Hawai'i
State of Hawai'i
Condensed Statements of Net Position
Condensed Statements of Revenues, Expenses and Changes in Net Position
Current Unrestricted Funds Excluding General Fund and University Bond System
As of and for the Years Ended June 30, 2014 and 2013
(All dollars reported in thousands)

Schedule I

| | 2014 | 2013 |
|---|-------------------|-------------------|
| Condensed statements of net position | | |
| Assets | | |
| Current assets | \$ 251,619 | \$ 308,613 |
| Noncurrent assets | 2,207 | 2,172 |
| Total assets | <u>\$ 253,826</u> | <u>\$ 310,785</u> |
| Liabilities | | |
| Current liabilities | \$ 80,830 | \$ 90,452 |
| Noncurrent liabilities | 17,640 | 20,671 |
| Total liabilities | <u>98,470</u> | <u>111,123</u> |
| Net position | | |
| Unrestricted | <u>155,356</u> | <u>199,662</u> |
| Total net position | <u>155,356</u> | <u>199,662</u> |
| Total liabilities and net position | <u>\$ 253,826</u> | <u>\$ 310,785</u> |
| Condensed statements of revenues, expenses and changes in net position | | |
| Operating revenues | \$ 346,444 | \$ 346,584 |
| Operating expenses | <u>413,077</u> | <u>400,085</u> |
| Operating loss | (66,633) | (53,501) |
| Nonoperating revenues and transfers | 61,610 | 50,270 |
| Nonoperating expenses and transfers | <u>39,283</u> | <u>59,108</u> |
| Change in net position | (44,306) | (62,339) |
| Net position | | |
| Beginning of year | <u>199,662</u> | <u>262,001</u> |
| End of year | <u>\$ 155,356</u> | <u>\$ 199,662</u> |

1. Basis of Presentation

The accompanying condensed statements of net position and related condensed statements of revenues, expenses and changes in net position present the financial position and results of operations of certain of the University's Special and Revolving Funds, which are pledged as collateral on the University's Series 2002A revenue bonds and Refunding Series 2006A bonds, and are presented on the accrual basis of accounting. The financial information of the Research Corporation of the University of Hawai'i and the University of Hawai'i Foundation is not reflected in this schedule.

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

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Condensed Statements of Net Position
Condensed Statements of Revenues, Expenses and Changes in Net Position
Current Unrestricted Funds Excluding General Fund and University Bond System
As of and for the Years Ended June 30, 2014 and 2013
(All dollars reported in thousands)**

Schedule I

2. Reclassifications

Certain amounts in the 2013 condensed statement of revenues, expenses and changes in net position – Current Unrestricted Funds Excluding General Fund and University Bond System have been reclassified to conform to the 2014 presentation. Such reclassifications have no impact on the 2013 change in net position as previously reported.

University of Hawai'i
State of Hawai'i
Schedules of Series 2002A Revenue Bond Proceeds Activity
Years Ended June 30, 2014 and 2013
(All dollars reported in thousands)

Schedule II

| | 2014 | 2013 |
|--|-----------------|-----------------|
| Beginning balance | \$ 6,100 | \$ 9,087 |
| Additions | | |
| Interest and investment income | <u>7</u> | <u>8</u> |
| Total additions | <u>7</u> | <u>8</u> |
| Deductions | | |
| Payments – building, construction in progress, other | 480 | 2,989 |
| Management fees | <u>5</u> | <u>6</u> |
| Total deductions | <u>485</u> | <u>2,995</u> |
| Ending balance | <u>\$ 5,622</u> | <u>\$ 6,100</u> |

1. Basis of Presentation

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

2. Refinancing

In October 2006, the University refinanced a majority of the outstanding Series 2002A revenue bonds through the issuance of Refunding Series 2006A bonds. Proceeds from the State's settlement agreement with tobacco companies are expected to be utilized to service the outstanding balance of the new debt.

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Condensed Statements of Net Position
Condensed Statements of Revenues, Expenses and Changes in Net Position
Current Unrestricted Funds Excluding General Fund
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(All dollars reported in thousands)

Schedule III

| | 2014 | 2013 |
|---|-------------------|-------------------|
| Condensed statements of net position | | |
| Assets | | |
| Current assets | \$ 282,790 | \$ 341,536 |
| Noncurrent assets | 2,207 | 2,175 |
| Total assets | <u>\$ 284,997</u> | <u>\$ 343,711</u> |
| Liabilities | | |
| Current liabilities | \$ 97,115 | \$ 109,012 |
| Noncurrent liabilities | 18,710 | 21,795 |
| Total liabilities | <u>115,825</u> | <u>130,807</u> |
| Net position | | |
| Unrestricted | <u>169,172</u> | <u>212,904</u> |
| Total net position | <u>169,172</u> | <u>212,904</u> |
| Total liabilities and net position | <u>\$ 284,997</u> | <u>\$ 343,711</u> |
| Condensed statements of revenues, expenses and changes in net position | | |
| Operating revenues | \$ 427,554 | \$ 423,035 |
| Operating expenses | <u>468,290</u> | <u>454,899</u> |
| Operating loss | (40,736) | (31,864) |
| Nonoperating revenues and transfers | 61,893 | 50,619 |
| Nonoperating expenses and transfers | <u>64,889</u> | <u>81,101</u> |
| Change in net position | (43,732) | (62,346) |
| Net position | | |
| Beginning of year | <u>212,904</u> | <u>275,250</u> |
| End of year | <u>\$ 169,172</u> | <u>\$ 212,904</u> |

