

University of Hawai'i State of Hawai'i

**Consolidated Financial Statements,
Required Supplementary Information
and Other Supplementary Information
June 30, 2013 and 2012**

University of Hawai'i
State of Hawai'i
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June 30, 2013 and 2012

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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, 2013 and 2012, 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 11.0 percent and 10.0 percent, respectively, of the total assets and 0.9 percent of the total operating revenues of the University as of and for the years ended June 30, 2013 and 2012. 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, 2013 and 2012, 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, 2013 and 2012, 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.

Accuity LLP

Honolulu, Hawai'i
February 24, 2014

University of Hawai'i
State of Hawai'i
Management's Discussion and Analysis (Unaudited)
June 30, 2013 and 2012

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, 2013 and 2012, with selected information for the year ended June 30, 2011. 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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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 increase 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 primarily includes ticket sales for athletic events and distributions from the Mountain West and Big West Conferences and the National Collegiate Athletic Association. 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, 2013 and 2012 is presented in Note 18 to the consolidated financial statements.

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Financial Position

The Consolidated Statements of Net Position present the financial position of the University at the end of the fiscal year and display all assets and liabilities of the University. Assets and liabilities are presented using fair and current values, respectively. Two notable exceptions are receivables and capital assets, which are stated at historical cost less an allowance for doubtful accounts and accumulated depreciation, respectively. The difference between assets and liabilities is net position, representing a measurement of the current financial condition of the University. The University's assets, liabilities and net position at June 30, 2013, 2012 and 2011 are summarized as follows (in thousands):

	2013	Percentage of Total Assets	2012	Percentage of Total Assets	2011	Percentage of Total Assets	FY 13 vs 12 Change	FY 12 vs 11 Change
Current assets								
Cash and operating investments	\$ 377,545	11%	\$ 448,346	13%	\$ 402,645	12%	\$ (70,801)	\$ 45,701
Receivables, net	112,384	3%	95,112	3%	112,746	4%	17,272	(17,634)
Other current assets	<u>36,301</u>	1%	<u>23,107</u>	1%	<u>22,498</u>	1%	<u>13,194</u>	<u>609</u>
Total current assets	526,230	15%	566,565	17%	537,889	17%	(40,335)	28,676
Noncurrent assets								
Endowment and other investments	468,120	14%	526,663	16%	719,557	22%	(58,543)	(192,894)
Capital assets, net	2,027,120	60%	1,826,937	54%	1,517,637	46%	200,183	309,300
Other noncurrent assets	<u>385,902</u>	11%	<u>443,259</u>	13%	<u>472,188</u>	15%	<u>(57,357)</u>	<u>(28,929)</u>
Total assets	<u>3,407,372</u>	100%	<u>3,363,424</u>	100%	<u>3,247,271</u>	100%	<u>43,948</u>	<u>116,153</u>
Current liabilities								
	269,754	8%	290,210	9%	250,242	8%	(20,456)	39,968
Noncurrent liabilities								
Long-term debt	593,930	17%	608,670	18%	623,290	19%	(14,740)	(14,620)
Other noncurrent liabilities	<u>605,963</u>	18%	<u>492,421</u>	14%	<u>388,094</u>	12%	<u>113,542</u>	<u>104,327</u>
Total liabilities	<u>1,469,647</u>	43%	<u>1,391,301</u>	41%	<u>1,261,626</u>	39%	<u>78,346</u>	<u>129,675</u>
Net position								
Invested in capital assets, net of related debt	1,492,599	44%	1,336,377	40%	1,182,287	36%	156,222	154,090
Restricted								
Nonexpendable	207,338	6%	191,532	6%	184,089	5%	15,806	7,443
Expendable	526,584	15%	574,344	17%	613,763	19%	(47,760)	(39,419)
Unrestricted	<u>(288,796)</u>	-8%	<u>(130,130)</u>	-4%	<u>5,506</u>	1%	<u>(158,666)</u>	<u>(135,636)</u>
Total net position	<u>\$ 1,937,725</u>	57%	<u>\$ 1,972,123</u>	59%	<u>\$ 1,985,645</u>	61%	<u>\$ (34,398)</u>	<u>\$ (13,522)</u>

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, 2013, 2012 and 2011, working capital amounted to \$256.5 million, \$276.4 million and \$287.6 million, respectively. The University is working toward maintaining a prudent level of working capital to fund operations, including pre-funding its approximately \$500 million in extramural grants which are on a cost reimbursement basis and dealing with increasing student enrollment, and to provide for uncertainties such as possible cuts to federal programs and the fiscal economic situation in the United States ("US") and Europe. Based on the \$1,542 million of operating expenses for the fiscal year ended June 30, 2013, the working capital at year end represents approximately 63 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 \$526.2 million, \$566.6 million and \$537.9 million at June 30, 2013, 2012 and 2011, respectively. 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 in the current year. Increase in accounts receivable of \$18.5 million primarily due to timing of collections of Federal accounts receivable. Total current assets increased by \$28.7 million, or 5.3 percent, at June 30, 2012 compared to June 30, 2011, primarily due to increases in operating investments offset by decreases in cash and cash equivalents and net accounts receivable. Operating investments increased by \$61.8 million primarily due to an increase of \$34 million in cash invested in TCDs with maturities greater than 90 days and less than one year primarily due to liquidation of \$22.9 million in auction rate securities throughout the year as well as an increase in tuition revenue. Additionally, the increase as of June 30, 2012 was attributable to a \$25.5 million reclassification of remaining student loan auction rate securities liquidated, at par, in July 2013 as operating investments. Cash and cash equivalents decreased by \$16.1 million and net accounts receivable decreased by \$19.0 million.
- 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 \$269.8 million, \$290.2 million and \$250.2 million at June 30, 2013, 2012 and 2011, respectively. Total current liabilities decreased by \$20.5 million, or 7.1 percent, at June 30, 2013 compared to June 30, 2012, primarily due to a decrease in accounts payable. Total current liabilities increased by \$40.0 million, or 16.0 percent, at June 30, 2012 compared to June 30, 2011, primarily due to increases in accounts payable.

Endowment and Other Investments

The University's endowment and other investments, including endowments held with the Foundation, decreased by \$58.5 million to \$468.1 million at June 30, 2013 and decreased by \$192.9 million to \$526.7 million at June 30, 2012. Endowments and other investments held with the Foundation amounted to \$311.8 million at June 30, 2013 and \$283.4 million at June 30, 2012. The fiscal year 2013 decrease was primarily due to the liquidation of investments to purchase capital assets.

At June 30 2011, endowments and other investments include \$48.4 million in auction rate securities. The University classified its auction rate securities as noncurrent investments as a result of uncertainties surrounding the timing of liquidation of these investments. During fiscal year 2011, the University entered into an agreement with Citigroup Global Markets Inc. ("CGMI"), which provided the University the option during June 2015 to require CGMI to purchase all of the University's auction rate securities at the date the option is exercised. As a result of this agreement, in addition to the University continuing to receive its contractual interest payments in a timely manner, management believes it was appropriate to report the University's auction rate securities at par value. 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 CGMI. In July 2012, the University fully liquidated the remaining \$25.5 million auction rate securities portfolio, at par.

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

Programs supported by the University's permanent and quasi-endowment funds include scholarships, fellowships, professorships, research efforts, and other important programs and activities. The University uses its endowment to support operations 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 2013 and 2012, 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 \$2.3 million in fiscal year 2013 and 2012.

