



UNIVERSITY *of* HAWAII[®]

SYSTEM

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



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

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Report of Independent Auditors

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

Report on the Financial Statements

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Other Matters*Required Supplementary Information*

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

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

Honolulu, Hawai'i
February 12, 2015

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

Introduction

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

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

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

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June 30, 2014 and 2013

Using the Financial Statements

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

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

Related Entities

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

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June 30, 2014 and 2013

Financial Position

The Consolidated Statements of Net Position present the financial position of the University at the end of the fiscal year and display all assets and liabilities of the University. Assets and liabilities are presented using fair and current values, respectively. Two notable exceptions are receivables and capital assets, which are stated at historical cost less an allowance for doubtful accounts and accumulated depreciation, respectively. The difference between assets and liabilities is net position, representing a measurement of the current financial condition of the University. The University's assets, liabilities and net position at June 30, 2014, 2013 and 2012 are summarized as follows (in thousands):

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

Current Assets and Liabilities

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

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

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

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

Endowment and Other Investments

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

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

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

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

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

Capital and Debt Activities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Net Position

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

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

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

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

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

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

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

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

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Results of Operations

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

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

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Revenues Supporting Core Activities

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

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

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

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

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

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

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

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

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

Expenses Associated with Core Activities

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

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

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

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

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

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

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

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

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

Other Nonoperating Activities

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

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

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

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Cash Flows

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

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

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

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

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

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Looking Forward

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

Enrollment and Tuition

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

Extramural Funds

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

Facilities and Infrastructure

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

Fundraising

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

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State General Fund Appropriations

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

New Campuses

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

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

University of Hawai'i 15 to Finish Campaign

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

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

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

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

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

University of Hawai'i

State of Hawai'i

Management's Discussion and Analysis (Unaudited)

June 30, 2014 and 2013

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

Hawai'i Innovation Initiative

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

University of Hawai'i
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Notes to Consolidated Financial Statements
June 30, 2014 and 2013
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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. 14. Accordingly, the University's financial information is discretely presented as a component unit within the State's comprehensive annual financial report ("CAFR").

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

Basis of Presentation

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

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

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

University of Hawai'i
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June 30, 2014 and 2013
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Cash, Cash Equivalents and Investments

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

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

Investments

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

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

Due from and Due to State

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

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

Perpetual Trusts

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

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Split Interest Agreements

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

Accounts Receivable

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

Contributions

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

Capital Assets

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

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Notes to Consolidated Financial Statements
June 30, 2014 and 2013
(All dollars reported in thousands)

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

Deferred Loss on Refunding

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

Advances from Sponsors

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

Unearned Revenue

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

Other Postemployment Benefits

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

Revenue Bonds Payable

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

Net Position

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

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

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June 30, 2014 and 2013
(All dollars reported in thousands)

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

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

Net Position Restricted by Enabling Legislation

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

Operating and Nonoperating Activities

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

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

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

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

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

Scholarships and Fellowships

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

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Notes to Consolidated Financial Statements
June 30, 2014 and 2013
(All dollars reported in thousands)

State Appropriations

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

Management's Estimates

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

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

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

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

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

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

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(All dollars reported in thousands)

New Accounting Pronouncements

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

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

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

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

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Reclassifications

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

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

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2. Cash and Investments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Investment Risk Factors

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

Concentration Risk

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

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Credit Risk

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

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

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

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

Interest Rate Risk

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

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

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

Foreign Currency Risk

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

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

3. Accounts Receivable

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

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

4. U.S. Government Funding

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

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

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5. Notes and Contributions Receivable

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

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

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

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

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

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

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

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

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

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

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

6. Inventories

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

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

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7. Capital Assets

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

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

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

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

8. Other Noncurrent Assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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11. Long-Term Liabilities

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

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

Revenue Bonds Payable

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

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

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

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

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

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

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

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

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

Bond Premiums

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

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

Note Payable

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

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

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12. Line of Credit (Research Corporation)

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

13. Property Leases

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

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

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

14. Employee Benefits

Employees' Retirement System

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

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

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

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

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

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

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

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

Basis of Accounting

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

Method Used to Value Investments

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

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Other Benefits

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

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

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

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

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

15. Postemployment Benefits Other than Pensions

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

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Plan Description

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

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

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

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

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

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Funding Policy and Annual OPEB Cost

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

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

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

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

OPEB Summary

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

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Funded Status

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

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

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

Actuarial Methods and Assumptions

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

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

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16. Other Noncurrent Liabilities

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

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

17. State Appropriations

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

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

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

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

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

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

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

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

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

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18. Blended Component Information

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

Condensed Consolidating Statements of Net Position

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

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

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

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

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

Condensed Consolidating Statements of Cash Flows

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

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

19. Litigation, Other Contingent Liabilities and Commitments

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

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

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

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

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

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

Risk Management

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

Construction and Other Contracts

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

Collective Bargaining Agreements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Postemployment Benefits Other than Pensions

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress

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

Other Supplementary Information

Report of Independent Auditors on Supplemental Information

To the Board of Regents
University of Hawai'i

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

Acuity LLP

Honolulu, Hawai'i
February 12, 2015

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

Schedule I

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

1. Basis of Presentation

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

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

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

Schedule I

2. Reclassifications

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

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

Schedule II

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

1. Basis of Presentation

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

2. Refinancing

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

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

Schedule III

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

1. Basis of Presentation

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

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

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

Schedule III

2. Reclassifications

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

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

Schedule IV

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

1. Basis of Presentation

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

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

Schedule V

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

1. Basis of Presentation

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

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

Schedule VI

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

1. Basis of Presentation

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

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

Schedule VII

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

1. Basis of Presentation

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

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

Schedule VIII

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

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

Schedule IX

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

1. Reporting Entity

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

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

2. Basis of Presentation

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

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

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

Schedule IX

3. New Accounting Pronouncements

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

4. Reclassifications

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