1. Basis of Presentation

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

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

**University of Hawai'i
State of Hawai'i
Condensed Statements of Net Position
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Current Unrestricted Funds Excluding General Fund
As of and for the Years Ended June 30, 2014 and 2013
(All dollars reported in thousands)**

Schedule III

2. Reclassifications

Certain amounts in the 2013 condensed statement of revenues, expenses and changes in net position – Current Unrestricted Funds Excluding General Fund have been reclassified to conform to the 2014 presentation. Such reclassifications have no impact on the 2013 change in net position as previously reported.

University of Hawai'i
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Schedules of Series 2006A Revenue Bond Proceeds Activity
Years Ended June 30, 2014 and 2013
(All dollars reported in thousands)

Schedule IV

| | 2014 | 2013 |
|--|-----------------|-----------------|
| Beginning balance | \$ 4,295 | \$ 6,835 |
| Additions | | |
| Interest and investment income | <u>3</u> | <u>7</u> |
| Total additions | <u>3</u> | <u>7</u> |
| Deductions | | |
| Payments – building, construction in progress, other | 189 | 2,543 |
| Management fees | <u>3</u> | <u>4</u> |
| Total deductions | <u>192</u> | <u>2,547</u> |
| Ending balance | <u>\$ 4,106</u> | <u>\$ 4,295</u> |

1. Basis of Presentation

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

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Schedules of Series 2009A Revenue Bond Proceeds Activity
Years Ended June 30, 2014 and 2013
(All dollars reported in thousands)

Schedule V

| | 2014 | 2013 |
|--|-----------------|------------------|
| Beginning balance | \$ 17,011 | \$ 31,131 |
| Additions | | |
| Interest and investment income | <u>9</u> | <u>27</u> |
| Total additions | <u>9</u> | <u>27</u> |
| Deductions | | |
| Payments – building, construction in progress, other | 8,438 | 14,124 |
| Management fees | <u>11</u> | <u>23</u> |
| Total deductions | <u>8,449</u> | <u>14,147</u> |
| Ending balance | <u>\$ 8,571</u> | <u>\$ 17,011</u> |

1. Basis of Presentation

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

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Schedules of Series 2010A Revenue Bond Proceeds Activity
Years Ended June 30, 2014 and 2013
(All dollars reported in thousands)

Schedule VI

| | 2010A-1 | 2010A-2 |
|--|----------------|------------------|
| Balance at June 30, 2012 | \$ 32,199 | \$ 29,745 |
| Additions | | |
| Interest and investment income | 19 | 58 |
| Total additions | <u>19</u> | <u>58</u> |
| Deductions | | |
| Payments – building, construction in progress, other | 32,096 | 2,023 |
| Management fees | 11 | 24 |
| Total deductions | <u>32,107</u> | <u>2,047</u> |
| Balance at June 30, 2013 | <u>111</u> | <u>27,756</u> |
| Additions | | |
| Interest and investment income | - | 26 |
| Total additions | <u>-</u> | <u>26</u> |
| Deductions | | |
| Payments – building, construction in progress, other | - | 1,966 |
| Transfers to State | - | 1,045 |
| Management fees | - | 22 |
| Total deductions | <u>-</u> | <u>3,033</u> |
| Balance at June 30, 2014 | <u>\$ 111</u> | <u>\$ 24,749</u> |

1. Basis of Presentation

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

University of Hawai'i
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Schedules of Series 2010B Revenue Bond Proceeds Activity
Years Ended June 30, 2014 and 2013
(All dollars reported in thousands)

Schedule VII

| | 2010B-1 | 2010B-2 |
|--|------------------|-----------------|
| Balance at June 30, 2012 | \$ 51,941 | \$ 19,411 |
| Additions | | |
| Interest and investment income | <u>64</u> | <u>25</u> |
| Total additions | <u>64</u> | <u>25</u> |
| Deductions | | |
| Payments – building, construction in progress, other | 30,435 | 6,072 |
| Management fees | <u>32</u> | <u>13</u> |
| Total deductions | <u>30,467</u> | <u>6,085</u> |
| Balance at June 30, 2013 | 21,538 | 13,351 |
| Additions | | |
| Interest and investment income | <u>27</u> | <u>18</u> |
| Total additions | <u>27</u> | <u>18</u> |
| Deductions | | |
| Payments – building, construction in progress, other | 10,224 | 8,693 |
| Management fees | <u>12</u> | <u>7</u> |
| Total deductions | <u>10,236</u> | <u>8,700</u> |
| Balance at June 30, 2014 | <u>\$ 11,329</u> | <u>\$ 4,669</u> |

1. Basis of Presentation

The accompanying schedules of Series 2010B-1 and Series 2010B-2 revenue bond proceeds activity present the sources and uses of the bond proceeds associated with renovations and additions to the Mānoa Campus Center, construction and equipment for an Information Technology Building, renovations to the Sinclair Library basement on the Mānoa campus, further development of the West O'ahu campus, various energy conservation/efficiency projects on the community college campuses on O'ahu, Kaua'i and Maui, and the financing of costs of renovation and construction of other University projects. The financial information of the Research Corporation of the University of Hawai'i and the University of Hawai'i Foundation is not reflected in these schedules.