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, 2013, 2012 and 2011, total capital assets, net of accumulated depreciation amounted to \$2.0 billion, \$1.8 billion and \$1.5 billion, respectively, which represented 60 percent, 54 percent and 46 percent, respectively, of the University's total assets. Capital asset additions totaled \$313.7 million, \$416.8 million and \$259.3 million in fiscal years 2013, 2012 and 2011, respectively, while depreciable capital asset disposals, net of accumulated depreciation, amounted to \$6.8 million, \$15.6 million and \$13 million, respectively. No projects were transferred by DAGS to the University in fiscal years 2013, 2012 or 2011. Purchases of equipment, including information technology, amounted to approximately \$18.2 million, \$27.4 million and \$19.7 million and purchases of library materials amounted to approximately \$2.3 million, \$2.5 million and \$3.1 million during fiscal years 2013, 2012 and 2011, respectively.

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.

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Significant capital projects completed during fiscal year 2013, 2012 and 2011 or in progress as of June 30, 2013, 2012 and 2011 included:

- **University of Hawai'i Hilo Science and Technology Building** – On August 2, 2011, a blessing and dedication was held for the University of Hawai'i at Hilo's ("UH-Hilo") new Sciences and Technology Building. The \$25 million building spans more than 42,000 square feet and fulfills the need for additional classrooms, office space, and new state-of-the-art laboratories for UH-Hilo's expanding physics, astronomy and chemistry programs. Key features of the building are an auditorium that seats in excess of 140 along with smaller rooms that accommodate 24 to 60 seats. In addition to tenant programs, the building's facilities accommodates classes in biology, math, geography, history and communications and serves more than 1,700 students daily in various classroom venues.
- **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.
- **University of Hawai'i at West O'ahu** ("UH-West O'ahu") – The new 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 strives to achieve LEED 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.
- **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, water and sewage. The Community Colleges will also incorporate photovoltaic energy to each campus through new projects, such as 'Ike Le'a (UHMC), Hale Aloha (Hawaii 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.
- **Windward Community College Library Learning Commons** – The grand opening of the Library and Learning Commons on the Windward Community College campus took place on August 29, 2012. The \$26 million project was completed on June 5, 2012 and has been designed to incorporate the use of alternate energy sources. The three-story 69,000 square foot building receives electricity through photovoltaic panels, and the windows and skylights provide the Library and Learning commons with the opportunity to take advantage of natural sunlight. The Library and Learning Commons, which is named Hale La'akea (Hall of Enlightenment), houses the college's library, a coffee shop, study centers and classrooms.

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- **University of Hawai'i at Mānoa Campus Center Renovations and Expansion Project** – The \$46 million project includes the addition of a two-story Recreation Center along with renovations to Campus Center and Hemenway Hall. The Recreation Center will include 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.
- **University of Hawai'i at Mānoa Information Technology Center Project** – The ground breaking for the Information Technology Center took place on February 3, 2012. The \$37 million center will be six stories tall with approximately 74,000 square feet of floor space and is required to receive at least a silver LEED certification. Currently the main data center which provides internet access for all UH campuses and State of Hawai'i offices (including Civil Defense) is housed by the University of Hawai'i at Mānoa in separate buildings. The Information Technology Center will be equipped with an emergency situation room and will allow the entire system-wide Information Technology Department to come together in one main building.
- **Ka Haka 'Ula O Ke'elikolani College of Hawaiian Language** – A bilingual blessing and groundbreaking was held on February 11, 2011 for the \$20 million permanent College of Hawaiian Language facilities at the UH-Hilo campus. The project involves the construction of a two-story concrete and steel structure with an approximate building floor area of 36,800 square feet. The project will be required to achieve LEED silver certification or better. The featured space for this 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.
- **University of Hawai'i at Hilo's University Village** – A dedication ceremony for the first phase of the University Village, Hale 'Alahonua was held in August 2013. The \$32.5 million student housing facility will be comprised of two bedroom/one bath apartments. This new student housing is located across the street of the main campus and will be used to house approximately 300 sophomores, so that freshman students can be housed on campus. 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. The second phase of the University Village is to create a commercial area for the students in which to work and play.
- **University of Hawai'i at Mānoa Center for Life Science Research and Teaching** – The University of Hawai'i at Mānoa Center for Life Science Research and Teaching will be completed in a two-step process involving a \$15 million renovation to Edmondson Hall and a \$35 million renovation to Snyder Hall. The newly renovated Edmondson Hall opened its doors for Mānoa biology students in August 2013. The building has four main floors; the first two floors are for introductory biology laboratories, while floors three and four are for graduate and faculty research. The renovation of Snyder Hall for microbiology students is underway.

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 2013, 2012 and 2011, 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 2013, 2012 and 2011, \$97.8 million, \$82.5 million and \$72.1 million was appropriated in each year, respectively.

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

At June 30, 2013, 2012 and 2011, revenue bonds payable amounted to \$608.7 million, \$622.9 million and \$637.0 million, respectively. 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. Debt service in fiscal year 2011 amounted to \$31.1 million, consisting of \$7.3 million of principal and \$23.8 million of interest. Principal reductions during fiscal year 2013, 2012 and 2011 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 2013, 2012 and 2011, 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. In April and June 2013, the Lender advanced \$6,000 and \$10,500, respectively on the Note to the University. 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

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such payments. The Note matures on July 16, 2017, at which time the unpaid principal will be due. As of June 30, 2013, \$16,500 remains outstanding.

Net Position

Net position represents the residual interest in the University's assets after liabilities are deducted. At June 30, 2013, 2012 and 2011, total net position amounted to \$1.9 billion, \$2 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, \$1.3 billion and \$1.2 billion at June 30, 2013, 2012 and 2011, respectively. The \$156.2 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 \$14.2 million decrease in related debt. The \$154.1 million increase in fiscal year 2012, as compared to fiscal year 2011, was primarily attributable to \$416.8 million of capital asset additions, offset by \$91.9 million of depreciation expense, \$15.6 million in net disposals, and \$160.4 million net increase in related debt.

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 \$207.3 million, \$191.5 million and \$184.1 million at June 30, 2013, 2012 and 2011, respectively. The increases of \$15.8 million and \$7.4 million in fiscal years 2013 and 2012, 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, 2013, 2012 and 2011 (in thousands):

	2013	2012	2011
Plant facilities	\$ 320,897	\$ 375,821	\$ 422,226
Donor-restricted activities	178,018	157,600	151,016
Loan activities	15,307	25,020	26,826
External sponsor activities	12,362	15,903	13,695
	<u>\$ 526,584</u>	<u>\$ 574,344</u>	<u>\$ 613,763</u>

In fiscal year 2013, the overall decrease of \$47.8 million in restricted expendable net position was primarily attributable to a decrease of approximately \$54.9 million in plant facilities, which is a direct result of the decrease in unspent capital appropriations. In fiscal year 2012, the overall decrease of \$39.4 million in restricted expendable net position was primarily attributable to a decrease of \$46.5 million in plant facilities and offset by an increase in donor-restricted activities of \$6.6 million and external sponsor activities of \$2.2 million.

Net position that is not subject to externally imposed restrictions governing their use is classified as unrestricted for financial reporting purposes. At June 30, 2012, 2011 and 2010, unrestricted net position amounted to a deficit \$288.8 million, deficit \$130.1 million and positive \$5.5 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 \$36.0 million, \$31.1 million and \$37.1 million were designated for endowment activities at June 30, 2013, 2012 and 2011, respectively.

