

# **University of Hawai'i State of Hawai'i**

**Financial and Compliance Audit  
June 30, 2018**

**University of Hawai'i**  
**State of Hawai'i**  
**Index**  
**Year Ended June 30, 2018**

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**SECTION 1**

**COMPLIANCE REPORTS**

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

To the Board of Regents  
University of Hawai'i

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of the University of Hawai'i (the "University") as of and for the year ended June 30, 2018, and have issued our report thereon dated January 17, 2019. In that report, we indicated the extent of our reliance on the report of other auditors in the conduct of the audit.

**Internal Control over Financial Reporting**

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

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

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

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

**Compliance and Other Matters**

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

**Purpose of this Report**

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

The logo for Accuity LLP is written in a black, cursive script. The word "Accuity" is written in a flowing, handwritten style, and "LLP" is written in a simpler, more upright cursive font to the right of "Accuity".

Honolulu, Hawai'i  
January 17, 2019

**Report of Independent Auditors on Compliance for Each Major Program  
and on Internal Control Over Compliance Required by the Uniform Guidance**

To the Board of Regents  
University of Hawai'i

**Report on Compliance for Each Major Federal Program**

We have audited the University of Hawai'i's (the "University") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2018. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The University's consolidated financial statements include the operations of the Research Corporation of the University of Hawai'i (the "Research Corporation"). The Research Corporation did not expend any federal awards during the year ended June 30, 2018.

**Management's Responsibility**

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

**Auditors' Responsibility**

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

We believe that our audit provides a reasonable basis for our qualified and unmodified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of the University's compliance.

### **Basis for Qualified Opinion on Student Financial Assistance Cluster – Grants, Scholarships and Loans**

As described in the accompanying schedule of findings and questioned costs, the University of Hawai'i West O'ahu did not comply with requirements regarding CFDA 84.063 – Federal Pell Grant and CFDA 84.268 – Federal Direct Student Loans as described in Finding No. 2018-001 for Special Tests and Provisions. Compliance with such requirements is necessary, in our opinion, for the University to comply with the requirements applicable to that program.

### **Qualified Opinion on Student Financial Assistance Cluster – Grants, Scholarships and Loans**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Student Financial Assistance Cluster – Grants, Scholarships and Loans program for the year ended June 30, 2018.

### **Unmodified Opinion on Each of the Other Major Federal Programs**

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2018.

### **Other Matters**

The results of our auditing procedures disclosed other instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as Findings No. 2018-002 through 2018-008. Our opinion on each major federal program is not modified with respect to these matters.

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

### **Report on Internal Control over Compliance**

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency

in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Finding No. 2018-001 to be a material weakness.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Finding No. 2018-004 to be a significant deficiency.

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

We have audited the consolidated financial statements of the University, as of and for the year ended June 30, 2018, and the related notes to the consolidated financial statements, which collectively comprise the University's basic financial statements. We issued our report thereon dated January 17, 2019, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards, prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America, is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards, as prepared on the cash basis of accounting, is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

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

Honolulu, Hawai'i  
January 17, 2019

## **SECTION 2**

# **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

# University of Hawai'i State of Hawai'i Schedule of Expenditures of Federal Awards Year Ended June 30, 2018

	CFDA No.	Pass-Through Identifier	Passed Through to Subrecipients	Expenditures
<b>MAJOR PROGRAM – RESEARCH AND DEVELOPMENT</b>				
<b>U.S. Department of Agriculture</b>				
Agricultural Research Service				
Agricultural Research Basic and Applied Research	10.001			\$ 2,382,798
Animal and Plant Health Inspection Service				
Plant and Animal Disease, Pest Control, and Animal Care	10.025			2,124,163
National Institute of Food and Agriculture				
Cooperative Forestry Research	10.202		\$ 369,839	
Payments to Agricultural Experiment Stations Under the Hatch Act	10.203		2,171,669	
Animal Health and Disease Research	10.207		10,166	
Agriculture and Food Research Initiative ("AFRI")	10.310		\$ 222,484	910,519
Biomass Research and Development Initiative Competitive Grants Program ("BRDI")	10.312		24,133	106,364
Crop Protection and Pest Management Competitive Grants Program	10.329			2,812
Foreign Agricultural Service				
Technical Assistance for Specialty Crops Program	10.604			1,588
Forest Service				
Forest Stewardship Program	10.678			10,711
Forest Health Protection	10.680			79,164
Other	10.			309,388
Natural Resources Conservation Service				
Environmental Quality Incentives Program	10.912		15,532	214,738
Passed through from				
State of Hawaii Department of Agriculture	10.170	various		39,410
State of Hawaii Department of Land and Natural Resources	10.025	C81717		28,049
State of Hawaii Department of Land and Natural Resources	10.664	various		409,513
State of Hawaii Department of Land and Natural Resources	10.680	various		310,590
Botanical Gardens Conservation Int'l	10.	----		10,000
University of California – Davis	10.200	201502587-08-UHI-Kawate-FoodU		39,763
University of California – Davis	10.304	201603794-01, AMDT 1		4,567
University of California – Davis	10.329	SA-14-2309-25, AMDT 02		13,910
University of California – Davis	10.604	A16-0082-S003		30,000
University of California – Riverside	10.309	S-000718		49,158
Colorado State University	10.500	various		143,439
Jun Innovations Inc	10.212	various		46,880
National Fish and Wildlife Foundation	10.683	2100.17.055189		24,033
University of Nebraska – Lincoln	10.310	25-1107-0037-003		50,238
Oceanic Institute	10.200	various		116,422
University of Tennessee	10.310	8500049039		38,177
Utah State University	10.215	various	13,042	197,623
				1,551,772
				10,245,691
<b>U.S. Department of Commerce</b>				
National Oceanic and Atmospheric Administration ("NOAA")				
Ocean Exploration	11.011		9,760	783,544
Integrated Ocean Observing System ("IOOS")	11.012			757
Sea Grant Support	11.417		36,382	1,402,668
Fisheries Development and Utilization Research Development Grants and Cooperative Agreements Program	11.427		29,668	69,906
Climate and Atmospheric Research	11.431		27,151	716,285
NOAA Cooperative Institutes	11.432		36,479	16,135,796
Marine Mammal Data Program	11.439			38,726
Unallied Industry Projects	11.452			286,880
Applied Meteorological Research	11.468			203,777
Unallied Science Program	11.472			182,309
Office of Coastal Management	11.473			23,620
Coral Reef Conservation Program	11.482			94,500
Other	11.			102,230
Passed through from				
State of Hawaii Department of Business, Economic Development and Tourism	11.419	----		5,236
State of Hawaii Department of Defense	11.467	----		8,285
State of Hawaii Department of Land and Natural Resources	11.472	PO #C80615		9,106
State of Hawaii Department of Land and Natural Resources	11.482	various		217,807
Government of American Samoa	11.	C05094		66,250
Bishop Museum	11.482	NFWF-UHM-059023		18,222
University of California – Los Angeles	11.431	2095 G TA048		58,852
East West Center	11.431	various	10,510	408,668
Government of Guam	11.	----		20,104
University of Maryland	11.012	SA7525796C PO35820		128,196
National Fish and Wildlife Foundation	11.463	0301.12.034413		328
National Fish and Wildlife Foundation	11.482	0302.17.056799		3,524
The Nature Conservancy	11.463	various		56,932
North Pacific Research Board	11.472	1709		15,574
University Corp for Atmospheric Research	11.431	various		91,801
Woods Hole Oceanographic Institute	11.431	various		105,968
				1,214,853
				21,255,851

# University of Hawai'i State of Hawai'i

## Schedule of Expenditures of Federal Awards Year Ended June 30, 2018

	CFDA No.	Pass-Through Identifier	Passed Through to Subrecipients	Expenditures
<b>U.S. Department of Defense</b>				
Air Force				
Air Force Defense Research Sciences Program	12.800		403,647	891,163
Other	12.		1,265,709	7,867,494
Army				
Basic and Applied Scientific Research	12.300			521,377
Military Medical Research and Development	12.420			962,712
Basic Scientific Research	12.431			225,393
Legacy Resource Management Program	12.632			208,054
Research and Technology Development	12.910			100,977
Other	12.		85,085	435,144
Navy				
Basic and Applied Scientific Research	12.300		3,401,311	16,304,924
Science, Technology, Engineering & Mathematics ("STEM")				
Education, Outreach and Workforce Program	12.330			386,798
Navy Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance	12.335			45,720
Other	12.		640,254	3,599,385
National Geospatial Intelligence Agency	12.		197,381	20,336,827
Washington Headquarters Services				590,434
Basic, Applied, and Advanced Research in Science and Engineering	12.630			10,748,830
Legacy Resource Management Program	12.632			40,387
Other	12.			98,833
U.S. Special Operations Command	12.			205
Defense Intelligence Agency	12.		31,240	35,146
Pacific Command	12.			68,365
OSA-East Contracts Team	12.			64,547
Passed through from				
University of Alaska – Fairbanks	12.	UAF 17-0093 PO# P0513933		214,870
University of California – San Diego	12.	S9000898/55022508, AMDT 3		11,548
Clarkson Aerospace Corp	12.800	HAWAII 17-D-0018-S13		14,506
Goodman Technologies LLC	12.	various		52,711
Henry M Jackson Foundation	12.420	824437		90,293
Kevala Inc	12.	-----		110,524
University of New Hampshire	12.	15-018		56,438
Spectrum Photonics Inc	12.	SPI-SK2016-002		18,057
Vanderbilt University	12.300	2782-018400		94
Vencore Services and Solutions	12.	PO-0014291		10,222
				579,263
				43,775,151
<b>U.S. Department of Housing and Urban Development</b>				
Passed through from				
State of Hawaii Department of Human Services	14.267	DHS-17-HPO-4152		41,160
<b>U.S. Department of the Interior</b>				
Bureau of Land Management				
Wildland Fire Research and Studies Program	15.232		32,640	108,249
Fish and Wildlife Service				
Coastal	15.630			28,057
Endangered Species Conservation – Recovery Implementation Funds	15.657			550,306
Fish and Wildlife Coordination and Assistance	15.664			2
Cooperative Landscape Conservation	15.669		102,640	543,114
Cooperative Ecosystem Studies Units	15.678			174,648
U.S. Geological Survey				
Assistance to State Water Resources Research Institutes	15.805			232,457
U.S. Geological Survey – Research and Data Collection	15.808		44,000	1,329,251
Cooperative Research Units	15.812			295
Volcano Hazards Program Research and Monitoring	15.818			360,473
National Climate Change and Wildlife Science Center	15.820		176,082	1,440,604
National Park Service				
Cooperative Research and Training Programs – Resources of the National Park System	15.945		8,146	962,035
Passed through from				
State of Hawaii Department of Land and Natural Resources	15.605	various	50,816	870,588
State of Hawaii Department of Land and Natural Resources	15.608	C70668		19,291
State of Hawaii Department of Land and Natural Resources	15.611	various		266,525
State of Hawaii Department of Land and Natural Resources	15.615	various		1,282,800
State of Hawaii Department of Land and Natural Resources	15.630	various		88,157
State of Hawaii Department of Land and Natural Resources	15.634	various		549,754
State of Hawaii Department of Land and Natural Resources	15.657	various		575,279
State of Hawaii Department of Land and Natural Resources	15.944	various		33,073
America View	15.815	AV13-HI01		6,545
American Bird Conservancy	15.663	1749B		88,616
Calibre Systems Inc	15.	K0311-17-2013		27,665
Dudek	15.	8848		2,200
Institute for Wildlife Studies	15.945	199-101-2015-UHH, MOD 2		3,761
Kaupo Ranch Ltd	15.631	F17AC00557		17,704
National Fish and Wildlife Foundation	15.663	various		113,307
Ulupalakua Ranch	15.631	various		78,847
				4,024,112
				9,753,603

# University of Hawai'i State of Hawai'i

## Schedule of Expenditures of Federal Awards Year Ended June 30, 2018

	CFDA No.	Pass-Through Identifier	Passed Through to Subrecipients	Expenditures
<b>U.S. Department of Justice</b>				
National Institute of Justice				
National Institute of Justice Research, Evaluation, and Development				
Project Grants	16.560		10,012	215,872
<b>U.S. Department of Transportation</b>				
Federal Aviation Administration ("FAA")				
Air Transportation Centers of Excellence	20.109			74,655
Federal Highway Administration				
Other	20.			4,177
Passed through from				
State of Hawaii Department of Transportation	20.200	TA 2017-3R, PO 40057644		10,180
State of Hawaii Department of Transportation	20.205	various		185,696
State of Hawaii Department of Transportation	20.	various		118,168
University of Alaska – Fairbanks	20.701	UAF 18-0036/ P0519564		148,636
University of Central Florida	20.701	20126116		4,154
Michigan State University	20.701	RC103194UHM		89,312
University of New Mexico	20.701	456486-8737		12,153
SWCA Incorporated	20.205	various		14,770
University of Texas – Austin	20.701	UTA17-001405		20,255
				<u>603,324</u>
				682,156
<b>National Aeronautics and Space Administration</b>				
Goddard				
Science	43.001		309,321	14,268,667
Education	43.008			318,623
				<u>14,587,290</u>
Ames				
Science	43.001			503,124
Johnson Space Center				
Science	43.001			17,453
Exploration	43.003		114,099	267,842
				<u>285,295</u>
Langley Research Center				
Science	43.001			73,613
Passed through from				
University of Arizona	43.001	414033		16,019
Arizona State University	43.001	09-192		12,148
Arizona State University	43.	various		22,983
Association of Universities for Research in Astronomy, Inc	43.	STSci-49776		11,059
Bermuda Institute of Ocean Sciences Inc	43.001	various		251,857
Brown University	43.001	00000945		14,303
University of California – Berkeley	43.001	00009142/BB00775655		31,201
University of California – Los Angeles	43.001	0995-S-NB083, AMDT 18		70,743
University of California – San Diego	43.001	various		151,283
California Institute of Technology	43.	2-1094682, MOD 03		634
Creare LLC	43.	88932		49,210
Earth and Space Research	43.001	ESR-2014-202		92,347
Jet Propulsion Lab	43.	various	7,000	234,536
Johns Hopkins University	43.001	132804		31,827
Johns Hopkins University	43.	124221		3,386
Lockheed Martin Corp Space Sys	43.	PO# 4103457775		13,487
Malin Space Science Systems, Inc	43.001	12-0178		15,912
University of Missouri	43.009	00047533-03		6,521
University of North Carolina – Chapel Hill	43.001	5101006		2,973
Planetary Science Institute	43.001	1336		38,971
Q-Peak Inc	43.	SC 58398-2732		91,466
State University of Rutgers	43.001	Subaward 6150; PO# 623265		47,861
SETI Institute	43.001	SC 3189		1,582
Smithsonian Astrophysical Observatory	43.001	GO5-16150A		10,888
University of South Carolina	43.001	15-2718 / 13020-FC43		32,509
Southwest Research Institute	43.001	H99002HP		11,529
Space Telescope Science Institute	43.	various		407,945
Research Foundation for the State University of New York	43.001	69142-1120100-2 (PO 929838)		12,822
Transastra Corporation	43.	NNX17AJ73G-IfA		5,000
Universities Space Research Association	43.001	various		74,990
Universities Space Research Association	43.	002235-03, PO 2014000583		30,160
Wyle Laboratories, Inc	43.	various		392,860
				<u>2,191,012</u>
				17,640,334
<b>National Endowment for the Arts and Humanities</b>				
Passed through from				
Folger Shakespeare Library	45.162	CHK0387481		382
Hawaii Council for the Humanities	45.129	-----		48
				<u>430</u>
<b>Institute of Museum and Library Services</b>				
Museums for America	45.301			42,941
Passed Through from				
University of Michigan	45.312	3004306487		8,645
State University of Rutgers	45.312	Subaward 5902; PO# S2378999		54,780
				<u>63,425</u>
				106,366

# University of Hawai'i State of Hawai'i

## Schedule of Expenditures of Federal Awards Year Ended June 30, 2018

	CFDA No.	Pass-Through Identifier	Passed Through to Subrecipients	Expenditures
<b>National Science Foundation</b>				
Engineering Grants	47.041		106,963	1,162,810
Mathematical and Physical Sciences	47.049		372	4,845,425
Geosciences	47.050		362,687	18,807,241
Computer and Information Science and Engineering	47.070		639,857	2,856,424
Biological Sciences	47.074		36,846	2,486,922
Social, Behavioral and Economic Sciences	47.075		69,418	520,128
Education and Human Resources	47.076		247,134	5,509,752
Office of Integrative Activities	47.083			4,213,587
Passed through from				
Adnoviv, LLC	47.041	----		40,953
University of Alabama – Huntsville	47.076	2016-113		7,690
University of Alaska – Fairbanks	47.050	UAF 17-0065 P0510433		37,850
Association of Universities for Research in Astronomy, Inc	47.049	various		2,102,140
Bishop Museum	47.074	250701-UH01		8,996
Bishop Museum	47.075	320705-UH01		14,947
University of California – Berkeley	47.075	00009689		260
University of California – San Diego	47.050	59689318/S9000943 AMDT 003		88,477
California Association for Research in Astronomy	47.049	13678 AMDT 1		212,935
California State University – Northridge	47.074	F-13-3287-UH, AMDT 3		6,688
Chaminade University	47.076	CUH-UHH-IUSE-1		16,773
College of Charleston	47.070	521156-Hawaii/ACI-1443037		27,049
University of Chicago	47.070	FP058609, AMDT 1		37,606
Clemson University	47.070	1717-206-2009949		96,928
Columbia University	47.050	various		169,164
Consortium for Ocean Leadership	47.076	SA16-36		56,066
University of Delaware	47.083	47810		90,718
University of Guam	47.083	----		3,117
Indiana University	47.070	UA-4812506-UH / PO 1692070		192,593
Koa Technologies, LLC	47.041	----		692
University of Maryland	47.074	various		86,002
University of Michigan	47.076	3004367166		192,100
University of New Mexico	47.050	various		192,147
State University of New York	47.050	R985036		226,930
Research Foundation for the State University of New York	47.050	72862-1128064-2(PO 1012944)		13,358
Research Foundation for the State University of New York	47.076	73299-1128962-3		6,411
North Carolina State University	47.050	2013-2581-01		36,406
University of Notre Dame	47.049	202048 (PHY-1219444)		16,634
Pacific Resources for Education & Learning	47.076	17-023		10,000
Predictive Science Inc	47.050	AGS-1358270		34,256
Purdue University	47.041	4101-76207		19,197
Purdue University	47.070	4101-71503		176,872
Rice University	47.050	R3E514 PRIME (OCE-1338842)		96,145
University of Southern California	47.050	91269211		19,991
University of Southern California	47.074	80981056		17,037
University of Texas – Austin	47.074	UTA15-000532		42,974
University Corp for Atmospheric Research	47.050	various		63,098
University of Washington	47.050	UWSC8197		20,545
Woods Hole Oceanographic Institute	47.050	A101362		51,343
				<u>4,533,088</u>
				44,935,377
<b>Environmental Protection Agency</b>				
Office of Research and Development ("ORD")				
Science To Achieve Results Research ("STAR") Program	66.509			34,314
P3 Award: National Student Design Competition for Sustainability	66.516			5,476
				<u>39,790</u>
Passed through from				
State of Hawaii Department of Health	66.419	various		38,434
State of Hawaii Department of Health	66.468	SDWB-18-001-RW		410
State of Hawaii Department of Health	66.817	13-502, AMDT 4		16,595
Government of American Samoa	66.	C00543		56,439
				<u>111,878</u>
				151,668
<b>U.S. Department of Energy</b>				
Office of Science Financial Assistance Program				
Renewable Energy Research and Development	81.087		371,658	1,781,596
				<u>1,160,644</u>
Passed through from				
Alliance for Sustainable Energy LLC	81.	XGJ-5-52227-01		11,595
Battelle Energy Alliance LLC	81.	197568		26,342
Battelle Memorial Institute	81.	various		152,137
Brookhaven National Lab	81.	various		13,442
Carnegie Institution of Washington	81.112	4-10469-25, AMDT 7		58,265
University of Central Florida	81.087	16226125-02		67,514
University of Chicago	81.049	FP068316-A		11,813
Duke University Medical Center	81.087	various		476,628
Fermi National Accelerator Lab	81.	639326		28,000
InnoSys, Inc	81.049	DE-SCW13244-UH		200,247
Lawrence Livermore National Lab	81.	various		72,307
University of Michigan	81.113	3003222389		250,129
Nalu Scientific LLC	81.049	various		59,000
Nalu Scientific LLC	81.	----		10,000
Sandia National Lab	81.	1875493		64,755
Treadstone Technologies Inc	81.087	Prime: DE-EE0007732		13,049
				<u>1,515,223</u>
				4,457,463