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Condensed Statements of Net Position
Condensed Statements of Revenues, Expenses and Changes in Net Position
University Bond System
As of and for the Years Ended June 30, 2014 and 2013
(All dollars reported in thousands)

Schedule VIII

| | 2014 | 2013 |
|--|-------------------|-------------------|
| Condensed statements of net position | | |
| Assets and deferred outflows of resources | | |
| Current assets | \$ 82,356 | \$ 79,591 |
| Capital assets, net | 489,452 | 484,513 |
| Other assets | 53,536 | 83,866 |
| Total assets | <u>625,344</u> | <u>647,970</u> |
| Deferred outflows of resources | 5 | 8 |
| Total deferred outflows of resources | <u>5</u> | <u>8</u> |
| Total assets and deferred outflows of resources | <u>\$ 625,349</u> | <u>\$ 647,978</u> |
| Liabilities | | |
| Current liabilities | \$ 31,972 | \$ 37,489 |
| Noncurrent liabilities | 459,728 | 471,829 |
| Total liabilities | <u>491,700</u> | <u>509,318</u> |
| Net position | | |
| Net investment in capital assets | 73,422 | 83,487 |
| Restricted expendable | 1,037 | 1,065 |
| Unrestricted | 59,190 | 54,108 |
| Total net position | <u>133,649</u> | <u>138,660</u> |
| Total liabilities and net position | <u>\$ 625,349</u> | <u>\$ 647,978</u> |
| Condensed statements of revenues, expenses and changes in net position | | |
| Operating revenues | | |
| Bookstores | \$ 25,687 | \$ 27,265 |
| Room and other rentals | 30,907 | 28,036 |
| Parking | 6,186 | 6,643 |
| Telecommunications | 3,527 | 3,766 |
| Other operating revenues | 10,387 | 9,020 |
| Total operating revenues | <u>76,694</u> | <u>74,730</u> |
| Operating expenses (including \$20,601 and \$17,040 in depreciation expense in 2014 and 2013, respectively) | <u>(85,205)</u> | <u>(80,716)</u> |
| Operating loss | (8,511) | (5,986) |
| Nonoperating revenues | 25,226 | 25,400 |
| Nonoperating expenses | <u>(21,726)</u> | <u>(17,252)</u> |
| Change in net position | (5,011) | 2,162 |
| Net position | | |
| Beginning of year (restated) | <u>138,660</u> | <u>136,498</u> |
| End of year | <u>\$ 133,649</u> | <u>\$ 138,660</u> |

University of Hawai'i
State of Hawai'i
Condensed Statements of Cash Flows
University Bond System
As of and for the Years Ended June 30, 2014 and 2013
(All dollars reported in thousands)

Schedule IX

| | 2014 | 2013 |
|---|-------------------|-------------------|
| Condensed statements of cash flows | | |
| Net cash flows provided by operating activities | \$ 6,785 | \$ 2,368 |
| Net cash flows provided by non-capital financing activities | 5,578 | 2,083 |
| Net cash flows used in capital and related financing activities | (40,259) | (91,015) |
| Net cash flows provided by investing activities | 754 | 548 |
| Net decrease in cash and cash equivalents | <u>(27,142)</u> | <u>(86,016)</u> |
| Cash and cash equivalents | | |
| Beginning of year | 146,454 | 232,470 |
| End of year | <u>\$ 119,312</u> | <u>\$ 146,454</u> |

1. Reporting Entity

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

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

2. Basis of Presentation

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

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

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Condensed Statements of Cash Flows
University Bond System
As of and for the Years Ended June 30, 2014 and 2013
(All dollars reported in thousands)

Schedule IX

3. New Accounting Pronouncements

In 2014, the University adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement provides financial reporting guidance for proper classification and recognition of previously reported assets and liabilities as deferred inflows or deferred outflows of resources. Management has adopted the new standard in the University Bond System's condensed financial statements. Due to the adoption of GASB Statement No. 65 in fiscal year 2014, the 2013 condensed financial statements were restated. The beginning net position as of July 1, 2012 was restated by approximately \$240 from \$136,738 to \$136,498.

4. Reclassifications

Certain amounts in the 2013 condensed statement of revenues, expenses and changes in net position – University Bond System have been reclassified to conform to the 2014 presentation. Such reclassifications have no impact on the 2013 change in net position as previously reported.