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The reduction in unrestricted net position for the fiscal years ended June 30, 2013, 2012 and 2011 is 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 is paid on a "pay as you go" basis, which will result in the OPEB liability growing substantially each year. As a result, despite total assets of the University growing each year, unrestricted net position will continue to decline due to recognition of the OPEB liability. The University's share of the OPEB liability as of June 30, 2013, 2012 and 2011 was \$514.4 million, \$413.5 million and \$318.1 million, respectively. Annual required OPEB contribution payments, on a "pay as you go" basis, towards this liability are 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, 2013, 2012 and 2011, summarized to match revenues supporting core activities with expenses associated with core activities, are as follows (in thousands of dollars):

	2013		2012		2011		Increase (Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	FY 13 vs 12	FY 12 vs 11
Revenues								
Operating								
Tuition and fees	\$ 362,175	27.7%	\$ 349,421	27.5%	\$ 319,772	24.6%	\$ 12,754	\$ 29,649
Less: Scholarship allowances	(120,364)	-9.2%	(112,350)	-8.8%	(95,915)	-7.4%	(8,014)	(16,435)
Grants and contracts	482,619	36.8%	476,231	37.5%	502,414	38.6%	6,388	(26,183)
Sales and services	139,587	10.7%	136,899	10.8%	141,795	10.9%	2,688	(4,896)
Other revenue	2,989	0.2%	3,107	0.3%	3,063	0.2%	(118)	44
Total operating revenues	<u>867,006</u>	<u>66.2%</u>	<u>853,308</u>	<u>67.3%</u>	<u>871,129</u>	<u>66.9%</u>	<u>13,698</u>	<u>(17,821)</u>
Non-operating								
State appropriations	374,280	28.6%	375,754	29.5%	359,077	27.6%	(1,474)	16,677
Net investment income (expense)	32,206	2.5%	1,272	0.1%	47,307	3.6%	30,934	(46,035)
Private gifts	35,206	2.7%	40,031	3.1%	24,703	1.9%	(4,825)	15,328
Total non-operating revenues	<u>441,692</u>	<u>33.8%</u>	<u>417,057</u>	<u>32.7%</u>	<u>431,087</u>	<u>33.1%</u>	<u>24,635</u>	<u>(14,030)</u>
Total revenues supporting core activities	<u>1,308,698</u>	<u>100.0%</u>	<u>1,270,365</u>	<u>100.0%</u>	<u>1,302,216</u>	<u>100.0%</u>	<u>38,333</u>	<u>(31,851)</u>
Expenses								
Operating								
Compensation and benefits	1,049,129	70.0%	1,027,243	70.9%	1,007,237	73.1%	21,886	20,006
Supplies, services and cost of goods sold	252,203	16.8%	235,678	16.3%	218,469	15.8%	16,525	17,209
Telecom and utilities	79,796	5.3%	80,852	5.6%	62,398	4.5%	(1,056)	18,454
Scholarships and fellowships	51,414	3.4%	51,760	3.6%	53,411	3.9%	(346)	(1,651)
Other expense	108,985	7.3%	117,922	8.1%	93,437	6.8%	(8,937)	24,485
Total operating expenses	<u>1,541,527</u>	<u>102.8%</u>	<u>1,513,455</u>	<u>104.5%</u>	<u>1,434,952</u>	<u>104.1%</u>	<u>28,072</u>	<u>78,503</u>
Non-operating (revenues) expenses								
Transfers (from) to State, net	(172,757)	-11.5%	(179,495)	-12.4%	(163,992)	-11.9%	6,738	(15,503)
Interest expense	23,553	1.6%	22,500	1.6%	22,244	1.6%	1,053	256
Total non-operating (revenues) expenses	<u>(149,204)</u>	<u>-9.9%</u>	<u>(156,995)</u>	<u>-10.8%</u>	<u>(141,748)</u>	<u>-10.3%</u>	<u>7,791</u>	<u>(15,247)</u>
Expenses associated with core activities before depreciation	<u>1,392,323</u>	<u>-</u>	<u>1,356,460</u>	<u>-</u>	<u>1,293,204</u>	<u>-</u>	<u>35,863</u>	<u>63,256</u>
Income (loss) from core activities before depreciation	<u>(83,625)</u>	<u>-</u>	<u>(86,095)</u>	<u>-</u>	<u>9,012</u>	<u>-</u>	<u>2,470</u>	<u>(95,107)</u>
Depreciation	106,631	7.1%	91,933	6.3%	85,591	6.2%	14,698	6,342
Expenses associated with core activities including depreciation	<u>1,498,954</u>	<u>100.0%</u>	<u>1,448,393</u>	<u>100.0%</u>	<u>1,378,795</u>	<u>100.0%</u>	<u>50,561</u>	<u>69,598</u>
Loss from core activities	<u>(190,256)</u>	<u>-</u>	<u>(178,028)</u>	<u>-</u>	<u>(76,579)</u>	<u>-</u>	<u>\$ (12,228)</u>	<u>\$ (101,449)</u>
Other nonoperating activity								
Capital gifts and grants	147,772		169,291		217,673			
Permanent endowment	14,670		8,754		12,315			
Other revenue (expenses) net	<u>(6,584)</u>		<u>(13,539)</u>		<u>(13,711)</u>			
Other nonoperating income, net	<u>155,858</u>		<u>164,506</u>		<u>216,277</u>			
Increase (decrease) in net position	<u>(34,398)</u>		<u>(13,522)</u>		<u>139,698</u>			
Net position								
Beginning of year	<u>1,972,123</u>		<u>1,985,645</u>		<u>1,845,947</u>			
End of year	<u>\$ 1,937,725</u>		<u>\$ 1,972,123</u>		<u>\$ 1,985,645</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 \$4.7 million, or 2.0 percent, to \$241.8 million in fiscal year 2013, and increased by \$13.2 million, or 5.9 percent, to \$237.1 million in fiscal year 2012. Scholarship allowances amounted to \$120.4 million, \$112.4 million and \$95.9 million in fiscal year 2013, 2012 and 2011, respectively. For fiscal year 2013, the increase in tuition and fees revenue and scholarship allowances are primarily attributable to increase in tuition and fee rate increases. For fiscal year 2012, the increases in tuition and fees revenue and scholarship allowances are primarily attributable to increased enrollment at the UH-Hilo and UH-West O'ahu and undergraduate resident tuition and fee rate increases for all campuses ranging from 9.6 percent to 12.4 percent.

Revenues from federal, state and local grants and contracts and nongovernmental sponsored programs increased by \$6.4 million, or 1.3 percent to \$482.6 million in fiscal year 2013, and decreased by \$26.2 million, or 5.2 percent to \$476.2 in fiscal year 2012. The fiscal year 2013 net increase was attributable to a \$0.8 million increase 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. The fiscal year 2012 net decrease was attributable to a \$19.0 million decrease in federal grants and contracts and a \$10.2 million decrease in nongovernmental sponsored programs, offset by a \$3.0 million increase in local grants and contracts.

Sales and services revenues, which are mainly comprised of bookstores, student and faculty housing, food services, parking and athletics, increased by \$2.7 million, or 2.0 percent, to \$139.6 million in fiscal year 2013, and decreased by \$4.9 million, or 3.5 percent, to \$136.9 million in fiscal year 2012.