# University of Hawai'i State of Hawai'i Schedule of Expenditures of Federal Awards Year Ended June 30, 2018

	CFDA No.	Pass-Through Identifier	Passed Through to Subrecipients	Expenditures
<b>U.S. Department of Education</b>				
Office of Elementary and Secondary Education				
Javits Gifted and Talented Students Education	84.206		28,293	544,045
Passed through from				
Pacific Resources for Education & Learning	84.283	13-025 & 17-003		<u>89,802</u>
				633,847
<b>U.S. Department of Health and Human Services</b>				
National Institutes of Health				
Family Smoking Prevention and Tobacco Control Act Regulatory Research	93.077			30,486
Environmental Health	93.113			339,864
Mental Health Research Grants	93.242		236,660	1,242,877
Drug Abuse and Addiction Research Programs	93.279		323,442	1,090,251
Discovery and Applied Research for Technological				
Innovations to Improve Human Health	93.286			192,250
Minority Health and Health Disparities Research	93.307		333,506	8,127,751
Trans-NIH Research Support	93.310			41,405
National Center for Advancing Translational Sciences	93.350			942
Research Infrastructure Programs	93.351			875,409
Cancer Cause and Prevention Research	93.393		2,472,838	7,811,813
Cancer Detection and Diagnosis Research	93.394		215,491	542,652
Cancer Treatment Research	93.395		445,724	1,754,349
Cancer Centers Support Grants	93.397		340,929	4,377,362
Cancer Research Manpower	93.398			10,543
Cardiovascular Diseases Research	93.837		294,750	1,444,730
Blood Diseases and Resources Research	93.839		10	29,726
Diabetes, Digestive and Kidney Diseases Extramural Research	93.847		28,523	706,963
Extramural Research Programs in the Neurosciences and				
Neurological Disorders	93.853			266,043
Allergy and Infectious Diseases Research	93.855		1,073,260	3,176,686
Microbiology and Infectious Diseases Research	93.856			6,402
Biomedical Research and Research Training	93.859		886,910	9,485,749
Child Health and Human Development Extramural Research	93.865		87,371	1,074,518
Aging Research	93.866			(644)
Medical Library Assistance	93.879		113,047	236,644
International Research and Research Training	93.989		95,113	229,039
Others	93.			<u>1,481,351</u>
				44,575,161
Administration for Community Living				
Special Programs for the Aging – Title IV and Title II – Discretionary Projects	93.048			199,309
Health Resources and Services Administration				
Grants to Increase Organ Donations	93.134			117,693
Passed through from				
State of Hawaii Department of Health	93.130	PO 00 231611		5,278
State of Hawaii Department of Health	93.136	various		118,305
State of Hawaii Department of Health	93.243	various		218,611
State of Hawaii Department of Health	93.945	various		611,642
American Psychiatric Association	93.243	----		7,746
American Samoa Community Cancer Coalition	93.307	----		35,485
Blood Systems Research Institute	93.242	11552UH130		205,331
Cedars-Sinai Medical Center	93.393	1400290		106,749
Center for Policy Research	93.086	----		1,413
Children's Hospital Los Angeles	93.847	TGF010062-S		540
Children's Hospital Medical Center	93.865	138600		1,464
Dartmouth College	93.393	1454R180, AMDT 3		46,292
Drexel University	93.853	870072 / PO #U131684		51,226
Duke University Medical Center	93.393	2036488		20,082
East-West Center	93.866	HC13476, AMDT 1		32,661
ECOG-ACRIN Cancer Research Group	93.	----		132,507
Harvard University	93.393	114226-5092328		44,255
University of Hawaii Foundation	93.375	124-2520-2		204,909
Hawaii Pacific University	93.279	UH-232710		119,715
Hawaii Public Health Institute	93.757	----		138,602
Henry M Jackson Foundation	93.242	Sub-Awd#: 3646 PO# 890902		50,297
Johns Hopkins University	93.393	2001377307		(1,955)
Johns Hopkins University	93.865	5R01HD065955-05/ 2001380839		758
Fred Hutchinson Cancer Research Center	93.393	various		154,569
Icahn School of Medicine at Mount Sinai	93.847	various		70,117
Kaiser Permanente-CHRH	93.847	OOS030190-UH-01		29,842
Kapiolani Medical Center for Women and Children	93.865	various		65,742
MathNimbus Inc.	93.859	2017-1		49,980
University of Michigan	93.242	3004392268		53,031
University of Michigan	93.866	3004303924		30,877
University of Minnesota	93.242	P004148502		10,898
University of Minnesota	93.393	various		650,786
University of Missouri – St Louis	93.242	various		233,652
Morehouse School of Medicine	93.307	various	19,936	424,239
University of Nevada – Las Vegas	93.307	17-22MB-01		8,433
University of Nevada – Las Vegas	93.859	various	99,300	306,417
New York University	93.394	various		55,730
University of North Carolina – Chapel Hill	93.859	5050224 AMDT 2		10,357
Northeastern University	93.279	500392-78054 (PO P1503296)		34,501
NSABP Foundation Inc	93.395	TFED38-118		4,622
Oregon Health & Science University	93.	various		86,212
Palo Alto Veterans Institute for Research	93.393	OWJ0001-01		22,044
Papa Ola Lokahi	93.397	Subcontract #814		58,630

# University of Hawai'i State of Hawai'i

## Schedule of Expenditures of Federal Awards Year Ended June 30, 2018

	CFDA No.	Pass-Through Identifier	Passed Through to Subrecipients	Expenditures
University of Pittsburgh	93.226	0039806 (130248-3)		2,736
University of Pittsburgh	93.859	0047882 (126884-1)		2,778
Portland State University	93.310	various		397,094
Queen's Hospital Medical Center	93.394	R01CA161209-06 (NCE YR 7)		18,171
Riverside Research Institute	93.394	NYO.1083.00049.16		57,339
University of Rochester	93.135	various		39,650
The Salvation Army	93.243	-----		33,748
Seattle Institute for Biomedical and Clinical Research	93.847	various		185,246
University of Southern California	93.172	65050477		177,044
University of Southern California	93.393	101156721		1,723
University of Tennessee Health Science Center	93.855	-----		14,136
University of Texas – San Antonio	93.865	1000000443		243,019
Tulane University of Louisiana	93.865	various		22,406
Vanderbilt University Medical Center	93.393	various		54,771
University of Virginia	93.847	GB10462.156067		24,738
University of Washington	93.307	762279		60,200
University of Washington	93.855	UWSC10177		6,882
University of Washington	93.989	various		22,017
Wayne State University	93.837	WSU17132		51,711
The Wistar Institute	93.853	25471-02-381		52,645
Yale University	93.395	M13A11642 (A08642), AMDT 4		6,840
Yale University	93.853	M14A11643 (A11090) AM05		11,524
				<u>5,999,010</u>
				50,891,173
<b>U.S. Department of Homeland Security</b>				
Passed through from				
NiyamIT Inc	97.	-----		173,443
<b>U.S. Agency for International Development</b>				
USAID Foreign Assistance for Programs Overseas				
	98.001		564,769	1,308,437
Passed through from				
Iowa State University	98.	404-21-77B, AMDT 4		47,151
Nathan Associates Inc	98.001	H301-300-PDC		(1,728)
Purdue University	98.001	41060000-8000059267	2,571	7,026
				<u>52,449</u>
				1,360,886
				<b>206,320,471</b>
<b>Total Research and Development</b>				
<b>MAJOR PROGRAM – STUDENT FINANCIAL ASSISTANCE</b>				
<b>U.S. Department of Education</b>				
Office of Federal Student Aid				
Federal Supplemental Educational Opportunity Grants	84.007			1,338,172
Federal Work-Study Program	84.033			1,515,279
Federal Perkins Loan Program	84.038			1,740,004
Federal Pell Grant Program	84.063			56,055,679
Federal Direct Student Loans	84.268			143,204,039
Teacher Education Assistance for College and Higher Education Grants	84.379			203,853,173
				<u>83,021</u>
				<b>203,936,194</b>
<b>MAJOR PROGRAM – TITLE III HIGHER EDUCATION – INSTITUTIONAL AID</b>				
<b>U.S. Department of Education</b>				
Office of Postsecondary Education				
Higher Education – Institutional Aid	84.031			19,968,160
				<u>19,968,160</u>
				<b>19,968,160</b>
<b>MAJOR PROGRAM – TRIO CLUSTER</b>				
<b>U.S. Department of Education</b>				
Office of Postsecondary Education				
TRIO – Student Support Services	84.042			1,863,660
TRIO – Talent Search	84.044			1,198,572
TRIO – Upward Bound	84.047			2,005,868
TRIO – Educational Opportunity Centers	84.066			501,985
				<u>5,570,085</u>
				<b>5,570,085</b>
<b>MAJOR PROGRAM – TITLE VII NATIVE HAWAIIAN EDUCATION</b>				
<b>U.S. Department of Education</b>				
Office of Elementary and Secondary Education				
Native Hawaiian Education	84.362		404,852	4,382,086
Passed through from				
Kula No Na Po'e Hawaii	84.362	various		274,657
Pacific American Foundation	84.362	various		117,871
Waianae Coast Comprehensive Health Center	84.362	2016-2017 NHEP		8,462
				<u>400,990</u>
				<b>4,783,076</b>

# University of Hawai'i State of Hawai'i

## Schedule of Expenditures of Federal Awards Year Ended June 30, 2018

	CFDA No.	Pass-Through Identifier	Passed Through to Subrecipients	Expenditures
<b>MAJOR PROGRAM – HOMELAND SECURITY TRAINING</b>				
<b>U.S. Department of Homeland Security</b>				
Federal Emergency Management Agency				
State and Local Homeland Security National Training Program				
	97.005		2,411,858	5,000,907
<b>Total State and Local Homeland Security National Training Program</b>				<b>5,000,907</b>
<b>MAJOR PROGRAM – GEAR UP PROGRAM</b>				
<b>U.S. Department of Education</b>				
Office of Postsecondary Education				
Gaining Early Awareness and Readiness for Undergraduate Programs				
	84.334		655,944	3,773,761
<b>Total Gear Up Program</b>				<b>3,773,761</b>
<b>MAJOR PROGRAM – C3T PROGRAM</b>				
<b>U.S. Department of Labor</b>				
Employment Training Administration				
Trade Adjustment Assistance Community College and Career Training ("TAACCT") Grants				
	17.282			3,939,542
<b>Total C3T Program</b>				<b>3,939,542</b>
<b>MAJOR PROGRAM – IRTF OPERATION</b>				
<b>National Aeronautics and Space Administration</b>				
Goddard				
NNH14CK55B				
	43.			5,317,469
<b>Total IRTF Program</b>				<b>5,317,469</b>
<b>OTHER FEDERAL ASSISTANCE</b>				
<b>U.S. Department of Agriculture</b>				
Agricultural Research Service				
Agricultural Research – Basic and Applied Research				
	10.001			86,099
Animal and Plant Health Inspection Service				
Plant and Animal Disease, Pest Control, and Animal Care				
	10.025		74,493	
Other				
	10.		9,000	83,493
Agricultural Marketing Service				
Federal-State Marketing Improvement Program				
	10.156			3,923
National Institute of Food and Agriculture				
Alaska Native Serving and Native Hawaiian Serving Institutions				
Education Grants				
	10.228		1,490,744	
Agriculture and Food Research Initiative ("AFRI")				
	10.310		109,481	
Beginning Farmer and Rancher Development Program				
	10.311	100,416	299,292	
Veterinary Services Grant Program				
	10.336		6,461	
Cooperative Extension Service				
	10.500		2,561,462	4,467,440
Foreign Agricultural Service				
Norman E. Borlaug International Agricultural Science and Technology Fellowship				
	10.777		11,190	
Cochran Fellowship Program-International Training-Foreign Participant				
	10.962		27,695	38,885
Forest Service				
Forestry Research				
	10.652		25,743	
Cooperative Forestry Assistance				
	10.664		8,500	
Other				
	10.		75,490	109,733
Natural Resources Conservation Service				
Environmental Quality Incentives Program				
	10.912		18,933	167,956
Rural Business-Cooperative Service				
Rural Business Development Grant				
	10.351			10,486
Rural Utilities Service				
Distance Learning and Telemedicine Loans and Grants				
	10.855			363,628
Passed through from				
State of Hawaii Department of Agriculture				
	10.170	various		35,867
State of Hawaii Department of Education				
	10.558	various		84,892
State of Hawaii Department of Education				
	10.559	various		23,392
State of Hawaii Department of Health				
	10.561	MOA		19,239
State of Hawaii Department of Human Services				
	10.561	various	701,350	
State of Hawaii Department of Land and Natural Resources				
	10.664	C71252		9,998
State of Hawaii Department of Land and Natural Resources				
	10.674	C82480		5,051
State of Hawaii Department of Land and Natural Resources				
	10.680	various		68,716
State of Hawaii Department of Land and Natural Resources				
	10.684	C71252		5,017
University of California – Davis				
	10.304	201603794-01		16,958
University of California – Davis				
	10.329	SA14-2309-11, AMDT 2		46,315
Kansas State University				
	10.500	various		77,674
Oregon State University				
	10.328	C0494A-C		43,703
Utah State University				
	10.215	200592-398		22,205
Washington State University				
	10.500	108815-G003710		9,611
				<b>1,169,988</b>
				<b>6,501,631</b>

# University of Hawai'i State of Hawai'i

## Schedule of Expenditures of Federal Awards Year Ended June 30, 2018

	CFDA No.	Pass-Through Identifier	Passed Through to Subrecipients	Expenditures
<b>U.S. Department of Commerce</b>				
Economic Development Administration				
Cluster Grants	11.020		164,795	220,983
Investments for Public Works and Economic Development Facilities	11.300			(152,575)
Economic Development – Technical Assistance	11.303			108,404
National Oceanic and Atmospheric Administration ("NOAA")				
NOAA Mission-Related Education Awards	11.008			80,403
Integrated Ocean Observing System ("IOOS")	11.012			2,118,695
Sea Grant Support	11.417			874,796
Coastal Zone Management Estuarine Research Reserves	11.420			313,294
Fisheries Development and Utilization Research Development Grants and Cooperative Agreements Program	11.427		62,914	93,630
NOAA Cooperative Institutes	11.432			23,375
Unallied Industry Projects	11.452			160,494
Meteorologic and Hydrologic Modernization Development	11.467			431,254
Congressionally Identified Awards and Projects	11.469			220
Office of Coastal Management	11.473			554,660
Other	11.			146,424
National Institute of Standards and Technology				
Science, Technology, Business and/or Education Outreach	11.620			11,000
Minority Business Development Agency				
MBDA Business Center	11.805			206,519
Passed through from				
State of Hawaii Department of Business, Economic Development and Tourism	11.419	PO 144-7054		6,000
State of Hawaii Department of Defense	11.467	various		175,295
State of Hawaii Department of Land and Natural Resources	11.472	various		26,356
State of Hawaii Department of Land and Natural Resources	11.482	various		229,385
Aquafeed.com LLC	11.427	NA16NMF4270268/UH/WCC001		27,210
Hawaii Nature Center	11.473	-----		5,565
High Technology Development Corp	11.611	-----		20,503
National Marine Sanctuary Foundation	11.011	various		15,668
University Corp for Atmospheric Research	11.431	Z15-18983 (NA11OAR4310213)		20,006
University Corp for Atmospheric Research	11.467	SUBAWD000358		34,275
				560,263
				5,751,839
<b>U.S. Department of Defense</b>				
Army				
Basic and Applied Scientific Research	12.300			666,071
Legacy Resource Management Program	12.632			11,120
Other	12.			46,055
Navy				
Basic and Applied Scientific Research	12.300			802,357
Other	12.			1,450,618
National Security Agency				
Language Grant Program	12.900			96,525
GenCyber Grants Program	12.903			117,013
Defense Logistics Agency				
Passed through from				738,972
University of Alaska – Anchorage	12.	P0515742		16,928
Chaminade University	12.300	ONRK20STEMPA		4,489
Ho'okipaipai LLC	12.002	-----		126,665
Institute of International Education	12.550	various	124,747	1,236,960
Johns Hopkins University	12.	PO 144115		114,000
Louis Berger U.S. Inc	12.	20PO008369 TO1		44,350
				1,543,392
				5,472,123
<b>U.S. Department of the Interior</b>				
Fish and Wildlife Service				
Service Training and Technical Assistance (Generic Training)	15.649			50,770
Endangered Species Conservation – Recovery Implementation Funds	15.657			14,101
Fish and Wildlife Coordination and Assistance	15.664			58,138
Cooperative Landscape Conservation	15.669			177,860
U.S. Geological Survey				
Other	15.			18,006
Office of Insular Affairs				
Economic, Social and Political Development of the Territories	15.875			137,241
National Park Service				
American Battlefield Protection	15.926			7,908
Cooperative Research and Training Programs – Resources of the National Park System	15.945			134,894
Passed through from				
State of Hawaii Department of Land and Natural Resources	15.605	C60709		3,135
State of Hawaii Department of Land and Natural Resources	15.611	various		266,575
State of Hawaii Department of Land and Natural Resources	15.615	various		313,313
State of Hawaii Department of Land and Natural Resources	15.634	various		56,815
National Fish and Wildlife Foundation	15.663	1701.15.050697		10,856
				650,694
				1,249,612
<b>U.S. Department of Justice</b>				
National Institute of Justice				
Postconviction Testing of DNA Evidence to Exonerate the Innocent	16.820			33,596
				33,596

**University of Hawai'i  
State of Hawai'i  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2018**

	CFDA No.	Pass-Through Identifier	Passed Through to Subrecipients	Expenditures
<b>U.S. Department of Labor</b>				
Passed through from				
State of Hawaii Department of Labor and Industrial Relations	17.207	DEI-PY15-UHCDS		235,465
State of Hawaii Department of Labor and Industrial Relations	17.268	AAI-15-UH		464
State of Hawaii Department of Labor and Industrial Relations	17.285	Appr SEG-16-UH		456,686
State of Hawaii Department of Labor and Industrial Relations	17.	PO 00104399		16,137
County of Maui	17.259	various		105,654
Alu Like, Inc	17.265	VE-BOOST1718-HON		33,331
				<u>847,737</u>
				847,737
<b>U.S. Department of State</b>				
Passed through from				
East West Center	19.	various		583,493
Partners of the Americas	19.009	CBG-2015-R1-17		31,758
				<u>615,251</u>
				615,251
<b>U.S. Department of Transportation</b>				
Passed through from				
State of Hawaii Department of Land and Natural Resources	20.219	various		304,865
State of Hawaii Department of Transportation	20.200	-----		159
State of Hawaii Department of Transportation	20.205	OCR 1.8699		3,482
State of Hawaii Department of Transportation	20.600	various		106,202
University of Southern California	20.701	84376201		28,727
				<u>443,435</u>
				443,435
<b>National Aeronautics and Space Administration</b>				
Goddard				
Science	43.001			35,862
Education	43.008			1,019,914
Space Technology	43.012			6,816
Other	43.			607,785
				<u>1,670,377</u>
				1,670,377
Johnson Space Center				
Education	43.008			128,735
Passed through from				
University of Arizona	43.	Y403053		151,598
Teledyne Brown Engineering	43.	various		10,361
				<u>161,959</u>
				161,959
				1,961,071
<b>National Endowment for the Arts and Humanities</b>				
National Endowment for the Arts				
Promotion of the Arts Grants to Organizations and Individuals	45.024			9,925
Promotion of the Arts Partnership Agreements	45.025			10,000
				<u>19,925</u>
				19,925
Passed through from				
Hawaii State Foundation on Culture & Arts	45.025	FY17-0096		26,375
Hawaii Council for the Humanities	45.129	various		4,395
WESTAF	45.025	various		7,000
				<u>37,770</u>
				37,770
				57,695
<b>Institute of Museum and Library Services</b>				
Passed through from				
Washington State University	45.312	116432 G003717		28,192
				28,192
<b>Small Business Administration</b>				
Small Business Development Centers				
Veterans Outreach Program	59.037			1,077,723
Other	59.044			321,457
Other	59.			48,812
Passed through from				
State of Hawaii Department of Business, Economic Development and Tourism	59.061	65639		7,162
				<u>1,455,154</u>
				1,455,154
<b>U.S. Department of Veterans Affairs</b>				
	64.			98,218
				98,218
<b>Environmental Protection Agency</b>				
Office of Research and Development ("ORD")				
Science to Achieve Results ("STAR") Fellowship Program	66.514			10,908
Passed through from				
State of Hawaii Department of Health	66.460	various		205,257
Extension Foundation	66.716	SA-2017-33		6,576
				<u>211,833</u>
				211,833
				222,741
<b>U.S. Department of Energy</b>				
Passed through from				
State of Hawaii Department of Business, Economic Development and Tourism	81.119	65616		32,662
State of Hawaii Department of Business, Economic Development and Tourism	81.	66008		23,466
University of Central Florida	81.087	16226104-04		57,854
				<u>113,982</u>
				113,982

# University of Hawai'i State of Hawai'i

## Schedule of Expenditures of Federal Awards Year Ended June 30, 2018

	CFDA No.	Pass-Through Identifier	Passed Through to Subrecipients	Expenditures
<b>U.S. Department of Education</b>				
Office of Postsecondary Education				
National Resource Centers Program for Foreign Language and Areas Studies or Foreign Language and International Studies Program and Foreign Language and Area Studies Fellowship Program				
	84.015			1,660,280
	84.229			206,716
	84.335			76,735
	84.382			15,172
	84.407			472,093
				<u>2,430,996</u>
Office of Special Education and Rehabilitative Services				
	84.129			171,935
	84.325			536,689
	84.326			186,759
				<u>895,383</u>
Office of Elementary and Secondary Education				
	84.367			154,766
Office of Career, Technical, and Adult Education				
	84.048			2,598,634
Passed through from				
	84.184	MOA D15-083 CO-10584 AMDT1		16,838
	84.287	various		45,462
	84.365	MOA D18-032, CO-10852		16,294
	84.372	various		1,398,499
	84.126	various		569,951
	84.419	MOA PDG-01, SPCSC-18-33-SW		75,234
	84.259	various		705,489
	84.403	C00542		20,119
	84.	various		515,286
	84.116	-----		2,481
	84.259	various		54,243
	84.325	H325K160037		107,329
	84.367	92-H101-SEED2017-ILI		13,835
				<u>3,541,060</u>
				9,620,839
<b>Japan U.S. Friendship Commission</b>				
	90.300			21,506
<b>U.S. Department of Health and Human Services</b>				
Health Resources and Services Administration				
	93.059			272,676
	93.107		795,185	1,048,223
	93.110		(1,500)	582,075
	93.127			99,471
	93.157			646,762
	93.165			160,152
	93.211			367,330
	93.243			540,244
	93.247			649,089
	93.251			469,364
	93.359			261,223
	93.732			58,920
	93.822		389,313	773,751
	93.969		137,915	905,734
				<u>6,835,014</u>
Centers for Disease Control and Prevention				
	93.283		79,534	137,962
	93.314			258,473
	93.738		115,724	839,866
	93.898		100,709	326,590
				<u>1,562,891</u>
Administration for Community Living				
	93.631			297,034
	93.632		279,047	1,071,327
	93.763			258,869
				<u>1,627,230</u>
Office of Minority Health				
	93.137			326,001
Passed through from				
	93.079	MOA D16-113 CO-10692		39,614
	93.243	MOA D15077 CO-10583 AMDT1		204,420
	93.048	various		153,443
	93.092	PO 00 229931		13,703
	93.110	Furutomo MOA (PO 00 227869)		338
	93.136	various		87,433
	93.324	UH2017N11		57,414
	93.757	PO 00 235170		37,501
	93.758	various		79,460