General state appropriations decreased by \$1.5 million, or 0.4 percent, to \$374.3 million in fiscal year 2013, and increased by \$16.7 million, or 4.7 percent, to \$375.8 million in fiscal year 2012. The increase in fiscal year 2012 was mainly attributable to an increase of \$22 million to restore American Recovery and Reinvestment Act ("ARRA") federal stabilization funds previously provided by the Legislature and the Governor which ended on September 30, 2011 offset by a \$3 million reduction of University's general funds from legislative appropriations and gubernatorial restrictions.

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. The University's net investment income for fiscal year 2012, as compared to fiscal year 2011, decreased by \$46.0 million, resulting in net investment income of \$1.3 million. The fiscal year 2012 decrease was mainly due to \$47.4 million decrease in net unrealized gains and a \$1.2 million decrease in interest and dividend income, offset by a \$3.8 million increase in net realized gains.

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The components of net investment income for the years ended June 30, 2013, 2012 and 2011 were as follows (in thousands):

	2013	2012	2011	Increase (Decrease)	
				FY 13-12	FY 12-11
Interest and dividend income	\$ 9,046	\$ 9,408	\$ 10,551	\$ (362)	\$ (1,143)
Net realized gains (losses)	4,878	7,052	3,209	(2,174)	3,843
Net unrealized gains (losses)	19,102	(12,494)	34,931	31,596	(47,425)
Other, net	(820)	(2,694)	(1,384)	1,874	(1,310)
	<u>\$ 32,206</u>	<u>\$ 1,272</u>	<u>\$ 47,307</u>	<u>\$ 30,934</u>	<u>\$ (46,035)</u>

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 increase was primarily attributable to an increase in unrealized gains. Private gifts, most of which are restricted as to use, increased by \$15.3 million, or 61.9 percent, to \$40.0 million in fiscal year 2012 when compared to \$24.7 million in fiscal year 2011. The fiscal year 2012 increase was primarily attributable to various private gifts given to the Foundation. 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 68.1 percent during fiscal year 2013, 67.9 percent during fiscal year 2012, and 70.2 percent during fiscal year 2011 were related to compensation and benefits.

Compensation and benefits increased by \$21.9 million, or 2.1 percent, to \$1,049.1 million in fiscal year 2013 as compared to fiscal year 2012, and increased by \$20.0 million, or 2.0 percent, to \$1,027.2 million in fiscal year 2012 as compared to fiscal year 2011. The fiscal year 2013 increase was attributable to the recognition of additional postretirement health and life insurance benefits during the year and an increase in the number of employees. The University recognized \$142.6 million, \$136.1 million and \$150.6 million related to postretirement health and life insurance benefits in fiscal year 2013, 2012 and 2011, respectively. The fiscal year 2012 increase was due to the restoration of pay for the faculty and an increase in the number of employees.

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 2013, such expenses increased by \$16.5 million, or 7.0 percent, to \$252.2 million as compared to fiscal year 2012. In fiscal year 2012, such expenses increased by \$17.2 million, or 7.9 percent, to \$235.7 million as compared to fiscal year 2011. 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.

Telecom and utilities expenses decreased by \$1.1 million, or 1.3 percent, to \$79.8 million in fiscal year 2013, and increased by \$18.5 million, or 29.6 percent, to \$80.9 million in fiscal year 2012. The increase in fiscal year 2012 was principally due to increases in utility rates and consumption system-wide and expenditures to upgrade the telecom system on the Mānoa campus.

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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 \$7.7 million, or 4.7 percent, to \$171.8 million in fiscal year 2013 as compared to the prior fiscal year 2012. Total aid to students increased by \$14.8 million, or 9.9 percent, to \$164.1 million in fiscal year 2012 as compared to the prior fiscal year 2011. 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 \$14.7 million, or 16.0 percent, to \$106.6 million during fiscal year 2013 as compared to fiscal year 2012, and increased by \$6.3 million, or 7.4 percent, to \$91.9 million during fiscal year 2012 as compared to fiscal year 2011. The increase in 2013 and 2012 was primarily attributable to depreciation, building and equipment additions, and reclassifications from construction in progress.

Transfers from State amounted to \$172.8 million, \$179.5 million and \$164 million in fiscal year 2013, 2012 and 2011, 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 – September 30, 2009	2.0 cents per cigarette
October 1, 2009 – September 30, 2010	2.0 cents per cigarette
October 1, 2010 – September 30, 2011	2.0 cents per cigarette
October 1, 2011 – 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 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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In fiscal year 2012, capital gifts and grants, including state capital appropriations and transfers, decreased by \$48.4 million, or 22.2 percent, to \$169.3 million compared to \$217.7 million in fiscal year 2011. During fiscal year 2012, the University transferred \$0.4 million to the Hawai'i State Foundation on culture and the Arts. The State of Hawai'i appropriated \$137.4 million to the University for building renovations and other capital improvement projects on all campuses throughout the University system. Other capital gifts and grants during fiscal year 2012 included federal capital grants of \$29.9 million and private capital gifts and grants of \$2.1 million.

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, 2013, 2012 and 2011 is as follows (in thousands):

	2013	2012	2011	FY 13 vs. 12 Change	FY 12 vs. 11 Change
Cash received from operations	\$ 852,572	\$ 853,488	\$ 864,124	\$ (916)	\$ (10,636)
Cash payments for operations	(1,338,206)	(1,218,760)	(1,171,869)	(119,446)	(46,891)
Net cash used in operating activities	(485,634)	(365,272)	(307,745)	(120,362)	(57,527)
Net cash provided by noncapital financing activities	433,258	445,554	413,828	(12,296)	31,726
Net cash provided by (used in) capital and related financing activities	(110,101)	(228,103)	161,848	118,002	(389,951)
Net cash provided by (used in) investing activities	185,614	131,679	(243,253)	53,935	374,932
Net (decrease) increase in cash	23,137	(16,142)	24,678	39,279	(40,820)
Cash					
Beginning of year	55,567	71,709	47,031	(16,142)	24,678
End of year	\$ 78,704	\$ 55,567	\$ 71,709	\$ 23,137	\$ (16,142)

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, \$485.6 million in cash was used for operating activities, offset by \$433.3 million in cash provided by noncapital financing activities. The University's cash and cash equivalents decreased by \$16.1 million, or 22.5 percent, to \$55.6 million at June 30, 2012 from \$71.7 million at June 30, 2011. During fiscal year 2012, \$365.3 million in cash was used for operating activities, offset by \$445.6 million in cash provided by noncapital financing activities.

Net cash used in capital and related financing activities amounted to \$110.1 million and \$228.1 million in fiscal years 2013 and 2012, respectively, net cash provided by capital and related financing activities amounted to \$161.8 million in fiscal year 2011. 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 \$93.6 million. The \$390.0 million decrease in net cash provided by capital and related financing activities in fiscal year 2012 as compared to fiscal year 2011 was primarily attributable to \$289.0 million in proceeds from capital debt issuance in fiscal year 2011 and an increase of \$146.0 million in capital assets purchases in fiscal year 2012.

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Looking Forward

Looking toward the future, the state economy continues to improve. The visitor and construction industries are growing and the unemployment rate is declining. While caution is being exercised in light of federal program cutbacks as well as unresolved issues regarding federal deficit reduction and debt limits and European economic uncertainties, management believes that the University is well-positioned to maintain its solid financial condition and level of excellence in service to students, the research community, and the State of Hawai'i.

Enrollment and Tuition

System-wide enrollment slightly decreased from previous years with 58,941 students in fall 2013 as compared to 60,295 in the prior year, as the sluggish economy in the State of Hawai'i and the country continues to improve employment opportunities. Fiscal year 2012 was the last year of the University's six-year tuition increase plan which was approved by the Board of Regents in 2005. On October 26, 2011, the University's Board of Regents approved a new tuition increase schedule for Fall 2012 through Spring 2017. This new schedule provides 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.

Extramural Funds

In fiscal year 2013, the University secured extramural research and training awards totaling approximately \$409 million. This represents the fifth consecutive year the University exceeded \$400 million awards secured as the University's research programs and faculty continue to compete successfully for contracts and grants despite decreases in federal funding at the national level.

Facilities and Infrastructure

The University has a strong commitment to its core facilities and infrastructure. General obligation bond funded capital improvement program appropriations for the 2011–2013 and 2009–2011 fiscal biennia were approximately \$276 million and \$382 million, respectively. In addition, the Hawai'i State Legislature has appropriated \$174 million in general obligation bond funded capital improvements for fiscal year 2014. Further, the Board of Regents has approved a budget request for consideration of the Governor and the Legislature for fiscal year 2015 which includes \$212 million in revenue bond authorization as part of a plan to address deferred maintenance throughout the university system.

Fundraising

In 2009, the University concluded its Centennial Campaign, which was the most ambitious fundraising campaign in the University's history. The campaign attracted 90,000 donors, 50,000 of whom were new contributors, and raised \$282 million, far surpassing the initial goal of \$250 million. The next major fundraising effort, a seven year campaign, began its "quiet phase" on July 1, 2011. In fiscal year 2013, the University raised \$66.3 million as compared to \$46.7 million and \$66.9 million in fiscal years 2011 and 2012, respectively. In 2013, more than 30,000 gifts from nearly 26,000 donors were received.

State General Fund Appropriations

Due to the unprecedented downturn in the State's economy, and the resulting reductions in the revenue projections for the State by the Council on Revenues, general fund appropriations for fiscal year 2011 were reduced by \$108 million from fiscal year 2009 levels and, in addition, the Governor restricted approximately \$1.5 million of those general funds for fiscal year 2011. For fiscal year 2012, legislative appropriations and gubernatorial actions further reduced the University's general funds by approximately \$3 million, offset by an increase in general funds of \$22 million to restore ARRA federal stabilization funds previously provided by the Legislature and the Governor which ended on September 30, 2011. In fiscal year 2013, after a gubernatorial restriction of approximately \$3.3 million, general fund appropriations decreased by approximately \$1.5 million. For fiscal year 2014, the legislature has increased the

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University's general fund appropriation by approximately \$9 million. Future general fund appropriations are dependent upon the Legislature and Council of Revenues projections. The University's campuses continue to plan for and implement measures to deal with the above level of general funds and to provide the necessary resources to support and fund its operations and enrollment.

New Campuses

UH-West Oahu's new campus in Kapolei opened in the Fall of 2012. Opening enrollment for Fall 2012 increased by 20.2% over the previous year and Fall 2013 opening enrollment increased by another 15.4% over Fall 2012.

The University of Hawai'i and the Hawai'i Island community broke ground on the long anticipated Hawai'i Community College Pāalamanui in Kona on May 28, 2013. With the opening of UH-West Oahu's Kapolei campus, West Hawai'i is the only major community without a permanent higher education facility. Pāalamanui 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.

Hawai'i Graduation Initiative and 15 to Finish Campaign

Hawai'i Graduation Initiative ("HGI") is a system-wide strategic initiative that focuses on increasing the number of educated citizens within the state. HGI is aligned with the Hawai'i P-20 goal to increase the number of working age adults in the state who hold a degree to 55% by 2025. In support of this goal, the UH campuses have increased the number of degrees and certificates awarded by 27% since 2008. The number of transfers from two-year to four-year campuses has increased by 30% in the same time period.

15 to Finish is a campaign within the University of Hawai'i's Hawai'i Graduation Initiative. The campaign 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. The campaign has garnered national attention. In Fall 2012, there was a 14.7 percent increase in the number of undergraduate students taking 15 credits or more system-wide from the previous fall. Because of these and other measures, Hawai'i was one of only three states chosen by Complete College America for an academy to develop next steps and specific strategies to improve college completion outcomes.

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 plans to drive the growth of the industry by hiring and developing top scientists in focused areas over the next decade, and by expanding its capacity for discoveries and new knowledge to be transferred into the economy through license disclosures, patents, and spin-offs that create new jobs for Hawai'i's citizens.

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

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

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June 30, 2013 and 2012

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 gets underway.

University of Hawai'i
State of Hawai'i
Consolidated Statements of Net Position
June 30, 2013 and 2012
(All dollars reported in thousands)

	2013	2012
Assets		
Current assets		
Cash and cash equivalents	\$ 78,704	\$ 55,567
Operating investments	298,841	392,779
Due from State of Hawai'i	329	439
Accounts receivable, net	96,109	77,603
Current portion of notes and contributions receivable, net	15,266	16,275
Accrued interest receivable	680	795
Inventories	12,288	12,716
Prepaid expenses, deferred charges and other current assets	24,013	10,391
Total current assets	<u>526,230</u>	<u>566,565</u>
Noncurrent assets		
Due from State of Hawai'i	338,108	395,841
Endowment and other investments	468,120	526,663
Notes and contributions receivable, net	24,637	23,544
Capital assets, net	2,027,120	1,826,937
Other noncurrent assets	23,157	23,874
Total noncurrent assets	<u>2,881,142</u>	<u>2,796,859</u>
Total assets	<u>\$ 3,407,372</u>	<u>\$ 3,363,424</u>
Liabilities and Net Position		
Current liabilities		
Accounts payable	\$ 76,431	\$ 104,809
Accrued payroll and fringe benefits	54,835	53,670
Advances from sponsors	35,202	32,424
Deferred revenue	38,497	36,816
Due to State of Hawai'i	6,303	6,261
Current portion of long-term liabilities	47,369	46,959
Other current liabilities	11,117	9,271
Total current liabilities	<u>269,754</u>	<u>290,210</u>
Noncurrent liabilities		
Accrued vacation	43,550	47,162
Accrued workers' compensation	9,277	9,606
Other postemployment benefits	514,364	413,462
Due to State of Hawai'i	555	722
Revenue bonds payable	593,930	608,670
Premium on bonds payable	4,703	5,625
Note payable	16,500	-
Other noncurrent liabilities	17,014	15,844
Total noncurrent liabilities	<u>1,199,893</u>	<u>1,101,091</u>
Total liabilities	<u>1,469,647</u>	<u>1,391,301</u>
Commitments and contingencies		
Net position		
Net investment in capital assets	1,492,599	1,336,377
Restricted		
Nonexpendable	207,338	191,532
Expendable	526,584	574,344
Unrestricted	(288,796)	(130,130)
Total net position	<u>1,937,725</u>	<u>1,972,123</u>
Total liabilities and net position	<u>\$ 3,407,372</u>	<u>\$ 3,363,424</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, 2013 and 2012
(All dollars reported in thousands)