**University of Hawai'i  
State of Hawai'i  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2018**

	<b>CFDA No.</b>	<b>Pass-Through Identifier</b>	<b>Passed Through to Subrecipients</b>	<b>Expenditures</b>
State of Hawaii Department of Health	93.958	various		627,297
State of Hawaii Department of Health	93.959	various		509,903
State of Hawaii Department of Health	93.991	PO 00 231201		3,855
State of Hawaii Department of Health	93.994	PO 00 240332		6,234
State of Hawaii Department of Health	93.	various		210,104
State of Hawaii Department of Human Services	93.558	various		80,649
State of Hawaii Department of Human Services	93.596	various		1,134,512
State of Hawaii Department of Human Services	93.658	various		509,185
State of Hawaii Department of Human Services	93.667	various		95,824
State of Hawaii Department of Human Services	93.669	DHS-17-POS-4054, SUPP 1		148,326
State of Hawaii Department of Human Services	93.747	various		97,256
State of Hawaii Department of Human Services	93.779	-----		226,279
State of Hawaii Office of Enterprise Technology Services	93.511	various		645,158
City & County of Honolulu	93.044	CT-DCS-1600147, AMDT 2		15,667
City & County of Honolulu	93.052	various		189,542
Government of American Samoa	93.283	-----		885
University of Arizona	93.516	218822		85,443
Association of University Centers on Disabilities	93.424	-----		1,143
University of California – San Francisco	93.145	various		115,505
Coalition for a Drug-Free Hawaii	93.276	YEAR 4		5,608
Federated States of Micronesia	93.283	A120707121361-12-8310		35,637
Federated States of Micronesia	93.898	C#180261		8,877
Government of Guam	93.283	5101H121712SE118/230		8,864
Government of Guam	93.898	17-0791		26,496
ARRA – Hawaii Health Information Exchange	93.718	2010-002		7,355
Republic of the Marshall Islands	93.283	-----		8,742
Republic of the Marshall Islands	93.898	-----		18,814
Commonwealth of the Northern Mariana Islands	93.185	CNMI DPHSS, AMDT 4		2,815
Commonwealth of the Northern Mariana Islands	93.778	various		78,442
Commonwealth of the Northern Mariana Islands	93.898	-----		14,022
Pacific Youth & Community Development	93.612	90NE0034-01-00		46,405
Republic of Palau	93.283	14-084 AMDT 2		2,061
Republic of Palau	93.898	18-026		4,499
University Health Partners of Hawaii	93.917	-----		204,556
University of Washington	93.226	UWSC9409		1,172
				<u>16,201,594</u>
<b>Corporation for National and Community Service</b>				
State Commissions	94.003			253,848
AmeriCorps	94.006		2,117,731	2,117,731
Training and Technical Assistance	94.009		119,700	160,007
				<u>2,531,586</u>
<b>Social Security Administration</b>				
Social Security – Work Incentives Planning and Assistance Program	96.008			116,774
<b>Agency for International Development</b>				
USAID Foreign Assistance for Programs Overseas	98.001		5,000	128,771
Passed through from				
University of California – Davis	98.001	09-002945-108	96,644	195,513
Michigan State University	98.	RC102095BHEARD-Bangladesh		56,174
				<u>251,687</u>
				380,458
<b>Other</b>				
Peace Corps	99.			18,121
<b>Total other federal assistance</b>				<u>53,743,155</u>
<b>Total expenditures of federal awards</b>			<b>\$ 24,981,363</b>	<b>\$ 512,352,820</b>

**University of Hawai‘i**  
**State of Hawai‘i**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2018**

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**1. Basis of Presentation**

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

**2. Loans Outstanding**

The University had the following loans outstanding as of June 30, 2018, which are not presented in the schedule of expenditures of federal awards.

	<b>CFDA No.</b>	<b>Loans Outstanding</b>
<b>Major Program – Student Financial Assistance</b>		
Federal Perkins Loan	84.038	\$ 15,078,636
Federal Direct Student Loan	84.268	<u>5,799</u>
		<u>\$ 15,084,435</u>

During the year ended June 30, 2018, the University distributed \$1,740,004 and \$143,204,039 in student loans through the U.S. Department of Education Federal Perkins Loan and Direct Loan programs, respectively. These distributions and related funding sources are presented in the schedule of expenditures of federal awards, however, are not included as expenses and revenues in the University’s consolidated financial statements.

## **SECTION 3**

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

**University of Hawai‘i<sup>2</sup>**  
**State of Hawai‘i**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2018**

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

**Financial Statements**

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

**Federal Awards**

Internal control over major programs	
Material weaknesses identified?	Yes
Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Type of auditors’ report issued on compliance for major programs	Qualified
Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. CFR Part 200, Section 200.516?	Yes

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

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

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

<sup>2</sup> The University’s federal entity identification number is 99-6000354.

**University of Hawai'i**  
**State of Hawai'i**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2018**

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**Section II – Financial Statement Findings**

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

**University of Hawai'i  
 State of Hawai'i  
 Schedule of Findings and Questioned Costs  
 Student Financial Assistance Cluster  
 University of Hawai'i West O'ahu  
 Year Ended June 30, 2018**

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

**Questioned  
 Costs**

**\$1,421**

**Finding No. 2018-001:** Financial Aid Administration – Material Weakness

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

**CFDA Number and Title:** 84.063 – Federal Pell Grant  
 84.268 – Federal Direct Student Loans  
 84.033 – Federal Work-Study Program

**Condition**

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

Return of Title IV Funds

- For 6 out of 15 students selected for testing, the institution failed to remit the institutional portion of unearned Title IV Funds to the Title IV program within 45 days after the institution determined that the student withdrew.
- For 1 out of 15 students selected for testing, the institution failed to remit all disbursed Title IV Funds to the Title IV program within 30 days after the institution became aware that the student did not begin attendance.
- For 8 out of 15 students selected for testing, the institution failed to determine the withdrawal date for students who unofficially withdrew from the institution within 30 days after the end of period of enrollment.
- For 1 out of 15 students selected for testing, the institution did not have evidence that the student began attendance in one of their enrolled classes. As such, the institution failed to remit the appropriate amount of Title IV funds for this student, resulting in an underpayment of \$671 to the Title IV program.
- For 1 out of 15 students selected for testing, the institution used the incorrect amount of aid disbursed when calculating the institutional portion of unearned Title IV Funds. As such, the institution failed to remit the appropriate amount of Title IV funds for this student, resulting in an underpayment of \$750 to the Title IV program.

Enrollment Reporting

- For 11 out of 15 students selected for testing, the institution failed to provide exit counseling to borrowers within a timely matter.

**University of Hawai'i  
State of Hawai'i  
Schedule of Findings and Questioned Costs  
Student Financial Assistance Cluster  
University of Hawai'i West O'ahu  
Year Ended June 30, 2018**

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Federal Work Study

The institution failed to employ at least one of the Federal Work Study ("FWS") program fund recipients as a reading tutor for children in a reading tutoring or family literacy project.

**Criteria**

Return of Title IV Funds

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

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

Title 34, Section 668.21(a) though (b) of the CFR requires if a student does not begin attendance in a payment period or period of enrollment, the institution must return all Title IV, HEA programs funds that were credited to the student's account at the institution or disbursed directly to the student for that payment period or period of enrollment for Federal Perkins Loan, Federal Supplemental Educational Opportunity, Federal Pell Grant, TEACH grant, ACG, and National SMART Grant program funds. For the Federal Direct Student Loans, the institution must return all loan funds that were credited to the student's account at the institution for that payment period or period of enrollment. The institution must return those funds for which it is responsible for to the respective Title IV, HEA program as soon as possible, but no later than 30 days after the date that the institution becomes aware that the student will not or has not begun attendance.

Title 34, Section 668.22(a)(1) through (a)(5) of the CFR requires the institution to determine the amount of Title IV aid earned by the student as of the student's withdrawal date when a recipient of Title IV grant or loan assistance funds withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance.

Enrollment Reporting

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

**University of Hawai'i  
State of Hawai'i  
Schedule of Findings and Questioned Costs  
Student Financial Assistance Cluster  
University of Hawai'i West O'ahu  
Year Ended June 30, 2018**

---

Federal Work Study

Title 34, Section 34 CFR 675.18(g)(1) of the CFR states that an institution must use at least seven percent of the sum of its initial and supplemental FWS allocations for an award year to compensate students employed in community service activities. In meeting this requirement, the institution must include at least one FWS program fund recipient who serves as a reading tutor for children who are preschool age or are in elementary school or who participates in a family literacy activity.

**Cause**

Due to turnover in critical positions within the financial aid office (including the lack of consistent attendance by the Director) and lack of personnel cross-training, the institution was unable to ensure compliance with Federal requirements.

**Effect**

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

**Context**

Return of Title IV Funds

A sample of 15 students who completely withdrew from the institution and were disbursed a total of \$53,775 in Title IV funds was selected for audit from a population of 165 students who completely withdrew and were disbursed a total of \$1,709,958 in Title IV funds. Our test found 7 students' institutional portion of unearned aid were remitted untimely, as the fall 2017 and spring 2018 semesters' return to Title IV calculations were not completed until October 2018. Our sample was a statistically valid sample.

Of our sample of 15 students who withdrew, 9 students were selected for testing who unofficially withdrew from the institution and were disbursed a total of \$38,033 in Title IV funds from a population of 110 students who unofficially withdrew from the institution and were disbursed a total of \$1,232,033 in Title IV funds. Our test found 8 students' return to Title IV calculations were not performed timely. Our sample was a statistically valid sample.

A sample of 15 students who completely withdrew from the institution and were disbursed a total of \$53,775 in Title IV funds was selected for audit from a population of 165 students who completely withdrew and were disbursed a total of \$1,709,958 in Title IV funds. Our test found 2 students' whose return of Title IV funds were incorrectly calculated, resulting in questioned costs of \$1,421. Our sample was a statistically valid sample.

Enrollment Reporting

A sample of 15 exit counseling sessions conducted with borrowers were selected for audit from a population of 463 students awarded federal student aid. Our test found 11 exit counseling sessions conducted with borrowers were not performed timely. Our sample was a statistically valid sample.

**University of Hawai'i  
State of Hawai'i  
Schedule of Findings and Questioned Costs  
Student Financial Assistance Cluster  
University of Hawai'i West O'ahu  
Year Ended June 30, 2018**

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Federal Work Study

During the review of the institution's Fiscal Operation Report and Application to Participate ("FISAP"), we noted that the institution failed to employ at least one student as a reading tutor for children or at least one student who participated in a family literacy activity. No further sampling of student employment was performed in conjunction with the testing of the institution's FISAP.

**Repeat Finding**

The return of Title IV funds exceptions are a repeat of prior audit Finding No. 2017-003. The enrollment reporting and Federal Work Study exceptions are not repeat findings.

**Recommendation**

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

Return of Title IV Funds

- Remit the institutional portion of unearned aid to the appropriate Title IV program within the required 45-day time period.
- Determine the withdrawal date for students who unofficially withdrew from the institution within the required 30-day time period.
- Remit all aid to the appropriate Title IV program if a student fails to begin attendance during the period of enrollment.
- Ensure that the correct information is used to prepare the return of Title IV calculation.

Enrollment Reporting

- Provide timely exit counseling to borrowers.

Federal Work Study

- Ensure at least one student is employed as a reading tutor for children who are preschool age or are in elementary school or one student who participates in a family literacy activity.
- Consider requesting a waiver of the earmarking requirements pursuant to the provisions of Title 34, Section 675.18(g)(2) of the CFR.

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

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

**University of Hawai'i  
 State of Hawai'i  
 Schedule of Findings and Questioned Costs  
 Student Financial Assistance Cluster  
 University of Hawai'i at Mānoa  
 Year Ended June 30, 2018**

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**Questioned  
 Costs**

**\$ –**

**Finding No. 2018-002:** Return of Title IV Funds – Control Deficiency

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

**CFDA Number and Title:** 84.063 – Federal Pell Grant

**Condition**

During our audit, for 1 out of 15 students selected for testing, the institution failed to remit the institutional portion of unearned Title IV Funds to the Title IV program within 30 days after the institution determined that the student did not begin attendance for the enrolled classes during the period of enrollment.

**Criteria**

Title 34, Section 668.21(a) though (b) of the CFR requires if a student does not begin attendance in a payment period or period of enrollment, the institution must return all Title IV, HEA programs funds that were credited to the student's account at the institution or disbursed directly to the student for that payment period or period of enrollment for Federal Perkins Loan, Federal Supplemental Educational Opportunity, Federal Pell Grant, TEACH grant, ACG, and National SMART Grant program funds. For the Federal Direct Student Loans, the institution must return all loan funds that were credited to the student's account at the institution for that payment period or period of enrollment. The institution must return those funds for which it is responsible for to the respective Title IV, HEA program as soon as possible, but no later than 30 days after the date that the institution becomes aware that the student will not or has not begun attendance.

**Cause**

Due to the timing of when the return to Title IV calculation was performed, the institution was unable to remit the unearned aid within the required 30-day period.

**Effect**

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

**Context**

A sample of 15 students who completely withdrew from the institution and were disbursed a total of \$150,002 in Title IV funds was selected for audit from a population of 355 students who completely withdrew and were disbursed a total of \$3,212,973 in Title IV funds. Our test found 1 student's return of Title IV funds was not remitted timely. Our sample was a statistically valid sample.

**University of Hawai'i  
State of Hawai'i  
Schedule of Findings and Questioned Costs  
Student Financial Assistance Cluster  
University of Hawai'i at Mānoa  
Year Ended June 30, 2018**

---

**Repeat Finding**

This is not a repeat finding.

**Recommendation**

We recommend that institution remit the institutional portion of unearned aid to the appropriate Title IV program within the required 30-day time period in accordance with federal regulations.

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

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

**University of Hawai'i  
State of Hawai'i  
Schedule of Findings and Questioned Costs  
Student Financial Assistance Cluster  
University of Hawai'i Hilo  
Year Ended June 30, 2018**

---

**Questioned  
Costs**  
  
**\$90**

**Finding No. 2018-003:** Return of Title IV Funds – Control Deficiency

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

**CFDA Number and Title:** 84.063 – Federal Pell Grant Program

**Condition**

During our audit, for 1 out of 15 students selected for testing, the institution did not properly calculate the institutional portion of unearned Title IV Funds. As such, the institution failed to remit Title IV Funds to the Title IV program within 45 days after the institution determined that the student withdrew, resulting in an underpayment of \$90 to the Title IV program.

**Criteria**

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

**Cause**

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

**Effect**

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

**Context**

A sample of 15 students who completely withdrew from the institution and were disbursed a total of \$92,133 in Title IV funds was selected for audit from a population of 199 students who completely withdrew and were disbursed a total of \$1,740,802 in Title IV funds. Our test found 1 student's return of Title IV funds was incorrectly calculated, resulting in a questioned cost of \$90. Our sample was a statistically valid sample.

**Repeat Finding**

This is not a repeat finding.

**University of Hawai'i  
State of Hawai'i  
Schedule of Findings and Questioned Costs  
Student Financial Assistance Cluster  
University of Hawai'i Hilo  
Year Ended June 30, 2018**

---

**Recommendation**

We recommend that institution remit the institutional portion of unearned aid to the appropriate Title IV program within the required 45-day time period in accordance with federal regulations.

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

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

**University of Hawai'i  
 State of Hawai'i  
 Schedule of Findings and Questioned Costs  
 Student Financial Assistance Cluster  
 Hawai'i Community College  
 Year Ended June 30, 2018**

---

**Questioned  
 Costs**

**\$ –**

**Finding No. 2018-004:** Financial Aid Administration – Significant Deficiency

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

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

**Condition**

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

- The institution did not reconcile institutional records and direct loan disbursements records on a monthly basis.
- For 2 out of 3 months selected for testing, the institution failed to perform the reconciliation between institutional records and direct loan disbursements records within a timely matter. During our testing, we noted that the documents provided by the financial aid director evidencing the institution's reconciliation of direct loan disbursements and drawdowns did not match disbursement records in Banner (system of record).

**Criteria**

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

Title 34, Section 668.82(a) through (b) of the CFR requires the institution to act in the nature of a fiduciary in the administration of the Title IV, HEA programs. To participate in any Title IV, HEA program, the institution must at all times act with the competency and integrity necessary to qualify as a fiduciary. In the capacity of a fiduciary, the institution is subject to the highest standard of care and diligence in administering the programs and in accounting to the Secretary for the funds received under those programs.

**Cause**

The design of internal controls failed to identify that the reconciliations were not performed in a timely manner.

**Effect**

In accordance with Title 34, Section 668.82(c) of the CFR, the Secretary of Education may levy fines and/or penalties on the institution or suspend or terminate future participation in federal student financial assistance programs for failure to comply with the requirements applicable to Title IV of the HEA.

**University of Hawai'i  
State of Hawai'i  
Schedule of Findings and Questioned Costs  
Student Financial Assistance Cluster  
Hawai'i Community College  
Year Ended June 30, 2018**

---

**Context**

A sample of 3 monthly reconciliations were selected for audit from a population of 12 monthly reconciliations. Our test found 2 monthly reconciliations were not performed timely and reconciliations were not done on a monthly basis throughout the year. Our sample was a statistically valid sample.

**Repeat Finding**

This is a repeat of prior audit Finding No. 2017-004.

**Recommendation**

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

- Reconcile borrower information on a monthly basis.
- Ensure that controls are in place over the reconciliation between institutional records and direct loan disbursements records and that someone reviews the reconciliation.

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

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

**University of Hawai'i  
 State of Hawai'i  
 Schedule of Findings and Questioned Costs  
 Student Financial Assistance Cluster  
 Honolulu Community College  
 Year Ended June 30, 2018**

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**Questioned  
 Costs**  
  
**\$593**

**Finding No. 2018-005:** Financial Aid Administration – Control Deficiency

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

**CFDA Number and Title:** 84.268 – Federal Direct Student Loans  
 84.063 – Federal Pell Grant

**Condition**

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

- For 3 out of 3 months selected for testing, the institution did not have evidence that they were reconciling borrower data. As such, the institution failed to perform the reconciliation between institutional records and direct loan disbursements records.
- For 1 out of 15 students selected for testing, the institution failed to remit the institutional portion of unearned Title IV Funds to the Title IV program within 45 days after the institution determined that the student withdrew.
- For 9 out of 15 students selected for testing, the institution failed to provide exit counseling to borrowers within a timely matter.
- For 2 out of 15 students selected for testing, the institution failed to report the student's enrollment status in the NSLDS as having graduated from the institution.

**Criteria**

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

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

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

**University of Hawai'i  
State of Hawai'i  
Schedule of Findings and Questioned Costs  
Student Financial Assistance Cluster  
Honolulu Community College  
Year Ended June 30, 2018**

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

**Cause**

Due to turnover in critical positions within the financial aid office and lack of personnel training, staff members were inadequately trained to ensure compliance with Federal requirements.

**Effect**

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

**Context**

A sample of 3 monthly reconciliations were selected for audit from a population of 12 monthly reconciliations. We noted that records were not available for the period from August 2017 to February 2018 due to files being overwritten during the performance of the subsequent month's reconciliation. Our sample was a statistically valid sample.

A sample of 15 students who completely withdrew from the institution and were disbursed a total of \$40,486 in Title IV funds was selected for audit from a population of 247 students who completely withdrew and were disbursed a total of \$966,169 in Title IV funds. Our test found 1 student's return of Title IV funds was not remitted timely. Our sample was a statistically valid sample.

A sample of 15 exit counseling sessions conducted with borrowers were selected for audit from a population of 359 exit counseling sessions conducted with borrowers. Our test found 12 exit counseling sessions conducted with borrowers were not performed timely. Our sample was a statistically valid sample.

A sample of 15 exit counseling sessions conducted with borrowers were selected for audit from a population of 359 exit counseling sessions conducted with borrowers. Our test found 2 students' enrollment status was not updated in the NSLDS as having graduated from the institution. Both students had received a certificate upon graduation. Our sample was a statistically valid sample.

**Repeat Finding**

This is not a repeat finding.

**University of Hawai'i  
State of Hawai'i  
Schedule of Findings and Questioned Costs  
Student Financial Assistance Cluster  
Honolulu Community College  
Year Ended June 30, 2018**

---

**Recommendation**

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

- Reconcile borrower information on a monthly basis and retain records to ensure compliance with Federal requirements.
- Remit the institutional portion of unearned aid to the appropriate Title IV program within the required 45-day time period in accordance with Federal requirements.
- Provide timely exit counseling to borrowers.
- Update the student enrollment status in the NSLDS on an accurate and timely basis.

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

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

**University of Hawai'i  
 State of Hawai'i  
 Schedule of Findings and Questioned Costs  
 Student Financial Assistance Cluster  
 Kapiolani Community College  
 Year Ended June 30, 2018**

---

**Questioned  
 Costs**

**\$ –**

**Finding No. 2018-006:** Financial Aid Administration – Control Deficiency

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

**CFDA Number and Title:** 84.033 – Federal Work-Study Program  
 84.268 – Federal Direct Student Loans

**Condition**

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

- The institution failed to employ at least one of the FWS program fund recipients as a reading tutor for children in a reading tutoring or family literacy project.
- For 3 out of 3 months selected for testing, the institution did not have evidence that they were reconciling borrower data. As such, the institution failed to perform the reconciliation between institutional records and direct loan disbursements records.

**Criteria**

Title 34, Section 34 CFR 675.18(g)(1) of the CFR states that an institution must use at least seven percent of the sum of its initial and supplemental FWS allocations for an award year to compensate students employed in community service activities. In meeting this requirement, the institution must include at least one FWS program fund recipient who serves as a reading tutor for children who are preschool age or are in elementary school or who participates in a family literacy activity.

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

**Cause**

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

Due to the timing differences of loan disbursements between the Common Origination and Disbursement (“COD”) and the institution’s records, the institution failed to properly perform the monthly reconciliation. Furthermore, it was noted that the institution compares its records to those received from the Secretary and only investigates large or unusual discrepancies.

**University of Hawai'i  
State of Hawai'i  
Schedule of Findings and Questioned Costs  
Student Financial Assistance Cluster  
Kapiolani Community College  
Year Ended June 30, 2018**

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**Effect**

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

**Context**

During the review of the institution's FISAP, we noted that the institution failed to employ at least one student as a reading tutor for children or at least one student who participated in a family literacy activity. No further sampling of student employment was performed in conjunction with the testing of the institution's FISAP.

A sample of 3 monthly reconciliations were selected for audit from a population of 12 monthly reconciliations. Our test found 3 monthly reconciliations that were not performed properly. Our sample was a statistically valid sample.

**Repeat Finding**

This is not a repeat finding.

**Recommendation**

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

- Ensure at least one student is employed as a reading tutor for children who are preschool age or are in elementary school or one student who participates in a family literacy activity. We also recommend that the institution consider requesting a waiver of the earmarking requirements pursuant to the provisions of Title 34 Section 675.18(g)(2) of the CFR.
- Reconcile borrower information on a monthly basis and retain records to ensure compliance with Federal requirements.

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

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

**University of Hawai'i  
State of Hawai'i  
Schedule of Findings and Questioned Costs  
Student Financial Assistance Cluster  
Windward Community College  
Year Ended June 30, 2018**

---

**Questioned  
Costs**

**\$ –**

**Finding No. 2018-007:** Financial Aid Administration – Control Deficiency

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

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

**Condition**

During our audit, we noted that for 1 out of 15 students selected for testing, the institution failed to provide exit counseling to borrowers within a timely matter.

**Criteria**

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

**Cause**

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

**Effect**

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

**Context**

A sample of 15 exit counseling sessions conducted with borrowers were selected for audit from a population of 158 exit counseling sessions conducted with borrowers. Our test found 1 exit counseling session conducted with a borrower that was not performed timely. Our sample was a statistically valid sample.

**University of Hawai'i  
State of Hawai'i  
Schedule of Findings and Questioned Costs  
Student Financial Assistance Cluster  
Windward Community College  
Year Ended June 30, 2018**

---

**Repeat Finding**

This is not a repeat finding.

**Recommendation**

We recommend that the institution provide timely exit counseling to borrowers to ensure compliance with Federal requirements.

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

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

**University of Hawai'i  
State of Hawai'i  
Schedule of Findings and Questioned Costs  
Research and Development Cluster  
Year Ended June 30, 2018**

---

**Questioned  
Costs**

**\$59**

**Finding No. 2018-008:** Unallowable Direct Costs – Control Deficiency

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

**CFDA Number and Title:** 12.630 – Basic, Applied and Advanced Research in Science and Engineering

**Condition**

During our audit, we noted an instance in which federal funds were used to reimburse costs incurred to purchase alcoholic beverages. The alcoholic beverages purchased amounted to 777,500 Indonesian Rupiah or approximately \$59.

**Criteria**

Section 200.423 – *Alcoholic Beverages* of Title 2 U.S. CFR Part 200, states “Costs of alcoholic beverages are unallowable.”

**Cause**

The approval of the unallowable direct costs for reimbursement may be due to general oversight of the applicable compliance requirements by the individuals responsible for reviewing and approving costs requested for reimbursement through the use of federal funds.

**Effect**

Failure to adhere to the allowable cost principles of Title 2 U.S. CFR Part 200 exposes the University to an undue risk of misuse of federal funds and may ultimately jeopardize the University's ability to obtain future federal funding.

**Context**

A sample of 63 transactions totaling \$494,984 in expenditures from the Research and Development Cluster were selected for audit from a population of \$206,320,471 in expenditures from the Research and Development Cluster. Our test found 1 transaction in which unallowable direct costs were incurred. Our sample was a statistically valid sample.

**Repeat Finding**

This is not a repeat finding.

**University of Hawai'i  
State of Hawai'i  
Schedule of Findings and Questioned Costs  
Research and Development Cluster  
Year Ended June 30, 2018**

---

**Recommendation**

We recommend that the University ensure that employees are aware of costs that are considered unallowable in accordance with Title 2 U.S. CFR 200 and that the propriety of expenses are appropriately reviewed and approved within the context of Title 2 U.S. CFR 200.

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

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

## **SECTION 4**

# **SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

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

**University of Hawai'i**  
**State of Hawai'i**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2018**

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Finding No.	Description	Classification	Status		Current Year Finding No.
			Resolved	Unresolved	
2017-001	Financial Aid Administration	Control deficiency ("CD")	X		
2017-002	Return of Title IV Funds	CD	X		
2017-003	Return of Title IV Funds	CD		X	2018-001
2017-004	Financial Aid Administration	CD		X	2018-004
2017-005	Financial Aid Administration	CD	X		
2017-006	Financial Aid Administration	CD	X		

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



# UNIVERSITY *of* HAWAI'I®

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## SYSTEM

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

**FISCAL YEAR ENDED JUNE 30, 2018**

**Corrective Action Plan Related to the Schedule of Findings and Questioned Costs  
Student Financial Assistance Cluster  
University of Hawai'i West O'ahu  
Year Ended June 30, 2018**

**Finding No. 2018-001:                      Financial Aid Administration – Material Weakness**

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

**CFDA Number and Title:**            84.063 - Federal Pell Grant  
84.268 - Federal Direct Student Loans  
84.033 - Federal Work Study Program

**Questioned Costs:**                    \$1,421

**Responsible Individual:**            Judy Oliveira

**Date Action Taken:**                  July 1, 2018

UH West O'ahu affirms the recommendations made in the areas of Return to Title IV Funds, Enrollment Reporting (related to exit loan counseling) and Federal Work Study. UH West O'ahu confirms the cause was connected to personnel issues within the financial aid unit with a subsequent departure of the former Financial Aid Director in April 2018.

As a result of these findings the following corrective action steps have been implemented and ongoing assessment is in place for the 2018-2019 academic year.

**Return to Title IV**

A comprehensive timeline and weekly process for official and unofficial withdraws have been deployed between the Financial Aid Office, the Compliance Office and the Associate Vice Chancellor for Academic Affairs. The UH System's Financial Aid Office (lead personnel – J. Oyama) is assisting with timely and accurate returns within the 30-day regulatory time frame until a new director is hired. Monthly reviews of the process and procedures are being conducted by UH West O'ahu's Financial Aid staff and the Vice Chancellor for Student Affairs.

The Director of Enrollment Management and the Registrar are providing critical oversight and review of the process via an internal Discover campus report to ensure R2T4s are being completed within the 30-day period, as directed by federal financial aid regulations. A secondary check on a quarterly basis will be conducted by the UH System Financial Aid Office to review UHWO's R2T4 calculations and offer additional guidance as needed.

In Spring 2019, a campus wide campaign using UH West Oahu's Early Alert system will be used as further verification for all enrolled in-person and Distance Education students, regardless if the student is receiving federal financial aid. Reports from this campaign will be used to cross-check official and unofficial withdraw dates as reported by both instructors and students.

**Corrective Action Plan Related to the Schedule of Findings and Questioned Costs  
Student Financial Assistance Cluster  
University of Hawai'i West O'ahu  
Year Ended June 30, 2018**

**Finding No. 2018-001:                      Financial Aid Administration – Material Weakness (Continued)**

**Enrollment Reporting**

For Fall 2018, the UH System's Financial Aid Office provided UH West O'ahu's Financial Aid staff with an updated enrollment list every two weeks. The assigned Financial Aid Specialist (lead personnel – I. Gunasekara) cross-checked the report with a UH West O'ahu Discover campus report, which identified students who are enrolled in less than 5 credits. The Financial Aid Specialist then exited students in BANNER directly by updating RRAAREQ with FDLEXT to 'S' status and posting on ROANYUD. The student borrower then received an email with an attached link to the Federal Student Aid's "Direct Loan Exit Counseling Guidelines." In addition, the Financial Aid Office contacted and provided exit counseling for students one-month prior to the Fall 2018 graduation date. Graduating students received an email to attend one of two in-person loan exit sessions. These sessions were well-attended by student borrowers.

Students who do not complete Fall 2018/Spring 2019 exit counseling will receive a hard copy letter along with a copy of the individual and institutional exit counseling requirements located in the "Direct Loan Exit Counseling Guideline" handbook. To ensure oversight, the assigned Financial Aid Specialist will continue to request a National Student Loan Database System report to monitor student completions of exit loan counseling.

**Federal Work Study**

The America Reads community tutor who "provides a family literacy program or serves a reading tutor for children" is posted on UH West O'ahu's Student Employment (SECE) website/portal. The Career Counselor is assisting with active recruitment and marketing to fill the position. In addition, a partnership with an existing afterschool tutoring program within UH West O'ahu's teacher preparation program is being established for Spring 2019. If the position is not filled by February 1, 2019, the Financial Aid Office will request a waiver of the America Reads requirement to the Federal Student Aid Department.

**UH West O'ahu Oversight to address Planned Corrective Actions**

UH West O'ahu will continue to actively assess these processes and procedures to certify compliance with federal requirements and ensure no repeat findings for Return to Title IV, Enrollment Reporting (related to exit counseling) and Federal Work Study – America Reads program.

UH West O'ahu's Financial Aid staff, Director of Enrollment Services, Director of Compliance and Vice Chancellor for Student Affairs are being cross-trained in priority areas highlighted in the audit and additional training will take place in Spring/Summer 2019 in collaboration with the UH System's Financial Aid Office. In addition, the Director of Compliance will assist and guide the Financial Aid unit and new Financial Aid Director (pending recruitment) in the development of appropriate processes sufficient to address any identified gaps in the R2T4 process.

The UH System's Financial Aid Office is actively working on the procurement of a Banner functional consultant and recommendations for Banner enhancements and improvements are expected in Spring 2019 that will assist UH West O'ahu's Financial Aid Office in creating a more updated and efficient awarding/reporting financial aid system.

**Corrective Action Plan Related to the Schedule of Findings and Questioned Costs  
Student Financial Assistance Cluster  
University of Hawai'i at Mānoa  
Year Ended June 30, 2018**

**Finding No. 2018-002:**                    **Return of Title IV Funds – Control Deficiency**

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

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

**Responsible Individual:**        Jodie Kuba, Director – Financial Aid Services

**Date Action Taken:**                December 15, 2018

To ensure timely return of Federal Pell grant funds upon determination of non-attendance when performing Return to Title IV procedures, the Records Office will contact instructors upon notification of withdrawal from the term and request a response within a two-week timeframe. If after the two weeks has passed and no response is received, which Financial Aid Services reflects as non-attendance, Pell grant funds will be returned immediately to the federal aid program to meet the 30 day deadline.

**Corrective Action Plan Related to the Schedule of Findings and Questioned Costs  
Student Financial Assistance Cluster  
University of Hawai'i Hilo  
Year Ended June 30, 2018**

**Finding No. 2018-003:**                    **Return of Title IV Funds – Control Deficiency**

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

**CFDA Number and Title:**        84.063 – Federal Pell Grant Program

**Questioned Costs:**                \$90

**Responsible Individual:**        Sherrie K. Padilla

**Date Action Taken:**                August 20, 2018

The student's Pell Grant was not adjusted for a course of non-attendance before the original Return to Title IV calculation was made. This was due to overlooking a class for which the student did not attend. The corrective action is to check class start dates against faculty reported last date of attendance when processing each unofficial withdrawal and making adjustments to Pell Grant before calculating the Return to Title IV funds.

**Corrective Action Plan Related to the Schedule of Findings and Questioned Costs  
Student Financial Assistance Cluster  
Hawai'i Community College  
Year Ended June 30, 2018**

**Finding No. 2018-004:**                      **Financial Aid Administration – Significant Deficiency**

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

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

**Responsible Individual:**                      Dorinna Cortez  
Interim Vice Chancellor for Student Affairs  
Hawai'i Community College

**Date Action Taken:**                              September 17, 2018

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

- Reconcile borrower information on a monthly basis
- Ensure that controls are in place over the reconciliation between institutional records and direct loan disbursements records and that someone reviews the reconciliation

The Financial Aid staff were notified that the reconciliation reports had not been done in a timely manner, and two positions assumed the responsibility for ensuring that the reconciliations are done, timely and according to the previously established Standard Operating Procedures (SOPs).

As of September 19, 2018, Position #81714 - Financial Aid Specialist and Position #43841 - Office Assistant III will perform the reconciliations, monthly, and provide oversight and review of the reports. Duplication of responsibility will guarantee that the reports are done, even in the absence of one of the positions and will mitigate risk of future irregularities in reporting. Furthermore, the Interim Vice Chancellor for Student Affairs will provide additional oversight until the Financial Aid Manager position, which is vacant as of December 24, 2018, can be filled. Once the Financial Aid Manager position is filled, the position will provide a third layer of oversight and review of the reconciliation reports.

**Corrective Action Plan Related to the Schedule of Findings and Questioned Costs  
Student Financial Assistance Cluster  
Honolulu Community College  
Year Ended June 30, 2018**

**Finding No. 2018-005:**                      **Financial Aid Administration – Control Deficiency**

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

**CFDA Number and Title:**                84.268 – Federal Direct Student Loans  
84.063 – Federal Pell Grant Program

**Questioned Costs:**                         \$593

**Responsible Individual:**                 Heather Florendo, Financial Aid Manager

**Date Action Taken:**                        Immediately

During the 2017-2018 school year, the Honolulu Community College Financial Aid Office was extremely short staffed and there was no list of duty assignments for the staff. Therefore, several requirements were not done in a timely manner or not at all.

Currently the Financial Aid Office is staffed with people who are more experienced and have knowledge of the Federal Student Aid program requirements. I have established a list of duty assignments and regularly revisit everyone's performance of their assigned responsibilities.

**Loan Reconciliation** - In regard to loan reconciliation, one staff person is assigned to do the monthly reconciliation of Federal Direct loans that have been processed. This staff has also created an instructional guide so that other staff members can reconcile loans if needed. All files are saved electronically on a shared drive so that any staff can access the information and monitor the progress of monthly reconciliations.

**Return to Title IV** - For the Return to Title IV calculation process, we have set a schedule to download a bi-monthly withdrawal report so that we know who has withdrawn and if a return calculation is needed. Furthermore, we have created a standardized email to instructors explaining the importance of reporting attendance. We also give a short timeframe for them to respond so that we have enough time to do the calculation and/or follow up with instructor if needed. We have updated our instructional guide to ensure that staff can complete the calculation within the allotted time per regulations. There is a staff person responsible for downloading the list and making sure the calculations are done. However, the actual gathering of information and/or calculation is done by several staff in the office.

**Loan Exit Counseling** – For the 2018-2019 school year, we will be moving to a 2-prong approach to Loan Exit Counseling. Starting at the end of the Fall 2018 semester, we will be sending students hard copy Loan Exit Counseling booklets, created by Federal Student Aid, to all students who are exited at the end of the Fall semester. We will also be sending these students an email explaining that due to their enrollment status, their loans will be exited. We receive bi-monthly reports of students who may need to be exited based on their enrollment. Please also note, the staff person who is assigned to manage the list of students who need exit counseling is also the primary person responsible for the Return to Title IV calculations. This way, the staff can crosscheck the students from both lists to ensure that the necessary actions are taken in a timely manner.

**Corrective Action Plan Related to the Schedule of Findings and Questioned Costs  
Student Financial Assistance Cluster  
Honolulu Community College  
Year Ended June 30, 2018**

**Finding No. 2018-005:                      Financial Aid Administration – Control Deficiency (Continued)**

**Enrollment Reporting to NSLDS** - The Records Office experienced a staffing shortage during the 2017-2018 school year. Furthermore, those responsible for reporting enrollment to NSLDS had little knowledge or understanding of the process. The Financial Aid Office was aware of the situation and would consult with the staff. However, we were not able to assist with the NSLDS reporting.

Currently, the Records Office is fully staffed and more time has been invested in training people in the different processes of the Records Office. The Financial Aid Office will continue to work with the Records Office to ensure that student enrollment is reported correctly by having regularly scheduled meetings with the Registrar and the Dean of Student Services.

**Corrective Action Plan Related to the Schedule of Findings and Questioned Costs  
Student Financial Assistance Cluster  
Kapi'olani Community College  
Year Ended June 30, 2018**

**Finding No. 2018-006:**                    **Financial Aid Administration – Control Deficiency**

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

**CFDA Number and Title:**        **84.033 – Federal Work-Study Program**  
**84.268 – Federal Direct Student Loans**

**Responsible Individual:**        Jennifer Bradley

**Date Action Taken:**                November 2018

**84.033 – Federal Work Study Program:** We continue to work on identifying students to work as a reading tutor for children who are preschool or elementary school age or who participate in a family literacy program. The Service Learning Program has already identified at least one FWS student and is working on hiring the student by re-creating and identifying the position and location commencing Spring 2019.

In future years, when it is found that we may not be able to identify students we will heed the auditor's recommendation and consider requesting a waiver of earmarking requirement pursuant to the provisions of Title 34 Section 675.18(g)(2) of the CFR.

**84.268 – Federal Direct Student Loans:** On a monthly basis, we will ensure to keep documentation of reconciling the Federal Direct Student accounts. Due to the timing of receiving reports and disbursement of loan funds, it is difficult to get an accurate picture of discrepancies during heavy disbursement periods (beginning of enrollment terms).

We will consult with fellow colleagues to identify a best practice process to strengthen the documentation and reconciliation process.

**Corrective Action Plan Related to the Schedule of Findings and Questioned Costs  
Student Financial Assistance Cluster  
Windward Community College  
Year Ended June 30, 2018**

**Finding No. 2018-007:**                      **Financial Aid Administration – Control Deficiency**

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

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

**Responsible Individual:**                Dayna Isa  
Financial Aid Administrator  
Windward Community College

**Date Action Taken:**                        September 26, 2017

Until the Assistant Director position is filled, a financial aid counselor will be responsible to review each of the loan exit reports that the UH System Financial Aid Office sends bi-weekly. This individual will also be responsible for mailing loan exit paper letters (using Banner and Microsoft Word) to students and will also include a hard copy of the Direct Loan Exit Counseling Guide (published by studentaid.ed.gov).

**Corrective Action Plan Related to the Schedule of Findings and Questioned Costs  
Research and Development Cluster  
Year Ended June 30, 2018**

**Finding No. 2018-008:** Unallowable Direct Costs – Control Deficiency

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

**CFDA Number and Title:** 12.630 - Basic, Applied and Advanced Research in Science and Engineering

**Questioned Costs:** \$59

**Responsible Individual:** Scott Okada, Pacific Disaster Center – Director of Finance and Administration

**Date Action Taken:** November 5, 2018

A staff meeting was held to reiterate the existing policy that the cost of alcoholic beverages are unallowable and cannot be charged to federally funded awards and to remind all of the importance that diligent review of supporting documentation is necessary when processing payment requests of all types (including vendor payments, travel reimbursements) so that such costs are processed in accordance with this policy.

The existing written procedure will be updated by the end of the current month to reflect increased emphasis of this policy and the proper procedure for handling such costs.

The identified amount in question will be removed from this account in November 2018.

**SECTION 6**

**CONSOLIDATED FINANCIAL STATEMENTS**

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

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## Report of Independent Auditors

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

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the University of Hawai'i (the "University"), a component unit of the State of Hawai'i, as of and for the years ended June 30, 2018 and 2017, and the related notes to the consolidated financial statements, which collectively comprise the University's basic financial statements as listed in the accompanying index.