	2013	2012
Operating revenues		
Student tuition and fees	\$ 362,175	\$ 349,421
Less: Scholarship allowances	120,364	112,350
Net student tuition and fees	<u>241,811</u>	<u>237,071</u>
Federal appropriations, grants and contracts	420,631	419,847
State and local grants and contracts	28,946	21,353
Nongovernmental sponsored programs	33,042	35,031
Sales and services of educational departments, other	54,105	49,426
Auxiliary enterprises		
Bookstores	26,812	28,564
Student housing (net of scholarship allowances of \$1,996 and \$1,603)	26,438	25,072
Other auxiliary enterprises revenues	32,232	33,837
Other operating revenues	<u>2,989</u>	<u>3,107</u>
Total operating revenues	<u>867,006</u>	<u>853,308</u>
Operating expenses		
Compensation and benefits	1,049,129	1,027,243
Supplies, services and cost of goods sold	252,203	235,678
Depreciation	106,631	91,933
Telephone and utilities	79,796	80,852
Scholarships and fellowships	51,414	51,760
Travel expenses	33,653	33,210
Repairs and maintenance	24,606	23,845
Rental expenses	14,310	13,653
Other operating expenses	<u>36,416</u>	<u>47,214</u>
Total operating expenses	<u>1,648,158</u>	<u>1,605,388</u>
Operating loss	<u>(781,152)</u>	<u>(752,080)</u>
Nonoperating revenues (expenses)		
State appropriations	374,280	375,754
Private gifts	35,206	40,031
Net investment income	32,206	1,272
Interest expense	(23,553)	(22,500)
Net transfers from (to) State of Hawai'i for		
Fringe benefits	142,859	142,783
Tobacco settlement	2,736	2,742
Interest on Tobacco settlement	(10)	(12)
Restrictions	-	(67)
Hawaii Barrel Tax	2,776	4,574
School of Nursing	88	878
University of Hawai'i Cancer Center	6,657	10,950
Loss on disposal of capital assets	(6,845)	(15,610)
Other, net	<u>261</u>	<u>2,071</u>
Net nonoperating revenues before capital and endowment additions (deductions)	<u>566,661</u>	<u>542,866</u>
Capital – state appropriations	128,186	137,388
Capital – federal grants/subsidies	18,528	29,887
Capital – gifts and grants	1,126	2,081
Net transfers from (to) State of Hawai'i for capital assets	(68)	(65)
Transfers from State of Hawai'i, Tobacco settlement	9,926	9,923
Transfers from State of Hawai'i, University of Hawai'i Cancer Center	7,725	7,724
Additions to permanent endowments	<u>14,670</u>	<u>8,754</u>
Total other revenues	<u>180,093</u>	<u>195,692</u>
Net nonoperating revenues	<u>746,754</u>	<u>738,558</u>
Change in net position	<u>(34,398)</u>	<u>(13,522)</u>
Net position		
Beginning of year	<u>1,972,123</u>	<u>1,985,645</u>
End of year	<u>\$ 1,937,725</u>	<u>\$ 1,972,123</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, 2013 and 2012
(All dollars reported in thousands)

	2013	2012
Cash flows from operating activities		
Student tuition and fees	\$ 238,851	\$ 232,728
Grants and contracts	474,517	474,413
Other revenues	139,204	146,347
Payments to employees	(807,843)	(778,574)
Payments to suppliers and other	(478,949)	(388,426)
Payments for scholarships and fellowships	(51,414)	(51,760)
Net cash used in operating activities	<u>(485,634)</u>	<u>(365,272)</u>
Cash flows from noncapital financing activities		
State appropriations	374,390	377,251
Gifts and grants for other than capital purposes	46,587	49,242
Transfer from State of Hawai'i for		
Hawaii Barrel Tax	2,776	4,574
School of Nursing	88	878
Tobacco Settlement	2,736	2,742
University of Hawai'i Cancer Center	6,657	10,950
Transfers to State of Hawai'i for		
Restrictions	-	(67)
Interest on Tobacco Settlement	(10)	(12)
Other receipts (disbursements)	34	(4)
Net cash provided by noncapital financing activities	<u>433,258</u>	<u>445,554</u>
Cash flows from capital and related financing activities		
Capital appropriations	185,919	159,856
Capital gifts and grants	17,889	30,525
Proceeds from issuance of capital debt	-	9,492
Proceeds from note payable	16,500	-
Purchases of capital assets	(302,717)	(396,286)
Proceeds from pending sale of capital assets	-	5,150
Principal paid on capital debt	(14,399)	(22,861)
Interest paid on capital debt	(30,944)	(31,626)
Transfer from State of Hawai'i, Tobacco settlement	9,926	9,923
Transfer from State of Hawai'i, University of Hawai'i Cancer Center	7,725	7,724
Net cash used in capital and related financing activities	<u>(110,101)</u>	<u>(228,103)</u>
Cash flows from investing activities		
Interest and dividends on investments, net	8,743	8,105
Proceeds from sales and maturities of investments	1,264,619	1,526,053
Purchase of investments	(1,087,748)	(1,402,479)
Net cash provided by investing activities	<u>185,614</u>	<u>131,679</u>
Net increase (decrease) in cash and cash equivalents	23,137	(16,142)
Cash and cash equivalents		
Beginning of year	55,567	71,709
End of year	<u>\$ 78,704</u>	<u>\$ 55,567</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, 2013 and 2012
(All dollars reported in thousands)

	2013	2012
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (781,152)	\$ (752,080)
Adjustments to reconcile operating loss to net cash used in operating activities		
On behalf payments by State for fringe benefits	142,859	142,783
Depreciation expense	106,631	91,933
Bad debt expense, net	4,025	16,932
Changes in operating assets and liabilities		
Accounts receivable	(19,550)	2,228
Notes and contributions receivable	726	168
Inventories	428	238
Prepaid expenses and other assets	(13,555)	(984)
Accounts payable	(31,690)	30,678
Accrued payroll and benefits	(2,705)	8,471
Accrued workers' compensation liability	(187)	1,697
Advances from sponsors	2,778	(5,075)
Other postemployment benefits	100,902	95,319
Other, net	4,856	2,420
Net cash used in operating activities	<u>\$ (485,634)</u>	<u>\$ (365,272)</u>
Supplemental information of noncash transactions		
Noncash contributions	\$ 10,263	\$ 5,335
Net transfers from (to) State of Hawai'i for capital assets	(68)	(65)
Accounts payable for capital assets	29,254	53,326

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

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Notes to Consolidated Financial Statements
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1. Organization and Summary of Significant Accounting Policies

Financial Reporting Entity

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

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

Similarly, the University is fiscally dependent upon the State of Hawai'i (the "State") and therefore, the State is financially accountable for the University as defined by GASB Statement No. 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.

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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 doubtful accounts 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 2 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 \$30,311 and \$29,907 for the years ended June 30, 2013 and 2012, respectively, of which capitalized interest as a cost of construction amounted to \$6,758 and \$7,407, 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
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(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.

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.

Deferred Revenue

Deferred 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. The University defers recognition of bond refunding and issuance costs, and amortizes these costs, as well as the premiums on bonds payable, over the life of the bonds using the effective interest rate method.

Net Position

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

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

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

Net Position Restricted by Enabling Legislation

GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34*, requires that limitations on the use of net position imposed by enabling legislation be reported as restricted net position. GASB Statement No. 46 also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Restricted net position at June 30, 2013 and 2012 amounted to \$733,922 and \$765,876, respectively, of which \$313,750 and \$530,727 were restricted by enabling legislation for capital activity.