### Management's Responsibility for the Consolidated Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of the University of Hawai'i Foundation (the "Foundation"), which represent 13.8 percent and 13.1 percent, respectively, of the total assets and deferred outflows of resources and 0.8 percent of the total operating revenues of the University as of and for the years ended June 30, 2018 and 2017. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the Foundation as of and for the years ended June 30, 2018 and 2017, are based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

## **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University of Hawai'i, as of June 30, 2018 and 2017, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Change in Accounting Principle**

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

## **Other Matters**

### *Required Supplementary Information*

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

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2019, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended June 30, 2018. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

*Acuity* LLP

Honolulu, Hawai'i  
January 17, 2019

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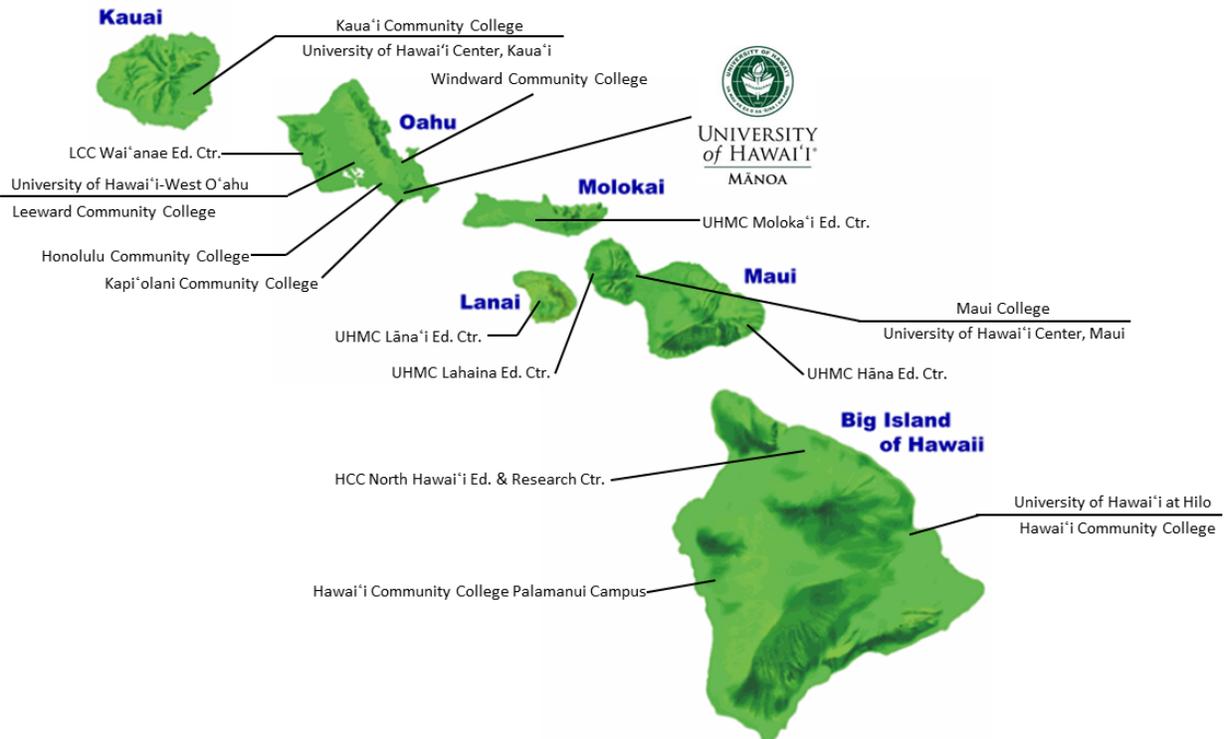
**Introduction**

The following discussion and analysis provides an overview of the consolidated financial position and activities of the University of Hawai'i (the "University") for the years ended June 30, 2018 and 2017, with selected information for the year ended June 30, 2016. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Founded in 1907 under the auspices of the Morrill Act, the University is a land-grant, sea-grant and space-grant institution and a 10-campus system comprised of a major research university (Mānoa), two baccalaureate campuses (Hilo and West O'ahu), seven community colleges (Hawai'i, Honolulu, Kapi'olani, Kauai, Leeward, Maui and Windward) and nine educational centers distributed across the State.

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

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



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

**Type of Degrees Awarded**

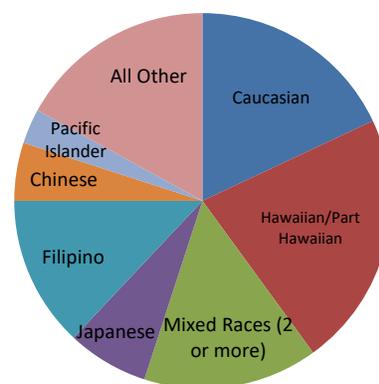
Certificates: Community Colleges	188
Certificates: University	106
Associate degrees	131
Bachelor's degrees	145
Master's degrees	90
Doctoral degrees	60
Professional degrees	7

**Residency**

Hawai'i	86%
Mainland	10%
Foreign	4%

**Student Diversity (full time Students)**

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



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

**The University's Revenue Bond Ratings:**

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

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### **Using the Financial Statements**

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

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

### **Related Entities**

The University maintains close relationships with two other entities, considered to be component units, whose financial information is blended into the University's accompanying consolidated financial statements. The University of 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, 2018 and 2017 is presented in Note 17 to the consolidated financial statements.

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**Financial Position**

The Consolidated Statements of Net Position present the financial position of the University at the end of the fiscal year and display all assets and liabilities of the University. Assets and liabilities are presented using fair and current values, respectively. Two notable exceptions are receivables and capital assets, which are stated at historical cost less an allowance for doubtful accounts and accumulated depreciation, respectively. The difference between assets and liabilities is net position, representing a measurement of the current financial condition of the University. The University's assets, liabilities and net position at June 30, 2018, 2017 and 2016 are summarized as follows (in thousands of dollars):

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

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**Implementation of GASB Statements No. 75 and 82**

During fiscal year 2017, the University implemented GASB Statement No. 82, *Pension Issues – an Amendment of GASB Statements No. 67, No. 68, and No. 73*. The adoption of Statement No. 82 addresses certain issues that have been raised with respect to Statements No. 67, 68 and 73. The adoption resulted in the restatement of the University's fiscal year beginning net position as of July 1, 2015 by \$28 million.

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

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

**Current Assets and Liabilities**

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

The University recorded an increase in working capital the last three fiscal years, which resulted mainly from the implementation of the new financial management policy. In November 2013, the University adopted a financial reserve policy to establish systemwide operating reserves from non-general fund revenue in amounts sufficient to provide continued operations for at least two months with a minimum of five percent unencumbered cash from all tuition and fee funds, special funds, and revolving funds. At June 30, 2018, 2017 and 2016, working capital amounted to \$294.7 million, \$255.0 million and \$261.5 million, respectively. The University is committed to maintaining a prudent level of working capital to fund operations, including pre-funding approximately \$381.5 million in extramural grants which were mostly paid on a cost reimbursement basis. Based on the \$1.7 billion of operating expenses (excluding depreciation) for the year ended June 30, 2018, the working capital at year end represents approximately 60 days of operating funds, as compared to 57 and 59 days of operating funds in 2017 and 2016, respectively.

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The components of the University's current assets and liabilities and their fluctuations during the three-year period are as follows:

- Current assets consist primarily of cash and cash equivalents, operating investments and net receivables. Total current assets were \$567.2 million, \$544.0 million and \$528.4 million at June 30, 2018, 2017 and 2016, respectively. Total current assets increased by \$23.1 million, or 4.3 percent, at June 30, 2018, primarily due to a \$13.7 million increase in cash and operating investments and a \$4.7 million increase in accounts receivable. The cash increase was attributable to the operating surplus from tuition and fees. During fiscal years 2018 and 2017, with the anticipation of continued enrollment decline, the University continued to implement various cost control initiatives, which resulted in a surplus. In fiscal year 2018, the \$4.7 million accounts receivable increase was due to the increase of federal awards compared to the \$6.8 million accounts receivable reduction in fiscal year 2017 due to the decrease of federal awards. Total current assets increased by \$15.6 million, or 3.0 percent, at June 30, 2017, primarily due to a \$22.4 million increase in cash, offset by an \$8.6 million decrease in accounts receivable. The cash increase was attributable to the operating surplus from tuition and fees.
- Current liabilities consist primarily of accounts payable, accrued payroll and fringe benefits, advances from sponsor, and unearned revenue. Current liabilities also include amounts due to the State of Hawai'i, the current portion of long-term liabilities, and other current liabilities. Total current liabilities were \$271.8 million, \$289.1 million and \$267.0 million at June 30, 2018, 2017 and 2016, respectively. Total current liabilities decreased by \$17.2 million, or 6.0 percent, at June 30, 2018, primarily due to the final payment of the \$17.0 million note payable ("EB-5 loan") with Hawaii Regional Center LP III in fiscal year 2018. In fiscal year 2017, total current liabilities increased by \$22.1 million, or 8.3 percent, at June 30, 2017, primarily due to increases in accounts payable of \$9.1 million and the current portion of long-term liabilities of \$17.8 million. The increase in accounts payable was mainly due to the timing of recording and the increase in the current portion of long-term liabilities is because of the repayment of the \$17.0 million EB-5 loan in fiscal year 2018. The aggregated increase is offset by a net decrease in accrued payroll of \$4.2 million primarily due to the negotiated bonus payments accrued for in fiscal year 2016 and paid in fiscal year 2017.

**Endowment and Other Investments**

The University's endowment and other investments, including endowments held with the Foundation, increased by \$27.9 million, or 5.5 percent, to \$535.5 million at June 30, 2018 as a result of additional gifts received and favorable market conditions. The fiscal year 2017 increase of \$32.6 million, or 6.9 percent, was primarily due to an \$8.6 million gift and favorable market conditions.

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

	<b>2018</b>	<b>2017</b>	<b>2016</b>
University of Hawai'i	\$ 102.2	\$ 100.1	\$ 103.8
Foundation	433.3	407.5	371.2
Total	<u>\$ 535.5</u>	<u>\$ 507.6</u>	<u>\$ 475.0</u>

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

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

The spending rate policy for the University's self-managed endowment is to limit the immediate impact that significant changes in the fair value of the endowment portfolio have on annual distributions. The spending rate policy provides for an annual distribution, ranging between three percent and five percent of the five-year moving average of the endowment portfolio's fair value. In fiscal years 2018, 2017 and 2016, the University instituted a 4.5 percent distribution rate on restricted and unrestricted endowments. The total restricted and unrestricted distributions available to the University amounted to \$2.7 million, \$2.6 million and \$2.6 million in fiscal years 2018, 2017 and 2016, respectively.

### **Capital and Debt Activities**

The University's capital assets are separated into seven categories: land, buildings, infrastructure, land improvements, equipment, library materials, and construction in progress. At June 30, 2018, 2017 and 2016, total capital assets, net of accumulated depreciation, remained constant at \$2.1 billion, which represented approximately 56 percent of the University's total assets. Capital asset additions totaled \$179.2 million, \$173.1 million and \$118.5 million in fiscal years 2018, 2017 and 2016, respectively, while depreciable capital asset disposals, net of accumulated depreciation, amounted to \$10.9 million, \$15.9 million and \$8.8 million, respectively.

The increase of the additions in fiscal year 2018 was due to an increased number of strategic capital projects that are ongoing as of fiscal year end 2018. The increase of the additions in fiscal year 2017 was due to the purchase of the Atherton building for \$8.2 million and an increased number of strategic capital projects that were ongoing as of fiscal year end 2017.

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**Capital Projects**

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

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

- **Culinary Institute of the Pacific** – The \$30.5 million Phase I portion of the Culinary Institute of the Pacific was placed in-service on April 17, 2017.
- **William S. Richardson School of Law Clinical Building** – The \$7.5 million William S. Richardson School of Law Clinical Building (Clinical Legal Outreach Center – CLOC) broke ground on September 30, 2016. The estimated completion date is October 2018.
- **Coconut Island Marine Laboratory Buildings 1 & 2** – The estimated completion date for the \$21 million Coconut Island Marine Laboratory Buildings 1 & 2 renovation project is July 2019.
- **Daniel K. Inouye College of Pharmacy** – The \$31.4 million Daniel K. Inouye College of Pharmacy broke ground in December 2014. The estimated completion date is October 2018.
- **University of Hawai'i West O'ahu Allied Health and Administration Building** – The ground breaking for the University of Hawai'i West O'ahu Allied Health and Administration Building took place on November 28, 2016. This \$29.9 million building is expected to be completed in December 2018.
- **University of Hawai'i at Mānoa Life Sciences Building** – The \$49.5 million University of Hawai'i at Mānoa Life Sciences Building began in August 2017 with the demolition of Henke Hall. The estimated completion date is February 2020.
- **Leeward Community College Theater** – The \$10.5 million Leeward Community College Theater Project is scheduled to be completed in October 2018.
- **Coconut Island Utility Rehabilitation/Replacement** – The \$10 million project to build new sewer and telecommunications infrastructure lines is expected to be completed in September 2018.
- **University of Hawai'i at Mānoa Substation "M"** – The \$5 million Substation "M" building replacement project was placed in-service on February 28, 2018.
- **University of Hawai'i West O'ahu Creative Media Building** – The \$33.3 million Creative Media Building at the University of Hawai'i at West O'ahu project has been awarded. The building is scheduled to be completed in June 2020.

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## Financing

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

- **General obligation bonds** – The State of Hawai'i continues to provide strong support to the University and issued general obligation bonds to help finance certain University projects. These bonds are carried as liabilities of the State. In fiscal years 2018, 2017 and 2016, the State appropriated funds directly to the Department of Budget and Finance to pay for debt service on general obligation bonds issued for the University. As a result, the University itself received no appropriations and made no transfers for debt service on general obligation bonds for these fiscal years. In fiscal years 2018, 2017 and 2016, \$108.0 million, \$111.3 million and \$106.8 million, respectively, were appropriated.
- **Revenue bonds** – The University also issued revenue bonds to finance capital projects. These bonds are carried as liabilities of the University. Total revenue bond liabilities were \$525.4 million, \$543.7 million and \$562.6 million for fiscal years 2018, 2017 and 2016, respectively. The University revenue bonds were assigned municipal bond ratings of "Aa2" and "AA" by Moody's Investors Service and Fitch Ratings, respectively. The University has appropriated funds, by statute, from the State of Hawai'i Tobacco Settlement Special Fund for the payment of principal and interest on revenue bonds to finance the cost of construction of the medical school facility and received funds for debt service in the amount of \$9.4 million, \$11.8 million and \$9.5 million in fiscal years 2018, 2017 and 2016, respectively. The University also receives a portion of the State of Hawai'i's cigarette tax revenues, by statute, for the UH Cancer Center to be used for research and operating expenses and capital expenditures. In each of the fiscal years 2018, 2017 and 2016, \$7.9 million from cigarette tax revenues was used to cover debt service for the bonds that financed the UH Cancer Center. Refer to Note 10 for more information regarding the University revenue bonds.
- **Loan agreement** – On May 4, 2012, the University entered into a five-year, unsecured loan agreement ("Note") with Hawai'i Regional Center LP III ("Lender") for a commitment amount not to exceed \$18 million, subject to certain limitations. The proceeds were used to facilitate and fund construction of the UH-West O'ahu campus located at Kapolei, Hawai'i. The Note bears interest at the rate of one and a half percent per annum, which is due and payable semi-annually to the Lender on January 1 and July 1 each year until the Note has been paid in full. Under the terms of the Note, repayment each fiscal year is limited and subject to specific appropriations by the State to make such payments. The Note matured on April 22, 2018, at which time the principal balance was paid off in full.
- **Line of credit** – On April 20, 2017, the Foundation entered into a 10-year \$13.2 million acquisition and construction credit facility (the "Loan") for the purchase and renovation of the Charles Atherton House and the Mary Atherton Richards House (the "Atherton Property"). The Loan is secured by the fee simple interest and improvements on the Atherton Property, along with an assignment of a long-term lease and rents due thereunder from the University. Under terms of the credit facility, interest-only payments are required for the first 36 months at a fixed rate of three percent and, thereafter monthly installments of principal and interest, based on a 25-year amortization schedule, at a fixed rate of four percent through the remaining term of the Loan. The Loan matures on April 1, 2027. As of June 30, 2018, the outstanding balance on the Loan was \$8.2 million.

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- **Equipment lease obligations** – In November 2017, the University entered into two tax-exempt lease purchase (“TELP”) agreements to fund the acquisition of energy conservation measures at the four O’ahu community college campuses (Honolulu, Kapi’olani, Leeward and Windward) and Maui College, for \$24.2 million and \$6.3 million, respectively. Purchases were financed with a bank and the proceeds were deposited into an acquisition fund held to provide for future payments. See Note 10 for further information.

**Net Position**

Net position represents the residual interest in the University’s assets after liabilities are deducted. At June 30, 2018, 2017 and 2016, total net position amounted to (\$99.1) million, \$729.5 million and \$696.5 million, respectively. Net position is reported in four major categories: net investment in capital assets, restricted nonexpendable, restricted expendable, and unrestricted. The University’s net position at June 30, 2018, 2017 and 2016 is summarized as follows (in thousands of dollars):

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

Net investment in capital assets is the University’s capital asset, net of accumulated depreciation and the related outstanding debt used to finance the acquisition, construction or improvement of those assets.

The net investment in capital assets increased by \$56.9 million in fiscal year 2018, primarily due to \$127.6 million of depreciation expense, \$10.9 million in net disposals offset by \$17.9 million in related debt retirement and \$179.2 million of capital asset additions. The increase was also due to \$17.2 million in reclassifications related to restricted expendable and unrestricted net position. The net investment in capital assets increased by \$36.8 million in fiscal year 2017, primarily due to \$122.8 million of depreciation expense, \$15.9 million in net disposals offset by \$19.2 million in related debt retirement, and \$173.1 million of capital asset additions.

Restricted nonexpendable net position primarily represents the University’s and Foundation’s permanent endowment funds, which are required to be maintained in perpetuity and amounted to \$360.6 million, \$342.1 million and \$244.4 million at June 30, 2018, 2017 and 2016, respectively. The increases of \$18.5 million and \$97.7 million in fiscal years 2018 and 2017, respectively, were primarily attributable to new permanent endowment gifts received. In fiscal year 2017, there was an additional receipt of three properties as part of the Shidler gift valued at \$80.2 million. The University’s alumnus, Jay H. Shidler, has provided significant gifts to the College of Business at Mānoa with a safe, predictable and continuous revenue stream to help insure long-term financial stability.

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

	<b>2018</b>	<b>2017</b>	<b>2016</b>
Plant facilities	\$ 362,584	\$ 354,780	\$ 319,809
Donor-restricted activities	227,102	215,608	210,404
Loan activities	21,228	24,131	37,229
External sponsor activities	(4,048)	(7,694)	(6,349)
	<u>\$ 606,866</u>	<u>\$ 586,825</u>	<u>\$ 561,093</u>

In fiscal year 2018, the overall increase of \$20.0 million in restricted expendable net position was due to increases of \$7.8 million and \$11.5 million in capital asset related activity and donor-restricted activity, respectively. The fiscal year 2018 capital asset activity was mainly comprised of State capital appropriations offset by capital asset additions and operating expenses associated with capital assets. In fiscal year 2017, the overall increase of \$25.7 million in restricted expendable net position was primarily attributable to a \$25.6 million increase in capital assets due to increased State capital appropriations.

Net position that is not subject to externally imposed restrictions governing their use is classified as unrestricted for financial reporting purposes. At June 30, 2018, 2017 and 2016, unrestricted net positions amounted to deficits of \$2.67 billion, \$1.74 billion and \$1.61 billion, respectively. Although unrestricted net position is not subject to externally imposed restrictions, all of the University's unrestricted net positions have been internally designated for various academic and research programs and initiatives, contractual commitments, and capital projects. In addition, unrestricted net positions of \$45.9 million, \$44.8 million and \$37.6 million were designated for endowment activities at June 30, 2018, 2017 and 2016, respectively.

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

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

	<b>2018</b>	<b>2017</b>	<b>2016</b>
Unrestricted net position	\$ (2,665,197)	\$ (1,741,094)	\$ (1,613,973)
Pension	1,308,560	1,212,416	1,121,213
OPEB	1,666,481	788,773	722,757
Adjusted net unrestricted position	<u>\$ 309,844</u>	<u>\$ 260,095</u>	<u>\$ 229,997</u>

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**Results of Operations**

The Consolidated Statements of Revenues, Expenses and Changes in Net Position represent the University's results of operations for the year. It indicates whether the financial condition of the University improved or deteriorated. For financial reporting purposes, certain significant revenues, including state appropriations, private gifts and investment income, which are relied upon and budgeted to support the University's core operations, are required to be reported as nonoperating revenues. The University's results of operations for the years ended June 30, 2018, 2017 and 2016 summarized to match revenues supporting core activities with expenses associated with core activities, are as follows (in thousands of dollars):

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

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**Revenues Supporting Core Activities**

The University has a diversified stream of revenues to support its operations. No single source generated more than 30 percent of the total 2018 revenue. State appropriations and tuition and fees are the core components that support the University's instructional and academic programs. Government and nongovernmental grants and contracts provide opportunities for under-graduate and graduate students to participate in basic research with renowned researchers. Private gifts contribute toward the support of the University's instructional and academic initiatives. Sales and services revenues include revenues from educational departments and auxiliary enterprises, including bookstores, student and faculty housing, food services, parking and athletics.

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

One of the largest sources of revenue (23 percent) continues to be grants and contracts. Total grants and contracts revenue increased by \$12.6 million, or 3.4 percent in fiscal year 2018. The increase was mainly from a net increase of federal awards of approximately \$11.3 million. The University experienced increases in funding from four primary federal agencies: Department of Commerce NOAA, Department of Education, Department of Defense Navy, and the National Science Foundation totaling \$19.4 million. Increases were offset by the decrease of \$6.0 million from the Department of Defense Air Force. In fiscal year 2017, the decrease was mainly from federal awards where the University is experiencing unaccustomed peaks and troughs in funding — a direct consequence of federal budget cuts, the lingering effects of sequestration, and other uncertainties in Washington, D.C.

Sales and services revenues, which are mainly comprised of bookstores, student and faculty housing, food services, parking and athletics remained relatively consistent in fiscal year 2018. Sales and services revenues decreased by \$3.9 million, or 2.9 percent, to \$130.9 million in fiscal year 2017 from fiscal year 2016. The decrease was primarily attributable to a decline in Research Corporation project activities due to the federal award cuts.

The State continues to provide strong financial support to the University as the sole public higher education system within the State. General state appropriations increased by \$13.7 million, or 2.9 percent, to \$485.2 million in fiscal year 2018 and increased by \$30.1 million, or 6.8 percent, to \$471.5 million in fiscal year 2017. The increase in fiscal year 2018 was primarily attributable to an increased allotment of \$10.1 million for salary increases of 2.1 percent as negotiated by collective bargaining agreements. The increase in fiscal year 2017 was primarily attributable to a \$38.4 million allotment for salary increases as negotiated by collective bargaining agreements, which is a \$20.8 million increase from the fiscal year 2016 allotment of \$17.6 million. The State also provided an additional \$7.1 million for the Hawai'i Promise Program, Athletics program, and special equipment fund for Community Colleges in fiscal year 2017.

The University's net investment income for fiscal year 2018, as compared to fiscal year 2017, went down by \$5.4 million. The fiscal year 2018 decrease was mainly due to smaller market growth as compared to fiscal year 2017. The University's net investment income for fiscal year 2017, as compared to fiscal year 2016, increased by \$41.8 million mainly due to the increase in realized and unrealized gains of \$40.9 million.

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

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

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

**Expenses Associated with Core Activities**

The University is committed to recruiting and retaining outstanding faculty and staff and providing compensation equivalent to peer institutions and nonacademic employers. Of the University's operating expenses, approximately 77.4 percent, 77.3 percent and 75.2 percent were related to compensation and benefits during fiscal years 2018, 2017 and 2016, respectively.

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

Supplies, services and cost of goods sold expense includes service fees, printing and binding, advertising, dues and subscriptions, controlled property acquisitions, cost of goods sold for resale items, and other miscellaneous operating costs. In fiscal year 2018, such expenses decreased by \$4.8 million, or 2.5 percent, to \$188.6 million as compared to fiscal year 2017. The fiscal year 2018 decrease was primarily attributable to the non-recurring federally funded equipment expense of \$5.7 million in the prior year. There were no expenses of this nature in the current year. In fiscal year 2017, such expenses decreased by \$8.7 million, or 4.3 percent, to \$193.4 million as compared to fiscal year 2016. The fiscal year 2017 decrease was primarily attributable to decreases in other services and controlled property purchases relating to declining federal awards, and cost of goods sold at the Bookstores offset by an increase in purchases of supplies.

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

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

Other operating expenses decreased by \$18.4 million, or 14.7 percent, to \$106.4 million in fiscal year 2018 and increased by \$13.2 million, or 11.8 percent, to \$124.8 million in fiscal year 2017. The increase in fiscal year 2017 and subsequent decrease in fiscal year 2018 are both a result of the University's recording of a one-time expense in fiscal year 2017 of \$13.6 million. Due to the expiration of the Federal Perkins Loan program in September 2017, the University is required to return the Federal Capital Contribution ("FCC") from the Perkins Loan Revolving Funds on a regular basis until such time as all of the University's outstanding Perkins Loans have been paid in full or otherwise fully retired, or assigned to the federal government. The return of the FCC was recorded in accordance with GASB Statement No. 33.

The University depreciates its capital assets over their estimated useful lives using the straight-line method. Depreciation expense increased by \$4.8 million, or 3.9 percent, to \$127.6 million during fiscal year 2018 as compared to fiscal year 2017. The increase in fiscal year 2018 was primarily attributable to an increase in depreciable assets relating to buildings and infrastructure. Depreciation expense decreased by \$2.1 million, or 1.7 percent, to \$122.8 million during fiscal year 2017 as compared to fiscal year 2016. The decrease in fiscal year 2017 was primarily attributable to a decrease in capital projects placed into service in the current year.

Transfers from State, net amounted to \$282.1 million, \$208.6 million and \$200.2 million in fiscal years 2018, 2017 and 2016, respectively. Transfers from State were primarily for fringe benefit expense paid by the State for the University, the tobacco settlement funds paying for John A. Burns School of Medicine revenue bond debt service, and the UH Cancer Center cigarette stamp tax collections. The increase in Transfers from State, net for both fiscal years 2018 and 2017 was primarily attributable to the increase in fringe benefit rates.

### **Other Nonoperating Activities**

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

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

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allotments for maintenance and renewal of capital assets, offset by federal capital grants decreases by \$6.1 million due to the substantial completion of two grants related to capital projects during 2017. The increase in fiscal year 2017 was primarily attributable to the increase of capital appropriations from the State by \$142.5 million, or 861.5 percent, to \$159.1 million compared to the decrease of capital appropriations in fiscal year 2016 of \$145.3 million.

Endowed gifts supply permanent capital and an ongoing stream of current earnings to the University. Programs supported by endowment returns include academic programs, scholarships, fellowships, professorships, chairs and research activities. In fiscal year 2018, additions to the permanent endowment decreased by \$81.7 million to \$14.4 million, when compared to \$96.0 million in fiscal year 2017. The spike in additions to the permanent endowment in fiscal year 2017 was due to the generosity of alumnus, Jay H. Shidler, who provided the \$80.2 million in endowed gifts.

**Cash Flows**

The Consolidated Statements of Cash Flows present the University's significant sources and uses of cash and cash equivalents, including restricted cash balances. The University's cash is comprised primarily of cash held with the State Treasury, demand deposits, and time certificates of deposit with an original maturity of three months or less. A summary of the University's cash flows for the years ended June 30, 2018, 2017 and 2016 is as follows (in thousands of dollars):

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

The University's cash and cash equivalents increased by \$53.8 million, or 77.8 percent, to \$122.9 million at June 30, 2018 from \$69.1 million at June 30, 2017. The University's cash and cash equivalents decreased by \$34.1 million, or 33.0 percent, to \$69.1 million at June 30, 2017 from \$103.2 million at June 30, 2016. During fiscal year 2018, \$556.9 million in cash was used for operating activities, offset by \$610.0 million in cash provided by noncapital financing activities. Net cash used in capital and related financing activities and net cash provided by investing activities amounted to \$46.0 million and \$46.7 million in fiscal year 2018.

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

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The \$5.0 million decrease in net cash used in capital and related financing activities in fiscal year 2018 as compared to fiscal year 2017 was primarily attributable to the change in cash inflows: \$48.3 million increase in capital appropriations, \$7.3 million decrease in proceeds from capital debt, \$3.7 million decrease in capital gifts and grants, offset by the change in cash outflows: \$18.7 million increase in purchases of capital assets and \$12.7 million increase in principal paid on capital debt and leases (cash outflow). The \$7.5 million increase in net cash used in capital and related financing activities in fiscal year 2017 as compared to fiscal year 2016 were attributable to increases in capital appropriations of \$23.3 million and capital gifts and grants of \$7.4 million, the \$6 million repayment of funds to the State of Hawai'i in fiscal year 2016, offset by an increase in capital asset purchases of \$44.6 million.

There was net difference of \$84.7 million in investing activity cash flows as there was \$46.7 million in net cash provided by investing activities in fiscal year 2018 compared to \$38.0 million in net cash used in investing activities in fiscal year 2017. The increase in net cash flows provided by investing activities in fiscal year 2018 was primarily due to a \$162 million decrease in cash outflows related to purchases of investments, offset by an \$81 million decrease in cash inflows related to proceeds from sales and maturities of investments. The increase in fiscal year 2017 was primarily due to an increase in available funds from net operating gains invested in the University's operating fund investment pool of \$42.3 million, offset by an \$11.4 million net increase in cash provided by the University's bond system.

### **Looking Forward**

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

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

- *U.S. News and World Report* released its 2019 Best Graduate Schools list that includes:
  - The University at Mānoa School of Nursing in the top tier, 35<sup>th</sup> out of 154 schools, for Best Online Graduate Nursing Programs in 2018.
  - The John A. Burns School of Medicine ranked 41<sup>st</sup> nationally in medical research and 59<sup>th</sup> in medical primary care among 177 medical schools in America.
  - The William S. Richardson School of Law's evening part-time program moved up 8 points into the top 25 in the annual national rankings.
  - The Myron B. Thompson School of Social Work ranked 59<sup>th</sup> of 234, placing it in the top 25 percent of programs nationally for the past five years.
  - The part-time master of business administration program (Global MBA, 36-month plan) at the Shidler College of Business ranked 152<sup>nd</sup> among 360 part-time MBA programs that qualified for the ranking.
  - The College of Education moved up 5 points and ranked 64<sup>th</sup> of 267 schools.
- The Community College System was ranked in the top20 by WalletHub, placing 15<sup>th</sup> from a sample of 715 schools in 2018. WalletHub ranked community colleges based on cost, education and career outcomes.

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- The University of Hawai'i at Mānoa jumped 39 spots on the 2019 Quacquarelli Symonds World University Ranking ("QSWUR"), rising to 302 from 341 last year. The QSWUR is the ranking most used and referenced by international students.
- The upward mobility of the University's Mānoa campus on the QSWUR follows another positive showing in 2018. The Center for World University Rankings, the largest academic ranking of global universities, revealed in late May that the Mānoa campus is number 306, up from 446 last year out of 18,000 universities they review.

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

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

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

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

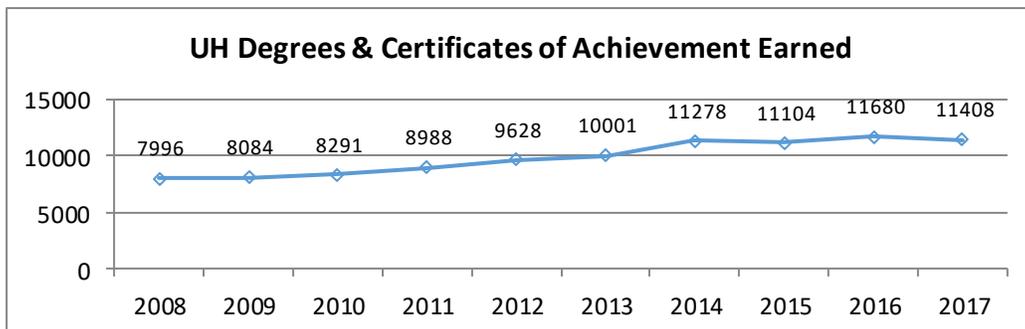
- Hawai'i Graduation Initiative.
- Hawai'i Innovation Initiative.
- 21st Century Facilities.
- Mission Focused System.
- High Performing System.

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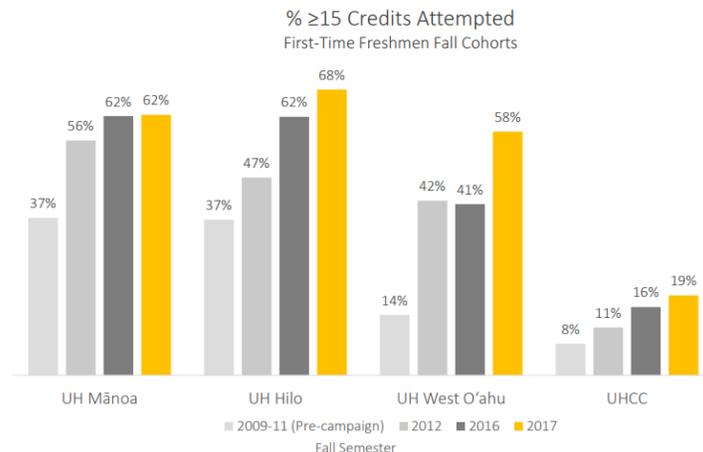
**Hawai'i Graduation Initiative**

An educated labor force and engaged citizenry are essential in today's global, knowledge-based economy. The State of Hawai'i has set goals to increase the percentage of working age adults with two- or four-year degrees to 55 percent by 2025 (*55 by '25 Campaign*). As the sole provider of public higher education in Hawai'i, the University is doing its part to increase the number of educated citizens within the State. In 2010, the Hawai'i Graduation Initiative ("HGI") was established with a set of goals to increase the graduation rate between 4 percent and 5 percent annually. Because of the focused efforts, the University of Hawai'i increased its degrees and certificates of achievement earned by 43 percent since 2008.



As part of the HGI's tactical plans, the *15 to Finish Campaign* was launched to encourage students to take 15 credits per semester (or 30 credits per year) to graduate on time (i.e., in most cases, two years for an associate degree and four years for a bachelor's degree). As a result, 66 percent of all freshmen take 12 or more credits at the community colleges, and more than 90 percent at the four-year campuses. According to our analysis, students taking 15 credits per semester had significantly higher retention at all levels of academic preparation.

To further the HGI, the University has developed the *Guided Pathways System* ("GPS") that provides undergraduate students with the optimal path to their destination, i.e., graduation. When students select a new program of study, GPS helps with their registration and creates a path for the students based on where they are and where they want to go and adds in default 15 credit academic maps. With registration through GPS, more students are enrolled in 15 credits per semester.



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

HGI is a winning strategy because it not only helps the University to sustain enrollment during this expanding economic period but also helps students graduate faster, reduce debt, and prevent drop-outs.

**Enrollment and Tuition**

Enrollment at the University of Hawai‘i’s 10 campuses dropped slightly in fall 2018 to 51,063 total students, a decrease of 611 students, or 1.2 percent compared to fall 2017, as Hawai‘i’s robust economy continues. As of September 2018, the State unemployment rate was at 2.2 percent. The overall enrollment decline was no surprise, as the University continues to graduate more students on time while competing for students in a tight local labor market experiencing extraordinarily low unemployment. The largest decrease in enrollments were at the Community Colleges and the Hilo campus, as more students tend to enroll in college during recessionary periods and conversely, choose to forego college and enter the job market during stronger economic periods.

Looking forward to fiscal year 2019, the enrollment at the University of Hawai‘i at Mānoa was up by 0.6 percent, which is a reversal of the past year’s trend. West O‘ahu enrollment continued to grow and is up by 1.5 percent from fall 2017. The Mānoa enrollment increase is mainly attributable to the successful implementation of the 2017–2020 Enrollment Management Plan launched in 2017, while the West O‘ahu campus continued to enjoy the growth trend that began in 2012 when the school moved to its Kapolei campus. The campus was recently recognized as the fastest growing public baccalaureate campus in the nation.

Fall census headcount comparisons are as follows:

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

The 2017–2020 Enrollment Management Plan was developed to steadily grow enrollment over the next five years. This framework will guide the University’s overall enrollment, retention and degree efforts.

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Specific initiatives and strategies are:

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

With the goal to reverse the enrollment decline and address the higher education gaps for the underserved regions and populations, the Community Colleges, working with the State legislators, secured \$2.5 million to establish the Hawai'i Promise scholarship program that provides free in-state tuition for qualified community college students with financial needs in fiscal year 2018 and 2019. The program is a "last dollar" scholarship that would provide financial assistance towards financial need unmet by other forms of financial aid, such as federal grants, the University scholarships, and other private sources. Because of the success of the program, the University will continue to request funding from the State.

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

### **Research and Innovation**

The University's extramural fund awards include a mix of research and non-research programs that provide financial stability and balance to the University. About 40–50 percent of the projects are non-research in nature and are intended for training, workforce development, outreach and community services, clinical trials, and others. The University of Hawai'i at Mānoa, the flagship campus, is ranked 77<sup>th</sup> by the National Science Foundation ("NSF") among 1,040 public and private universities for research and development expenditures in fiscal year 2016.

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The extramural awards totaled \$386 million in fiscal year 2018, remaining almost flat from the previous year's tally. As we continue to endure the ups and downs in federal funding and work to make adjustments in our strategy, we can find some solace in that we have managed to keep our extramural funding relatively stable in the neighborhood of \$400 million over the last few years. Despite the significant reductions in federal support that have put a strain on research institutions across the county, the University is doing its best to weather the storm through the dedicated efforts of our talented research faculty and support staff. Here are some highlights of fiscal year 2018:

- The Hawai'i Natural Energy Institute ("HNEI") received an award from the Office of Naval Research ("ONR" for its Asia-Pacific Research Initiative for Sustainable Energy Systems. The ONR also awarded HNEI for its Asian Pacific Regional Energy System Assessment.
- The John A. Burns School of Medicine received an award from the U.S. Department of Health and Human Services for its Ola HAWAII program designed to tackle genetic, environmental and socio-economic related disparities in health/healthcare for underrepresented populations in the state.
- The Pacific Disaster Center received an award from the U.S. Department of Defense to enable the University's continued management and resources of the Maui-based unit that fosters disaster resiliency and risk reduction through the use of science, information and technology.

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

### **Facilities and Infrastructure**

Improvement and modernization of the University's physical assets are vital to delivering the University's strategic directions that strives for 21<sup>st</sup> century facilities for learning, teaching and research. The University has developed a six-year plan for fiscal years 2018–2023 (the "6-Year CIP Plan"). The 6-Year CIP Plan sets forth a vision of a physical environment that supports and augments the high quality education and research that takes place at our University. It also presents a coordinated, long-term strategy that (1) prioritizes classrooms, laboratories and student spaces with a focus on improving the learning and research environment, (2) targets those facilities with the highest utility and poorest conditions through upgrades to the interior/exterior structures, building roofs, mechanical and electrical systems, pedestrian pathways, and roadways, and (3) changes the paradigm on how the University manages its space.

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

- \$49.5 million new construction for Life Sciences Building at the Mānoa campus. This new Life Sciences Building will play a critical role in expanding interdisciplinary educational and research opportunities for our students and faculty and supports multi-disciplinary shared spaces that inspire learning and advancement. The building will include teaching and research laboratories, laboratory support spaces, and office spaces for the College of Natural Sciences biology, microbiology and botany departments along with the Pacific Biosciences Research Center, which operates the state's only transmission electron microscope.
- \$33.4 million capital improvement projects on Coconut Island, O'ahu. The Hawai'i Institute of Marine Biology at the University at Mānoa is a world-renowned research institute situated on Coconut Island in Kaneohe Bay. Coconut Island provides excellent opportunities for research as it covers approximately twenty-nine acres with six acres enclosed in lagoons that are used for keeping organisms in captivity for study. The ongoing research projects on the island cover many disciplines of tropical marine science conducted by researchers from all over the world. To provide 21st century facilities for marine biology research, the capital improvement project will include utility rehabilitation and replacements, pier and seawall repairs, and laboratory building improvements and other general repairs.
- \$31.3 million new construction project for School of Pharmacy. A new permanent building for pharmacy students at the University at Hilo is expected to be completed at the end of 2018. This new construction project will provide a two-story 45,000-square-foot building that will consolidate student laboratories, faculty offices, and Student Affairs under a single roof. It will also provide faculty and student lounges, private study rooms, and a lecture hall. In addition, the building will include a simulated mannequin lab which features two highly realistic mannequins that, with the aid of computers, can physically respond to stimuli and upon which students can learn and practice medical procedures before treating real-life patients.
- \$29.9 million new construction project for West O'ahu – Administration & Allied Health Facility. To meet the increasing enrollment, this new construction will provide access to higher education for students in the Leeward side of the island, and create a vibrant campus life experience that inspires students to engage in their campus community. The West O'ahu campus broke ground for its newest addition, the Allied Health/Administration building, and is expected to be completed by the end of 2018. The building will house the allied health, community health, health information management, long-term care and biology programs, and some administrative offices. The University is also in the process of developing a master plan to build an integrated campus and University Village on 500 acres of vacant lands in West O'ahu. The plan may include leasehold housing options; retail and commercial activities and other uses that would complement the West O'ahu campus and also serve the region. There will also be transit-oriented development options near the transit stations. Two stations will be located directly across Kualaka'i Parkway from the West O'ahu campus.

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- \$22.7 million new construction project for Hawai'i Community College – Culinary Arts Building Phase 1A and Health Science and Student Services Building Phase 1B “Pāalamanui.” Pāalamanui is a branch campus of Hawai'i Community College and is the newest addition. It offers certificates and associate degrees from Hawai'i Community College and is a gateway for residents of West Hawai'i to undertake programs from other University of Hawai'i campuses while continuing to live in West Hawai'i. Programs from other University of Hawai'i campuses enroll and deliver courses to students in West Hawai'i using a combination of formats including: online any-time, site-to-site real-time interactive video conferencing, and face-to-face participation. Local students have the advantage of campus-based resources and support (library, counseling, student activities) plus the opportunity to access an entire spectrum of associate, bachelor's and graduate degrees.
- \$7.4 million new Law School Addition and Renovation. The Community Legal Outreach Center at the William S. Richardson School of Law on the University Mānoa campus will be added to the School of Law and will serve as a space for the growing clinical services offered by law school students and faculty. Currently, students provide thousands of hours of free legal help to some of the Hawai'i's most vulnerable people, including the elderly, troubled and incarcerated youth, veterans, and families living at or near poverty levels. The new building will provide much-needed space for these invaluable service offerings.

The State of Hawai'i Legislature continued its strong financial support to the University's capital improvement program and provided general obligation bond appropriations for the 2018–2019 and 2015–2017 fiscal biennia that were approximately \$365.5 million and \$390.0 million, respectively. At the conclusion of the 2018 Legislative Session, the Legislature provided an additional \$110.0 million in General Obligation Bond appropriations for fiscal year 2018–2019 Capital Improvement Projects. In addition to the \$159.8 million appropriated in the 2017 Legislative Session, this brings the total General Obligation bond appropriation for the 2017–2019 fiscal biennium to \$269.7 million.

**Fundraising**

The University and the University of Hawai'i Foundation launched a seven-year \$500 million fundraising campaign and began its “quiet phase” on July 1, 2011. Since the launch of the campaign, the University has consistently exceeded the fundraising goals. In fiscal year 2018, the University had raised \$180.3 million as compared to \$77.6 million in fiscal year 2017 and \$66.1 million in fiscal year 2016. As of June 30, 2018, the campaign generated \$713.9 million, which exceeded the original goal by \$214.0 million or 42.8 percent.

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

<b>Purpose</b>	<b>Campaign Total (\$ in Millions)</b>
Faculty and Academic Support	\$ 237.5
Student Opportunity and Access	245.3
Research	131.5
Special Programs	55.1
Others	44.5
Total	<u>\$ 713.9</u>

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A limited example of philanthropic gifts which have directly benefited academic programs and students include generous gifts from donors, Barry and Virginia Weinman, and academic teaching partners, Hawai'i Pacific Health and The Queen's Health Systems, where more than \$3.66 million have been committed to fund 23 full scholarships for Hawai'i residents starting their medical education in July 2018. This is about one third of the 72 students that make up the incoming class of 2022. These 23 future doctors will be free from worry over the expense of a medical education while they study.

**State General Fund Appropriations**

As the sole provider of higher public education and a key economic development driver, the University helped generate a total estimated impact of \$3.61 billion on Hawai'i's economy. Looking toward the future, Hawai'i's economy is expected to continue a positive growth of 1.5 percent in 2018, according to the State Department of Business, Economic Development & Tourism. The tourism and construction industries are projected to remain strong, while the government and military sectors will continue to stay relatively unchanged. Hawai'i's robust economy has kept the unemployment rate low at 2.2 percent as of September 2018.

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

Future general fund appropriations are dependent upon the financial health of the State, State Council of Revenues projections, and priorities yet to be articulated by the Governor and State legislature. The current outlook shows mixed signs. The State ended fiscal year 2018 with a general fund surplus totaling approximately \$750 million, although it was a single point of data. The Council's current forecast for fiscal year 2019 revenues projects 5.0 percent growth compared to fiscal year 2018. As of September 2018, general fund collections are up 0.4 percent compared to the same period for fiscal year 2018. To continue to provide quality and affordable education to the residents of Hawai'i, the University has been working hard with lawmakers to advance the University's needs and priorities.