Operating and Nonoperating Activities

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

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

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

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

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

Scholarships and Fellowships

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

State Appropriations

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

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(All dollars reported in thousands)

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 doubtful accounts, 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 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 doubtful accounts 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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Notes to Consolidated Financial Statements
June 30, 2013 and 2012
(All dollars reported in thousands)

Reclassifications

Certain amounts in the 2012 consolidated financial statements have been reclassified to conform to the 2013 presentation. Such reclassifications have no impact on the 2012 change in net position as previously reported, however did impact operating loss and net nonoperating revenues.

	2012 As Previously Reported	Reclassification	2012 Revised
Current assets			
Accounts receivable, net	\$ 78,862	\$ (1,259)	\$ 77,603
Total assets	3,364,683	(1,259)	3,363,424
Current liabilities			
Accounts payable	106,068	(1,259)	104,809
Total liabilities	1,392,560	(1,259)	1,391,301
Operating revenues			
State and local grants and contracts	40,647	(5,616)	35,031
Total operating revenues	858,924	(5,616)	853,308
Operating expenses			
Compensation and benefits	1,032,859	(5,616)	1,027,243
Supplies, services and cost of goods sold	233,439	2,239	235,678
Other operating expenses	54,554	(7,340)	47,214
Total operating expenses	1,616,105	(10,717)	1,605,388
Operating loss	(757,181)	5,101	(752,080)
Nonoperating revenues (expenses)			
Other, net	7,172	(5,101)	2,071
Net nonoperating revenues before capital and endowment additions (deductions)	547,967	(5,101)	542,866
Net nonoperating revenues	743,659	(5,101)	738,558
Cash flows from operating activities			
Net cash used in operating activities	(370,373)	5,101	(365,272)
Cash flows from noncapital financing activities			
Net cash provided by noncapital financing activities	440,980	4,574	445,554
Cash flows from capital and related financing activities			
Net cash used in capital and related financing activities	(218,428)	(9,675)	(228,103)

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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, 2013 and 2012, classified as cash and cash equivalents and operating investments, were \$302,424 and \$347,481, with corresponding bank balances of \$303,073 and \$365,929, 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 \$300,182 at June 30, 2013 and \$361,173 at June 30, 2012. Additional cash equivalent balances of \$7,478 at June 30, 2013 and \$7,305 at June 30, 2012 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 declines, the fair market value of certain donor-restricted endowments was less than the historical cost of such funds by \$5,066 and \$8,445 at June 30, 2013 and 2012, 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 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 2013 and 2012, 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 2013 and 2012 approximated \$1,500 and \$1,600, respectively.

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At June 30, 2013 and 2012, the University's investments were comprised of the following:

	2013		2012	
	Fair Value	Cost	Fair Value	Cost
Money market funds	\$ 65,243	\$ 65,243	\$ 47,849	\$ 47,849
Fixed income securities	193,744	195,814	306,213	304,254
Equity securities	21,375	17,639	18,805	17,571
Mutual funds	111,965	107,339	79,143	76,990
Time certificates of deposit	224,011	224,011	292,008	292,008
Student loan auction rate securities	-	-	25,500	25,500
Limited partnerships	49,639	32,104	53,127	47,070
Absolute return	19,833	16,593	21,459	19,736
Real estate	25,336	25,023	24,346	25,268
Other investments	55,815	48,540	50,992	47,350
Total investments	766,961	732,306	919,442	903,596
Less: Current portion	298,841	292,552	392,779	392,404
Total noncurrent investments	\$ 468,120	\$ 439,754	\$ 526,663	\$ 511,192

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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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Changes in the University's investments for the year ended June 30, 2012 were as follows:

	Fair Value	Cost Basis	Net Unrealized Gain (Loss)	Net Realized Gain (Loss)
University Endowment Pool				
End of year	\$ 56,282	\$ 53,993	\$ 2,289	
Beginning of year	<u>57,536</u>	<u>53,809</u>	<u>3,727</u>	
Net change	<u>(1,254)</u>	<u>184</u>	<u>(1,438)</u>	\$ 894
Foundation Endowment Pool				
End of year	201,316	189,275	12,041	
Beginning of year	<u>208,010</u>	<u>186,199</u>	<u>21,811</u>	
Net change	<u>(6,694)</u>	<u>3,076</u>	<u>(9,770)</u>	4,798
Associated Students of the University of Hawai'i				
End of year	6,607	6,273	334	
Beginning of year	<u>6,982</u>	<u>6,107</u>	<u>875</u>	
Net change	<u>(375)</u>	<u>166</u>	<u>(541)</u>	198
School of Medicine				
End of year	9,087	9,084	3	
Beginning of year	<u>11,661</u>	<u>11,638</u>	<u>23</u>	
Net change	<u>(2,574)</u>	<u>(2,554)</u>	<u>(20)</u>	4
University Bond System				
End of year	171,290	171,405	(115)	
Beginning of year	<u>322,431</u>	<u>322,335</u>	<u>96</u>	
Net change	<u>(151,141)</u>	<u>(150,930)</u>	<u>(211)</u>	(130)
Operating investments				
End of year	367,279	366,904	375	
Beginning of year	<u>330,936</u>	<u>330,315</u>	<u>621</u>	
Net change	<u>36,343</u>	<u>36,589</u>	<u>(246)</u>	75
Auction rate securities				
End of year	25,500	25,500	-	
Beginning of year	<u>48,350</u>	<u>48,350</u>	<u>-</u>	
Net change	<u>(22,850)</u>	<u>(22,850)</u>	<u>-</u>	-
Other				
End of year	82,081	81,455	626	
Beginning of year	<u>64,587</u>	<u>63,693</u>	<u>894</u>	
Net change	<u>17,494</u>	<u>17,762</u>	<u>(268)</u>	1,213
Total investments				
End of year	919,442	903,889	15,553	
Beginning of year	<u>1,050,493</u>	<u>1,022,446</u>	<u>28,047</u>	
Net change	<u>\$ (131,051)</u>	<u>\$ (118,557)</u>	<u>\$ (12,494)</u>	<u>\$ 7,052</u>

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	2013	2012
Summary of net investment income		
Change in unrealized net gain (loss)	\$ 19,102	\$ (12,494)
Net realized gain	4,878	7,052
	<u>23,980</u>	<u>(5,442)</u>
Interest and dividend income	9,011	9,230
Other	711	(910)
	<u>33,702</u>	<u>2,878</u>
Less: Management fees	1,496	1,606
	<u>\$ 32,206</u>	<u>\$ 1,272</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 composition of fixed income securities at June 30, 2013 and 2012, along with credit quality ratings, is summarized below:

	Fair Value	Credit Quality Rating				
		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
Total fixed income securities	<u>\$ 193,744</u>	<u>\$ 100,046</u>	<u>\$ 81,218</u>	<u>\$ 2,048</u>	<u>\$ 7,068</u>	<u>\$ 3,364</u>

	Fair Value	Credit Quality Rating				
		U.S. Govt-Exempt	AAA	AA	A	BBB
2012						
U.S. Treasury	\$ 195,166	\$ 195,166	\$ -	\$ -	\$ -	\$ -
U.S. government agencies	98,617	-	98,026	302	289	-
Corporate bonds	12,430	-	279	1,827	6,782	3,542
Total fixed income securities	<u>\$ 306,213</u>	<u>\$ 195,166</u>	<u>\$ 98,305</u>	<u>\$ 2,129</u>	<u>\$ 7,071</u>	<u>\$ 3,542</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.