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*(All dollars reported in thousands)*

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

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

**University of Hawai'i**  
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**Consolidated Statements of Revenues, Expenses and Changes in Net Position**  
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*(All dollars reported in thousands)*

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

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

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

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

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

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

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**1. Organization and Summary of Significant Accounting Policies**

**Financial Reporting Entity**

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

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

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

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

**Basis of Presentation**

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

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

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

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**Cash, Cash Equivalents and Investments**

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

The University classifies unspent cash, cash equivalents and investments from the issuance of revenue bonds held with an escrow agent and invested until used for the cost of construction, and unspent cash, cash equivalents and investments that were deposited into an acquisition fund held in trust by the acquisition fund custodian for equipment lease obligations, as noncurrent assets.

**Investments**

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

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

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**Fair Value Measurements**

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

- **Level 1** – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2** – Inputs (other than quoted prices) included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- **Level 3** – Unobservable inputs for an asset or liability reflecting management's assumption. Level 3 inputs are used to measure fair value to the extent that observable Level 1 or 2 inputs are not available.

**Due from and Due to State**

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

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

**Perpetual Trusts**

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

**Split-Interest Agreements**

The Foundation's split-interest agreements with donors consist of irrevocable pooled income funds, charitable remainder trusts and charitable gift annuities for which the Foundation serves as trustee. Assets held under the split-interest agreements are included in investments. Deferred inflows of resources are recognized at the date the split-interest agreements are established after recording liabilities for the present value (utilizing discount rates ranging from 1.2 percent to 8.2 percent) of the estimated future payments to be made to the donors and/or other beneficiaries. Private gifts revenue is recognized when the related resources become available to the Foundation as stipulated in the irrevocable split-interest agreement. The liabilities are adjusted during the term of the split-interest agreements for changes in the fair value of the assets, accretion of the discount, and other changes in the estimates of future benefits.

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**Accounts Receivable**

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

**Contributions**

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

**Capital Assets**

Capital assets are recorded at cost, or if donated, at an appraised value at the date of the gift. Depreciation of capital assets is provided for on a straight-line basis over the estimated useful lives (3 to 100 years) of the respective assets. The University's policy is to capitalize tangible, nonexpendable personal property having an estimated useful life of more than one year. Interest incurred on tax-exempt construction financing, net of investment income on any unspent financing proceeds, is capitalized as a cost of construction. When taxable debt is incurred specifically for a project, interest is capitalized on amounts expended on the project using the weighted-average cost of outstanding borrowings. The capitalization of interest ceases when the project is substantially complete or construction activity is suspended for more than a brief period. The University incurred interest cost of \$25,715 and \$27,183 for the years ended June 30, 2018 and 2017, respectively, of which capitalized interest as a cost of construction amounted to \$130 and \$283, respectively. The University does not capitalize works of art or historical treasures that are held for exhibition, education, research and public service. These collections are neither disposed of for financial gain nor encumbered. Accordingly, such collections are not recognized or capitalized for financial statement purposes. Maintenance and repairs, as well as minor renewals, replacements and betterments, are charged to operations. Major renewals, replacements and betterments are capitalized in the year incurred. Capital assets retired or otherwise disposed of are removed from the appropriate asset and related accumulated depreciation accounts. Gains and losses on disposals and the net book value of transfers of capital assets are reflected in operations.

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

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**Deferred Outflows of Resources**

Deferred outflows of resources represent a consumption of net position that applies to a future period. The University defers recognition of the loss on debt refunding related to issuance of its revenue bonds and amortizes these costs over the life of the bonds using the effective interest rate method. The deferred outflow of resources related to the net pension and other postemployment benefits ("OPEB") liabilities resulted from differences between expected and actual experiences, changes in assumptions, the net difference between projected and actual earnings on pension plan investments, and changes in proportion which are amortized over five years, and the University's contributions to the pension and OPEB plans subsequent to the measurement date of the actuarial valuations for the pension and OPEB plans will be recognized as a reduction of the net pension liabilities and net OPEB liability in the subsequent fiscal year.

**Advances from Sponsors**

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

**Unearned Revenue**

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

**Pensions**

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

**Other Postemployment Benefits**

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

**Revenue Bonds Payable**

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

**Equipment Lease Obligations**

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

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**Deferred Inflows of Resources**

Deferred inflows of resources represent an acquisition of net position by the University that is applicable to a future reporting period. The deferred inflow of resources related to pension and OPEB resulted from differences between expected and actual experiences and changes in proportion of the pension plan which will be amortized over five years.

**Net Position**

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

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

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

**Net Position Restricted by Enabling Legislation**

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

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**Operating and Nonoperating Activities**

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

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

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

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

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

**Scholarships and Fellowships**

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

**State Appropriations**

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

**Management's Estimates**

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

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

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liabilities based on available information. The University's estimated liability for workers' compensation claims is included in "Other Liabilities" in the accompanying Consolidated Statements of Net Position (see Note 10).

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

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

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

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

**New Accounting Pronouncements**

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

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

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

The adoption of Statement No. 75 resulted in the restatement of the University's beginning net position as of July 1, 2017 by \$880,591 from \$729,527 to a net deficit of \$151,064, which reflects the retrospective effect of Statement No. 75. The restatement of the University's beginning net position as of July 1, 2017 is the combined impact from the University's employees covered under both the EUTF and Research Corporation's defined benefit postemployment benefit of \$879,485 and \$1,106, respectively. The Research Corporation's net OPEB liability is reported separately as a component of other noncurrent liabilities on the Consolidated Statements of Net Position as it is immaterial to the University's consolidated financial statements as a whole. Net OPEB liability of \$1,761,176 and deferred outflows of resources related to OPEB of \$92,918 were

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reported as of July 1, 2017. Retroactive implementation of GASB Statement No. 75 was not deemed practical due to the cost and timing required to obtain and analyze the activity covering fiscal year 2017. As such, the net OPEB liability on the University's fiscal year 2017 consolidated financial statements is presented in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, as amended. Refer to Note 14 for more information regarding the University's OPEB with EUTF.

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

During fiscal year 2018, the University implemented GASB Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This statement did not have a material effect on the University's consolidated financial statements.

During fiscal year 2018, the University implemented GASB Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources — resources other than the proceeds of refunding debt — are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This statement did not have a material effect on the University's consolidated financial statements.

The GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve accounting and financial reporting for debts incurred by governments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The University has not yet determined the effect this Statement will have on its consolidated financial statements.

The GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this Statement are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period, and to simplify accounting for interest cost incurred before the end of a construction period. The Statement supersedes Statement No. 62. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The University has not yet determined the effect this Statement will have on its consolidated financial statements.

The GASB issued Statement No. 90, *Major Equity Interests*. The objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The University has not yet determined the effect this Statement will have on its consolidated financial statements.

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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, 2018 and 2017, classified as cash and cash equivalents and operating investments, were \$140,594 and \$230,039, with corresponding bank balances of \$131,174 and \$230,511, respectively. The portion of such bank balances covered by the Federal Deposit Insurance Corporation or by collateral held by the State Director of Budget & Finance in the name of the University totaled \$121,537 at June 30, 2018 and \$225,690 at June 30, 2017. Additional cash equivalent balances of \$2,568 at June 30, 2018 and \$4,119 at June 30, 2017 represent deposits with investment brokers covered by the Securities Investor Protection Corporation and additional insurance provided by the investment brokers.

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

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

As a result of market fluctuations, the fair market value of certain donor-restricted endowments was less than the historical cost of such funds by \$3,901 and \$4,855 at June 30, 2018 and 2017, respectively. These unrealized losses have been recorded as reductions in unrestricted net position. Future market gains will be used to restore this deficiency in unrestricted net position before any net appreciation above the historical cost value of such funds increases restricted expendable net position.

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

The Hawai'i Uniform Prudent Management of Institutional Funds Act ("HUPMIFA"), established under Hawai'i Revised Statute §517E, was enacted by the State on July 1, 2009. HUPMIFA requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result, the University classifies as restricted nonexpendable net position (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in restricted nonexpendable net position is classified as restricted expendable net position until those amounts are expended and distributed by the University in accordance with its Board-approved spending rate policy and in a manner consistent with the standard of prudence prescribed by HUPMIFA. In fiscal years 2018 and 2017, the University's spending rate policy provided for annual distributions was four and a half percent of the trailing five-year moving average of the endowment fair value.

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At June 30, 2018 and 2017, the University's investments were comprised of the following:

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

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

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

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

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

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

The University's investments reported at fair value on a recurring basis have been categorized based on the fair value hierarchy in Note 1 at June 30, 2018 and 2017 as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Not Categorized Within the Fair Value Hierarchy
<b>2018</b>					
Money market funds	\$ 8,190	\$ 8,190	\$ -	\$ -	\$ -
Fixed income securities	308,656	164,146	136,900	-	7,610
Equity securities	1,234	1,234	-	-	-
Mutual funds	202,369	196,249	-	-	6,120
Time certificates of deposit	109,933	-	-	-	109,933
Limited partnerships	120,596	-	-	-	120,596
Absolute return	17,798	-	-	-	17,798
Real estate	31,710	-	-	15,348	16,362
Other investments	<u>50,059</u>	<u>-</u>	<u>-</u>	<u>1,681</u>	<u>48,378</u>
Total investments	<u>\$ 850,545</u>	<u>\$ 369,819</u>	<u>\$ 136,900</u>	<u>\$ 17,029</u>	<u>\$ 326,797</u>
<b>2017</b>					
Money market funds	\$ 4,716	\$ 4,716	\$ -	\$ -	\$ -
Fixed income securities	283,541	123,220	140,504	-	19,817
Equity securities	6,328	6,328	-	-	-
Mutual funds	183,210	177,658	-	-	5,552
Time certificates of deposit	161,022	-	-	-	161,022
Limited partnerships	121,954	-	-	-	121,954
Absolute return	16,322	-	-	-	16,322
Real estate	23,161	-	-	15,050	8,111
Other investments	<u>62,539</u>	<u>-</u>	<u>-</u>	<u>1,956</u>	<u>60,583</u>
Total investments	<u>\$ 862,793</u>	<u>\$ 311,922</u>	<u>\$ 140,504</u>	<u>\$ 17,006</u>	<u>\$ 393,361</u>

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

- **Mutual funds** – Domestic mutual funds can be redeemed on a quarterly basis, with notification provided between 30 and 60 days prior to redemption. Investments in foreign mutual funds can be redeemed on a monthly basis with notification provided between 10 and 30 days prior to redemption.
- **Limited partnerships and other investments** – Redemption frequency for investments in this class range from monthly to annually, with notification provided between 2 and 90 days prior to redemption. Additionally, certain investments can be redeemed at the discretion of the investment managers.
- **Absolute return, real estate and other investments** – These investments can be redeemed at the discretion of the investment managers. Through the Foundation, the University has commitments to contribute additional amounts to this class of investments of approximately \$43,947 at June 30, 2018.

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

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

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

**Investment Risk Factors**

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

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**Concentration Risk**

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

**Credit Risk**

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

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

		Credit Quality Rating						
		U.S. Govt- Exempt	AAA	AA	A	BBB	BB or Lower	Not Rated
<b>2018</b>								
U.S. Treasury	\$ 164,135	\$ 164,135	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. government agencies	131,474	-	-	131,474	-	-	-	-
Municipal bonds	3,547	-	762	2,166	619	-	-	-
Corporate bonds	9,500	-	-	2,308	4,158	2,666	368	-
Mutual bond funds	93,184	-	6,726	-	4,326	-	-	82,132
Total fixed income securities	<u>\$ 401,840</u>	<u>\$ 164,135</u>	<u>\$ 7,488</u>	<u>\$ 135,948</u>	<u>\$ 9,103</u>	<u>\$ 2,666</u>	<u>\$ 368</u>	<u>\$ 82,132</u>
<b>2017</b>								
U.S. Treasury	\$ 126,823	\$ 126,823	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. government agencies	156,234	-	-	156,234	-	-	-	-
Corporate bonds	484	-	28	61	233	162	-	-
Mutual bond funds	99,766	-	4,079	-	4,350	-	-	91,337
Total fixed income securities	<u>\$ 383,307</u>	<u>\$ 126,823</u>	<u>\$ 4,107</u>	<u>\$ 156,295</u>	<u>\$ 4,583</u>	<u>\$ 162</u>	<u>\$ -</u>	<u>\$ 91,337</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, 2018, 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	\$ 164,135	\$ 49,547	\$ 106,741	\$ 7,690	\$ 157
U.S. government agencies	131,474	31,160	99,683	-	631
Municipal bonds	3,547	548	1,476	1,523	-
Corporate bonds	9,500	-	5,620	3,635	245
Mutual bond funds	93,184	7,693	52,133	32,453	905
Total fixed income securities	<u>\$ 401,840</u>	<u>\$ 88,948</u>	<u>\$ 265,653</u>	<u>\$ 45,301</u>	<u>\$ 1,938</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, 2018 and 2017, the University's exposure to foreign currency risk expressed in U.S. dollars was not significant.

**3. Accounts Receivable**

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

	2018	2017
U.S. government	\$ 49,803	\$ 44,448
State and local government	9,186	9,405
Private agencies	7,749	9,333
Student tuition and fees	8,456	7,350
Other	7,744	7,734
	<u>\$ 82,938</u>	<u>\$ 78,270</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 \$44,021 in 2018 and \$42,464 in 2017 and are reported in federal appropriations, grants and contracts revenue.

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

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**5. Notes and Contributions Receivable**

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

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

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

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

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

Less than one year	\$ 17,735
One year to five years	<u>20,392</u>
	<u>\$ 38,127</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, 2018 and 2017, the University distributed \$1,740 and \$2,359 in student loans through the U.S. Department of Education Federal Perkins Loan Program, respectively, and \$143,204 and \$150,389 in Direct Loan programs, respectively. These distributions and related funding sources are not included as expenses or revenues in the accompanying financial statements.

As discussed in Note 1 to the consolidated financial statements, pledges for permanent endowments that do not meet eligibility requirements, as defined by GASB Statement No. 33, are not recorded as assets until the related gift is received. Accordingly, permanent endowment pledges totaling approximately \$6,323 and \$5,866 at June 30, 2018 and 2017, respectively, were not recognized as assets in the accompanying consolidated financial statements because of uncertainties with regard to their realizability, valuation, bequest intentions, and other conditional promises until the specified conditions are met.

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

**6. Inventories**

The inventories and the methods of valuation at June 30, 2018 and 2017 are summarized below:

		<b>2018</b>	<b>2017</b>
University of Hawai'i Bookstore merchandise inventory	Lower of cost or market using the first-in, first-out retail inventory method.	\$ 5,146	\$ 5,051
University of Hawai'i Chemistry Stockroom	Cost applied on the first-in, first-out basis.	891	888
University of Hawai'i Facilities Management Warehouse	Cost applied on the first-in, first-out basis.	890	695
University of Hawai'i Press merchandise inventory	Job order or specific identification method. Books remaining in the inventory after the first year of publication are written off on the straight-line basis over a five-year period.	1,066	944
University of Hawai'i other inventory	Lower of cost or market using the weighted average cost method.	435	324
		<u>\$ 8,428</u>	<u>\$ 7,902</u>

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**7. Capital Assets**

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

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Transfers</b>	<b>Ending Balance</b>
<b>2018</b>					
Nondepreciable capital assets					
Land	\$ 55,195	\$ -	\$ -	\$ 27	\$ 55,222
Construction in progress	170,027	151,322	6,283	(93,145)	221,921
Total capital assets not being depreciated	225,222	151,322	6,283	(93,118)	277,143
Depreciable capital assets					
Land improvements	131,745	151	-	7,624	139,520
Infrastructure	243,030	662	-	9,654	253,346
Buildings	2,421,881	10,244	15,316	74,015	2,490,824
Equipment	397,471	14,144	10,733	1,825	402,707
Library materials	171,605	2,698	-	-	174,303
Total capital assets being depreciated	3,365,732	27,899	26,049	93,118	3,460,700
Less: Accumulated depreciation	1,503,221	127,629	21,422	-	1,609,428
Capital assets, net	\$ 2,087,733	\$ 51,592	\$ 10,910	\$ -	\$ 2,128,415
<b>2017</b>					
Nondepreciable capital assets					
Land	\$ 45,354	\$ 5,900	\$ -	\$ 3,941	\$ 55,195
Construction in progress	182,872	132,013	5,007	(139,851)	170,027
Total capital assets not being depreciated	228,226	137,913	5,007	(135,910)	225,222
Depreciable capital assets					
Land improvements	128,969	224	-	2,552	131,745
Infrastructure	218,284	594	-	24,152	243,030
Buildings	2,340,153	12,969	28,282	97,041	2,421,881
Equipment	382,445	18,627	15,766	12,165	397,471
Library materials	168,836	2,769	-	-	171,605
Total capital assets being depreciated	3,238,687	35,183	44,048	135,910	3,365,732
Less: Accumulated depreciation	1,413,528	122,841	33,148	-	1,503,221
Capital assets, net	\$ 2,053,385	\$ 50,255	\$ 15,907	\$ -	\$ 2,087,733

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**8. Other Noncurrent Assets**

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

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

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

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

Amounts due from and due to the State of Hawai'i at June 30, 2018 and 2017 were as follows:

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

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**10. Long-Term Liabilities**

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

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
<b>2018</b>					
Bonds payable					
Revenue bonds payable	<u>\$ 543,680</u>	<u>\$ 110,795</u>	<u>\$ 129,050</u>	<u>\$ 525,425</u>	<u>\$ 18,770</u>
Other liabilities					
Workers' compensation	18,433	4,556	5,790	17,199	6,103
Accrued vacation	75,907	29,956	29,357	76,506	31,669
Net pension liability (Note 13)	1,704,470	229,360	285,230	1,648,600	-
Postemployment health care/life insurance benefits (Note 14)	788,773	1,090,340	95,253	1,783,860	-
Equipment lease obligations	-	30,531	-	30,531	2,103
Long-term debt	<u>25,200</u>	<u>-</u>	<u>17,000</u>	<u>8,200</u>	
Total other liabilities	<u>2,612,783</u>	<u>1,384,743</u>	<u>432,630</u>	<u>3,564,896</u>	<u>39,875</u>
Total long-term liabilities	<u>\$ 3,156,463</u>	<u>\$ 1,495,538</u>	<u>\$ 561,680</u>	<u>\$ 4,090,321</u>	<u>\$ 58,645</u>
<b>2017</b>					
Bonds payable					
Revenue bonds payable	<u>\$ 562,620</u>	<u>\$ -</u>	<u>\$ 18,940</u>	<u>\$ 543,680</u>	<u>\$ 19,115</u>
Other liabilities					
Workers' compensation	18,100	2,106	1,773	18,433	6,247
Accrued vacation	75,174	28,552	27,819	75,907	30,627
Net pension liability (Note 13)	1,144,564	657,300	97,394	1,704,470	-
Postemployment health care/life insurance benefits (Note 14)	722,757	115,716	49,700	788,773	-
Long-term debt	<u>17,000</u>	<u>8,200</u>	<u>-</u>	<u>25,200</u>	<u>17,000</u>
Total other liabilities	<u>1,977,595</u>	<u>811,874</u>	<u>176,686</u>	<u>2,612,783</u>	<u>53,874</u>
Total long-term liabilities	<u>\$ 2,540,215</u>	<u>\$ 811,874</u>	<u>\$ 195,626</u>	<u>\$ 3,156,463</u>	<u>\$ 72,989</u>

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**Revenue Bonds Payable**

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

	Series	Date Issued	Authorized	2018	2017
Frear Hall Construction, Student Housing System at Mānoa, Food Service System and Student Housing System at Hilo (interest rate, 3.25% to 5.0%)	2006A	December 13, 2006	\$ 100,000	\$ -	\$ 17,490
University Health & Wellness Center (interest rate, 3.5% to 5.0%)	Ref 2006A	October 25, 2006	133,810	-	16,045
Various acquisition and construction projects (interest rate, 2.5% to 6.0%)	2009A	April 15, 2009	100,000	5,690	84,765
University's Cancer Center (interest rate, 2.5% to 6.0%)	2010A-1, 2010A-2	October 7, 2010	138,640	118,195	121,455
Various construction projects (interest rate, 2.5% to 6.0%)	2010B-1, 2010B-2	October 7, 2010	154,090	135,355	138,995
Student Housing System at Mānoa and Telecommunications System (interest rate, 2.0% to 5.0%)	2012A(R)	February 22, 2012	8,575	240	1,775
Hilo College of Pharmacy and Law School Expansion and Modernization (interest rate, 1.0% to 4.7%)	2015A	September 24, 2015	8,575	8,220	8,400
Frear Hall Construction, Student Housing System at Mānoa, Food Service System and Student Housing System at Hilo (interest rate, 3.0% to 5.0%)	2015B(R)	September 24, 2015	47,010	47,010	47,010
Frear Hall Construction, Student Housing System at Mānoa, Food Service System and Student Housing System at Hilo (interest rate, 0.8% to 3.0%)	2015C(R)	September 24, 2015	17,585	12,725	15,510
University Health & Wellness Center (interest rate, 0.8% to 2.8%)	2015D(R)	September 24, 2015	25,715	19,795	24,835
University Health & Wellness Center (interest rate, 5.0%)	2015E(R)	April 20, 2016	67,400	67,400	67,400
Sinclair Library Basement Renovation (interest rate, 2.0% to 5.0%)	2017A	December 28, 2017	3,990	3,990	-
University Health & Wellness Center (interest rate, 3.0%)	2017B	December 28, 2017	12,040	12,040	-
University Health & Wellness Center (interest rate, 3.28% to 3.38%)	2017C	December 28, 2017	4,110	4,110	-
Frear Hall Construction, Student Housing System at Mānoa, Food Service System and Student Housing System at Hilo (interest rate, 3.0%)	2017D	December 28, 2017	13,185	13,185	-
Frear Hall Construction, Student Housing System at Mānoa, Food Service System and Student Housing System at Hilo (interest rate, 3.28% to 3.65%)	2017E	December 28, 2017	4,450	4,450	-
Various acquisition and construction projects (interest rate, 5.0%)	2017F	December 28, 2017	52,275	52,275	-
Various acquisition and construction projects (interest rate, 2.10% to 3.85%)	2017G	December 28, 2017	20,745	20,745	-
			<u>\$ 912,195</u>	<u>\$ 525,425</u>	<u>\$ 543,680</u>

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

The proceeds of the Series 2017B, 2017C, 2017D, 2017E, 2017F and 2017G bonds were deposited into an irrevocable trust with an escrow agent to provide for the redemption of the outstanding principal of the Series 2006A University Revenue Bonds and Refunding Series 2006A University Bonds, and to provide for the defeasance and redemption of a portion of the Series 2009A University Revenue Bonds. Accordingly, the trust account assets and liabilities relating to the defeased bonds are not recorded in the consolidated financial statements of the University. During the year ended June 30, 2018, \$33,535 of bonds outstanding from the Series 2006A University Revenue Bonds and Refunding Series 2006A University Bonds were refunded on a current basis, and \$76,400 of bonds outstanding from the Series 2009A University Revenue Bonds were considered defeased. The refunding and defeasance resulted in an accounting gain of \$17,502 and an economic gain (difference between the present values of the debt service payment on the old and new debt) of \$15,550. The coupon interest rates for the Series 2017 Bonds range from two percent to five percent (the first interest payment was paid on April 1, 2018) with the last maturity on October 1, 2038.

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

The proceeds of the Series 2015B(R), 2015C(R), 2015D(R) and 2015E(R) bonds were deposited into an irrevocable trust with an escrow agent to provide for a portion of the future debt service payments on the Series 2006A University Revenue Bonds and the Refunding Series 2006A University Bonds. Accordingly, the trust account assets and liabilities relating to the defeased bonds are not recorded in the consolidated financial statements of the University. During the year ended June 30, 2016, \$163,245 of bonds outstanding from the Series 2006A University Revenue Bonds and the Refunding Series 2006A University Bonds were considered defeased. The defeasance resulted in an accounting gain of \$15,080 and an economic gain (difference between the present values of the debt service payment on the old and new debt) of \$9,573. The coupon interest rates for the Series 2015 Bonds range from 0.811 percent to 5.000 percent (first interest payment due on April 1, 2016) with the last maturity on October 1, 2044.

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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 of \$27. The coupon interest rates for the Series 2012A(R) bonds range from two percent to five percent (first interest payment due on April 1, 2012) and mature on October 1, 2018.

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

The University receives funds from the State of Hawai'i Tobacco Settlement Special Fund for the payment of principal and interest on the Refunding Series 2006A, Series 2015D(R), 2015E(R), 2017B and 2017C bonds to finance the cost of construction of the medical school facility. The funds received from the State of Hawai'i Tobacco Settlement Special Fund for debt service amounted to \$9,397 and \$11,799 in 2018 and 2017, respectively.

The revenue bonds are paid from certain unrestricted revenues in annual installments, including semi-annual interest payments ranging from \$12 to \$12,843 with the final payment due in October 2044. Series 2006A, 2009A, 2010, 2012A(R), 2015 and Series 2017 bonds interest is payable semi-annually on April 1 and October 1, and the principal is payable on October 1 of each year. The Refunding Series 2006A interest is payable semi-annually on January 15 and July 15, and the principal is payable on July 15 of each year. The Bond Resolution adopted on May 17, 2002 and supplemented, stipulates that all available moneys on deposit in any special fund or revolving fund of the University, excluding moneys on deposit in the University Revenue – Undertakings Fund derived from the University Bond System, are pledged to the payment of the Refunding Series 2006A bonds, interest and premiums (if any). All available moneys on deposit in any special fund or revolving fund of the University, including moneys on deposit in the University Bond System, are pledged to the payment of the Series 2006A, 2009A, 2010, 2012A(R), 2015 and Series 2017 bonds, interest and premiums (if any).

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

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

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

**Bond Premiums**

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

	<b>Series</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
<b>2018</b>					
John A. Burns School of Medicine	Ref 2006A	\$ 178	\$ -	\$ 178	\$ -
University's Cancer Center	2010A	249	-	147	102
Various construction projects	2010B	405	-	236	169
Student Housing	2015B(R)	5,170	-	285	4,885
John A. Burns School of Medicine	2015E(R)	7,410	-	582	6,828
Sinclair Library basement renovation	2017A	-	536	25	511
John A. Burns School of Medicine	2017B	-	275	11	264
Student Housing	2017D	-	128	19	109
Student Housing	2017F	-	9,668	351	9,317
Total bond premiums		<u>\$ 13,412</u>	<u>\$ 10,607</u>	<u>\$ 1,834</u>	<u>\$ 22,185</u>
<b>2017</b>					
John A. Burns School of Medicine	Ref 2006A	\$ 191	\$ -	\$ 13	\$ 178
University's Cancer Center	2010A	452	-	203	249
Various construction projects	2010B	708	-	303	405
Student Housing	2015B(R)	5,443	-	273	5,170
John A. Burns School of Medicine	2015E(R)	7,960	-	550	7,410
Total bond premiums		<u>\$ 14,754</u>	<u>\$ -</u>	<u>\$ 1,342</u>	<u>\$ 13,412</u>

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**Equipment Lease Obligations**

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

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

**Note Payable**

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

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

**11. Line of Credit**

The Research Corporation has a revolving line of credit with First Hawaiian Bank in the amount of \$5,000 for short-term working capital, expiring on February 1, 2019. The terms of the revolving line of credit require repayment as specified in the credit agreement. All borrowings are collateralized by a security agreement over the Research Corporation’s accounts receivable. The rate of interest on borrowings was 4.00 and 3.28 percent at June 30, 2018 and 2017, respectively. At June 30, 2018 and 2017, there were no borrowings under this line.

On April 20, 2017, the Foundation entered into a 10-year \$13,200 acquisition and construction credit facility (the “Loan”) for the purchase and renovation of the Charles Atherton House and the Mary Atherton Richards House (the “Atherton Property”). The Loan is secured by the fee simple interest and improvements on the Atherton Property, along with an assignment of a long-term lease and rents due thereunder from the University. Under terms of the credit facility, interest-only payments are required for the first 36 months at a fixed rate of three percent and, thereafter monthly installments of principal and interest, based on a 25-year amortization schedule, at a fixed rate of four percent through the remaining term of the Loan. The Loan matures on April 1, 2027. As of June 30, 2018 and 2017, the outstanding balance on the Loan was \$8,200.

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**12. Property Leases**

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

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

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

**13. Employee Benefits**

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

***Plan Description***

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

***Benefits Provided***

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

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

Noncontributory Class

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

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

Contributory Class for Members Hired Prior to July 1, 2012

- Retirement Benefits – General employees' retirement benefits are determined as two percent of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 55.
- Disability Benefits – Members are eligible for service-related disability benefits regardless of length of service and receive a one-time payment of the member's contributions and accrued interest plus a lifetime pension of 50 percent of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined as 1.75 percent of average final compensation multiplied by the years of credited service but are payable immediately, without an actuarial reduction, and at a minimum of 30 percent of average final compensation.

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

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

Contributory Class for Members Hired After June 30, 2012

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

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

Hybrid Class for Members Hired Prior to July 1, 2012

- Retirement Benefits – General employees' retirement benefits are determined as two percent of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 62. General employees with 30 years of credited service are eligible to retire at age 55.
- Disability Benefits – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35 percent of their average final compensation plus refund of their contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25 percent of average final compensation.

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

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

Hybrid Class for Members Hired After June 30, 2012

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

**Contributions**

Contributions are governed by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rate was 18 percent and 17 percent for fiscal years 2018 and 2017, respectively. Contributions to the pension plan from the University for the years ended June 30, 2018 and 2017 were \$111,436 and \$98,865, respectively.

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

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The University is required to make all contributions for noncontributory members. Contributory members hired prior to July 1, 2012 are required to contribute 7.8 percent of their salary. Contributory members hired after June 30, 2012 are required to contribute 9.8 percent of their salary. Hybrid members hired prior to July 1, 2012 are required to contribute 6.0 percent of their salary. Hybrid members hired after June 30, 2012 are required to contribute 8.0 percent of their salary.

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

At June 30, 2018 and 2017, the University reported a liability of \$1,648,600 and \$1,704,470, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and 2016, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The University's proportion of the net pension liability was based on a projection of the University's long-term share of contributions to the pension plan relative to projected contributions of all participants, actuarially determined. At June 30, 2017 and 2016, the University's proportion was 12.73 percent and 12.75 percent, respectively, which was a decrease of 0.02 percent and 0.36 percent from its proportion measured as of June 30, 2016 and 2015, respectively.

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

For the years ended June 30, 2018 and 2017, the University recognized pension expense of \$208,927 and \$190,485, respectively. At June 30, 2018 and 2017, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
<b>2018</b>		
Difference between expected and actual experience	\$ 26,420	\$ 17,667
Net difference between projected and actual investment earnings on pension plan investments	-	4,881
Change in assumptions	251,735	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,543	28,614
Contributions subsequent to the measurement date	111,436	-
Total deferred inflows and outflows of resources	<u>\$ 391,134</u>	<u>\$ 51,162</u>

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	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
<b>2017</b>		
Difference between expected and actual experience	\$ 33,943	\$ 24,671
Net difference between projected and actual investment earnings on pension plan investments	104,272	-
Change in assumptions	320,145	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	40,500
Contributions subsequent to the measurement date	<u>98,865</u>	<u>-</u>
Total deferred inflows and outflows of resources	<u>\$ 557,225</u>	<u>\$ 65,171</u>

The \$111,436 reported as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. The \$98,865 reported as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ending June 30,</b>	
2019	\$ (49,064)
2020	(80,296)
2021	(71,569)
2022	(27,281)
2023	<u>(326)</u>
	<u>\$ (228,536)</u>

**Actuarial Assumptions**

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

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

The actuarial assumptions used in the June 30, 2017 and 2016 valuation were determined using actuarial assumptions adopted by the Board of Trustees of the ERS on December 12, 2016, based on the most recent experience study dated July 5, 2016.

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

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For the June 30, 2017 and 2016 actuarial valuation, post-retirement mortality rates are based on the 2016 Public Retirees of Hawai'i mortality table with adjustments based on generational projections of the BB projection table for 2016 and full generational projection in future years. Pre-retirement mortality rates are based on multiples of RP-2014 mortality table based on the occupation of the member.

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

	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
<b>Strategic Allocation (risk-based classes)</b>		
Broad growth	63.0%	5.80%
Principal protection	7.0%	0.20%
Real return	10.0%	3.60%
Crisis risk offset	<u>20.0%</u>	3.10%
Total	<u>100.0%</u>	

***Discount Rate***

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

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

The following presents the University's proportionate share of the net pension liability, calculated using the discount rate of seven percent, for the measurement dates June 30, 2017 and 2016, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (six percent) or one percentage point higher (eight percent) than the current rate:

	<b>1% Decrease (6.00%)</b>	<b>Discount Rate (7.00%)</b>	<b>1% Increase (8.00%)</b>
<b>2018</b>			
The University's proportionate share of the net pension liability	<u>\$ 2,136,421</u>	<u>\$ 1,648,600</u>	<u>\$ 1,246,368</u>
<b>2017</b>			
The University's proportionate share of the net pension liability	<u>\$ 2,179,604</u>	<u>\$ 1,704,470</u>	<u>\$ 1,311,313</u>

***Pension Plan Fiduciary Net Position***

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

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

***Payable to the Pension Plan***

At June 30, 2018 and 2017, the amount payable to the ERS was \$1,279 and \$768, respectively.

***Other Benefits***

The State absorbs the fringe benefit cost for employees paid from State and federal appropriations. In fiscal years 2017 and 2016, the State appropriated funds to the Department of Budget and Finance to pay for these fringe benefit costs on behalf of the University. Fringe benefit costs included in total revenue and total expenditures amounted to \$255,042 and \$223,116 for fiscal years 2018 and 2017, respectively.

All regular employees, with certain exceptions, earn vacation leave at the rate of 14 hours for each month of service. Employees who are entitled to annual vacation may accumulate for the succeeding year or years up to 15 working days annual vacation allowance, provided that the total accumulation shall not exceed 90 working days at the end of the calendar year.

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Accumulated vacation leave earned, but not taken, is reflected as an accrual in the accompanying consolidated financial statements. When termination of services takes place, the employees are paid for their vacation allowance in a lump sum.

Sick leave accumulates at the rate of 14 hours for each full month of service without limit, but can be taken only in the event of an illness and is not convertible to pay upon termination of employment. Accordingly, accumulated sick leave, earned but not taken, is not reflected as an accrual in the accompanying consolidated financial statements. Employees who retire with 60 days of unused sick leave are entitled to three months of service credit in the ERS. For each additional 20 days, or major fraction thereof, of unused sick leave they have in excess of 60 days, their service period is increased by one month. As of June 30, 2018 and 2017, accumulated sick leave approximated \$469,824 and \$463,682, respectively.

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

The University manages its workers' compensation program. Medical-related payments for fiscal years 2018 and 2017 were \$3,253 and \$3,556, respectively. Temporary wage loss payments for fiscal years 2018 and 2017 amounted to \$885 and \$1,156, respectively.

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

***Plan Description***

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

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

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

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

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

**Employees Covered by Benefit Terms**

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

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

**Contributions**

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

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

At June 30, 2018, the University reported a net OPEB liability of \$1,783,860. The net OPEB liability was measured as of July 1, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

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

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

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

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

<b>Years ending June 30,</b>	
2019	\$ (584)
2020	(584)
2021	(584)
2022	(583)
	<u>\$ (2,335)</u>

***Actuarial Assumptions***

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

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

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

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

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

***Single Discount Rate***

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

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***Changes in Net OPEB Liability***

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

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

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

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

	<b>1% Decrease (6.00%)</b>	<b>Discount Rate (7.00%)</b>	<b>1% Increase (8.00%)</b>
The University's proportionate share of the net OPEB liability	<u>\$ 2,093,685</u>	<u>\$ 1,783,860</u>	<u>\$ 1,533,147</u>

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

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

***Payables to the OPEB Plan***

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

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

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**Funding Policy and Annual OPEB Cost**

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

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

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

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

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

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The following table presents the annual OPEB cost, contributions made, the net OPEB liability, and the funding status for the University for the fiscal year ended June 30, 2017:

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

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

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year 2017 and the preceding years were as follows:

**OPEB Summary**

<b>Fiscal Year Ending</b>	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
June 30, 2017	\$115,716	42.9%	\$788,773
June 30, 2016	\$117,052	38.5%	\$722,757
June 30, 2015	\$113,009	36.6%	\$650,805

**Funded Status**

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress,

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

**Actuarial Methods and Assumptions**

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

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

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

**15. Other Noncurrent Liabilities**

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

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

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**16. State Appropriations**

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

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

Act 124, SLH 2016 Section 39, provided \$108,031 in general fund appropriations directly to the Department of Budget and Finance to pay for debt service on general obligation bonds issued for the University. As a result, the University itself received no appropriations and made no transfers for debt service on general obligation bonds for the year ended June 30, 2018.

Act 124, SLH 2016 Section 39, provided \$111,314 in general fund appropriations directly to the Department of Budget and Finance to pay for debt service on general obligation bonds issued for the University. As a result, the University itself received no appropriations and made no transfers for debt service on general obligation bonds for the year ended June 30, 2017.

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

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

**General appropriations**

Act 49, SLH 2017, Appropriation Warrant No. 10	\$ 475,757
Act 61, SLH 2017, Appropriation Warrant No. 70	200
Total funds lapsed	(13)
Executive restriction	(2,203)
Collective bargaining adjustment	11,412
Total general appropriations	<u>\$ 485,153</u>

**Capital appropriations**

Sections 47, 83 & 93 of Act 119, SLH 2015, Amended by Act 124, SLH 2016	\$ 35,000
Section 47 & 83 of Act 119, SLH 2015, Amended by Act 124 SLH 2016	29,700
Section 49, SLH 2017 Sections 30 & 56	120,220
Total funds lapsed	(817)
Total capital appropriations	<u>\$ 184,103</u>

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

**General appropriations**

Act 119, SLH 2015, Appropriation Warrant No. 10	\$ 433,581
Act 51, SLH 2016, Appropriation Warrant No. 74	2,560
Act 150, SLH 2016, Appropriation Warrant No. 91-A	750
Act 208, SLH 2016, Appropriation Warrant No. 105	560
Act 262, SLH 2016, Appropriation Warrant No. 118	450
Total funds lapsed	(3)
Executive restriction	(2,297)
Collective bargaining adjustment	<u>35,852</u>
Total general appropriations	<u>\$ 471,453</u>

**Capital appropriations**

Sections 47 & 83 of Act 119, SLH 2015, Amended by Act 124, SLH 2016	\$ 150,600
Section 47 of Act 119, SLH 2015, Amended by Act 124 SLH 2016	9,000
Total funds lapsed	<u>(506)</u>
Total capital appropriations	<u>\$ 159,094</u>

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**17. Blended Component Information**

The following condensed combining information summarizes the individual components of the University's consolidated financial position, results of operations and cash flows as of and for the years ended June 30, 2018 and 2017:

**Condensed Consolidating Statements of Net Position**

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

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

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

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

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

**Condensed Consolidating Statements of Cash Flows**

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

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

**18. Litigation, Other Contingent Liabilities and Commitments**

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

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

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

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

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

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

**Risk Management**

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

**Construction and Other Contracts**

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

**Collective Bargaining Agreements**

The Hawaii State Constitution under Article XIII, Section 2, grants public employees in the State the right to organize for the purpose of collective bargaining as provided by law. Chapter 89, Hawai'i Revised Statutes ("HRS"), provides for 14 recognized bargaining units for all public employees throughout the State, including State and county employees. Each bargaining unit is represented by an employee organization otherwise known as the exclusive bargaining representative of all employees within each unit which negotiates with the public employer.

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

- Unit 1 (nonsupervisory employees in blue collar positions).
- Unit 2 (supervisory employees in blue collar positions).
- Unit 3 (nonsupervisory employees in white collar positions).
- Unit 4 (supervisory employees in white collar positions).
- Unit 7 (faculty of the University and the community college system).
- Unit 8 (personnel of the University and the community college system, other than faculty).
- Unit 9 (registered professional nurses) or Unit 10 (institutional. health and correctional workers).

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- Civil service personnel working at the University are included in Units 1, 2, 3, 4, 9 and 10. The University's non-civil service personnel are Board appointees, and include faculty members and administrative, professional and technical ("APT") staff, who are included in Units 7 and 8, respectively. Employees in executive/managerial positions, as well as certain other personnel designated as excluded from collective bargaining pursuant to HRS, §89-6(f) and whose responsibilities concern confidential matters affecting employee-employer relations, are not represented by any union. Wages, hours and other terms and conditions of employment for these personnel are provided by law or action of the Board, as applicable. Some employees (e.g., certain contractual hires) are not parties to any recognized bargaining unit.

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

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

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

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

**University of Hawai'i****State of Hawai'i****(A Component Unit of the State of Hawai'i)****Schedule of the Proportionate Share of the Net Pension Liability (Unaudited)****Year Ended June 30, 2018***(All dollars reported in thousands)*

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

<b>Fiscal Year Ending</b>	<b>Proportionate Share of the Net Pension Liability as a Percentage</b>	<b>Proportionate Share of the Net Pension Liability as an Amount (a)</b>	<b>Annual Covered Payroll (b)</b>	<b>Proportion of the Net Pension Liability as a Percentage of Covered Payroll (a) / (b)</b>	<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>
June 30, 2018	12.73%	\$1,648,600	\$586,658	281%	54.80%
June 30, 2017	12.75%	\$1,704,470	\$587,203	290%	51.28%
June 30, 2016	13.11%	\$1,144,564	\$572,907	200%	63.42%
June 30, 2015	13.60%	\$1,089,882	\$564,736	193%	63.92%
June 30, 2014	13.75%	\$1,227,787	\$550,758	223%	57.96%

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**Schedule of Pension Contributions (Unaudited)**  
**Year Ended June 30, 2018**  
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**REQUIRED SUPPLEMENTARY INFORMATION**  
**Schedule of Pension Contributions**

<b>Fiscal Year Ending</b>	<b>Statutorily Required Contribution (a)</b>	<b>Contributions in Relation to the Statutorily Required Contribution (b)</b>	<b>Contribution Deficiency (Excess) (a) - (b)</b>	<b>Covered Annual Payroll (c)</b>	<b>Contributions as a Percentage of Covered Payroll (a) / (c)</b>
June 30, 2018	\$111,436	\$111,436	\$0	\$586,658	19.00%
June 30, 2017	\$98,865	\$98,865	\$0	\$587,203	16.84%
June 30, 2016	\$97,394	\$97,394	\$0	\$572,907	17.00%
June 30, 2015	\$93,949	\$93,949	\$0	\$564,736	16.64%
June 30, 2014	\$88,381	\$88,381	\$0	\$550,758	16.05%

**1. Changes of Benefit Terms**

There were no changes of benefit terms in 2018, 2017, 2016, 2015 and 2014.

**2. Changes of Assumptions**

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

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

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**Schedule of the Proportionate Share of Net OPEB Liability (Unaudited)**  
**Year Ended June 30, 2018**  
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**REQUIRED SUPPLEMENTARY INFORMATION**  
**Schedule of the Proportionate Share of Net OPEB Liability**

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

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**Schedule of OPEB Contributions (Unaudited)**  
**Year Ended June 30, 2018**  
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**REQUIRED SUPPLEMENTARY INFORMATION**  
**Schedule of OPEB Contributions**

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

**1. Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Significant methods and assumptions for fiscal year ending June 30, 2018 were as follows:

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