At June 30, 2013, 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	\$ 100,046	\$ 36,076	\$ 59,282	\$ 4,638	\$ 50
U.S. government agencies	81,473	8,290	37,765	20,730	14,688
Corporate bonds	12,225	777	5,853	5,504	91
Total fixed income securities	<u>\$ 193,744</u>	<u>\$ 45,143</u>	<u>\$ 102,900</u>	<u>\$ 30,872</u>	<u>\$ 14,829</u>

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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, 2013 and 2012, the University's exposure to foreign currency risk expressed in U.S. dollars was as follows:

	2013	2012
Equity securities		
Brazilian real	\$ 2,559	\$ 1,146
British pound	8,448	6,587
Canadian dollar	2,014	1,526
Euro	12,316	10,612
Hong Kong dollar	3,050	1,691
Japanese yen	8,001	8,189
Swiss franc	4,094	3,289
Taiwanese dollar	2,050	588
Other (22 countries)	<u>18,529</u>	<u>8,475</u>
	61,061	42,103
Fixed income securities		
Brazilian real	307	340
British pound	376	500
Canadian dollar	600	710
Other (4 countries)	<u>421</u>	<u>884</u>
	<u>1,704</u>	<u>2,434</u>
Total exposure to foreign currency risk	<u>\$ 62,765</u>	<u>\$ 44,537</u>

3. Accounts Receivable

The composition of accounts receivable at June 30, 2013 and 2012 is summarized as follows:

	2013	2012
U.S. government	\$ 60,301	\$ 43,046
State and local government	5,793	6,329
Private agencies	6,764	4,591
Other	<u>47,000</u>	<u>44,631</u>
	119,858	98,597
Less: Allowance for doubtful accounts	<u>23,749</u>	<u>20,994</u>
	<u>\$ 96,109</u>	<u>\$ 77,603</u>

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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 \$46,424 in 2013 and \$47,337 in 2012. During fiscal year 2013, the University expended 97.09 percent of this cost recovery on research and training programs and 2.91 percent on discoveries and inventions. During fiscal year 2012, the University expended 100.00 percent of this cost recovery on research and training programs.

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.

5. Notes and Contributions Receivable

The composition of notes and contributions receivable at June 30, 2013 and 2012 is summarized as follows:

	2013	2012
Student notes		
Federal loan programs	\$ 19,178	\$ 19,271
State loan programs	8,311	8,540
University loan funds	69	70
Other notes receivable	71	104
Total student and other notes outstanding	<u>27,629</u>	<u>27,985</u>
Less: Allowance for doubtful accounts	<u>7,514</u>	<u>6,944</u>
Total student and other notes receivable, net	<u>20,115</u>	<u>21,041</u>
Contributions receivable	20,933	19,896
Less: Allowance for uncollectible pledges	1,045	1,089
Less: Discount to present value	100	29
Total contributions receivable, net	<u>19,788</u>	<u>18,778</u>
Total student notes and contributions receivable, net	39,903	39,819
Less: Current portion, net	15,266	16,275
	<u>\$ 24,637</u>	<u>\$ 23,544</u>

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The allowance for doubtful accounts at June 30, 2013 and 2012 is comprised of:

	2013	2012
Federal Perkins loan program	\$ 4,363	\$ 3,941
State of Hawai'i Higher Education loans	3,062	2,904
Nursing/Health Profession loans	35	33
Hawai'i Educator loans	2	10
Short-term loans	52	56
	<u>\$ 7,514</u>	<u>\$ 6,944</u>

Payments on contributions receivable at June 30, 2013 are expected to be collected in:

Less than one year	\$ 13,312
One year to five years	<u>7,621</u>
	<u>\$ 20,933</u>

The principal repayment and interest rate terms of federal and University loans vary considerably. The allowance for doubtful accounts 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.

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, 2013 and 2012, the University distributed \$2,456 and \$2,509 in student loans through the U.S. Department of Education Federal Perkins Loan, respectively, and \$153,387 and \$149,925 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 \$3,259 and \$4,029 at June 30, 2013 and 2012, 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.

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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, 2013 and 2012 are summarized below:

		2013	2012
University of Hawai'i Bookstore merchandise inventory	Lower of cost or market using the first-in, first-out retail inventory method.	\$ 10,339	\$ 10,434
University of Hawai'i Chemistry Stockroom	Cost applied on the first-in, first-out basis.	1,088	1,138
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.	572	675
University of Hawai'i other inventory	Cost applied on the first-in, first-out basis.	<u>289</u>	<u>469</u>
		<u>\$ 12,288</u>	<u>\$ 12,716</u>

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7. Capital Assets

A summary of capital assets at June 30, 2013 and 2012 is as follows:

	Beginning Balance	Additions	Deductions	Transfers	Ending Balance
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
2012					
Nondepreciable capital assets					
Land	\$ 14,486	\$ -	\$ -	\$ -	\$ 14,486
Construction in progress	268,915	376,603	1,460	(98,231)	545,827
Total capital assets not being depreciated	283,401	376,603	1,460	(98,231)	560,313
Depreciable capital assets					
Land improvements	89,668	500	-	11,846	102,014
Infrastructure	101,502	905	-	5,119	107,526
Buildings	1,545,322	8,899	9,333	63,976	1,608,864
Equipment	322,776	27,410	17,205	17,290	350,271
Library materials	162,971	2,526	8,307	-	157,190
Total capital assets being depreciated	2,222,239	40,240	34,845	98,231	2,325,865
Less: Accumulated depreciation	988,003	91,933	20,695	-	1,059,241
Capital assets, net	\$ 1,517,637	\$ 324,910	\$ 15,610	\$ -	\$ 1,826,937

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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 2013 or 2012.

8. Other Noncurrent Assets

Other noncurrent assets at June 30, 2013 and 2012 were comprised of:

	2013	2012
Interest in beneficial trusts held by others	\$ 13,912	\$ 14,031
Deferred bond refunding and issuance costs (Note 11)	7,073	7,489
Other	<u>2,172</u>	<u>2,354</u>
	<u>\$ 23,157</u>	<u>\$ 23,874</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, 2013 and 2012 were as follows:

	2013		2012	
	Due from	Due to	Due from	Due to
State appropriations for current operations	\$ 329		\$ 439	
State capital appropriations-noncurrent	<u>338,108</u>		<u>395,841</u>	
Total due from State of Hawai'i	<u>\$ 338,437</u>		<u>\$ 396,280</u>	
Imprest/petty cash advances		\$ 95		\$ 94
Advance		6,000		6,000
General obligation bonds – current		167		159
Employee fringe adjustments		<u>41</u>		<u>8</u>
Due to State of Hawai'i – current		6,303		6,261
General obligation bonds – noncurrent		<u>555</u>		<u>722</u>
Total due to State of Hawai'i		<u>\$ 6,858</u>		<u>\$ 6,983</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, 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>

Activity related to amounts due to the State of Hawai'i for general obligation bonds for the year ended June 30, 2012 is as follows:

	Original Amount	Beginning Balance	Principal Repayment	Ending Balance
Series DB (interest rate, 2.80% to 5.25%)				
Student Housing				
Mānoa	\$ 731	\$ 522	\$ 76	\$ 446
Hilo	143	102	15	87
Parking Structure Phase I	425	304	44	260
	<u>1,299</u>	<u>928</u>	<u>135</u>	<u>793</u>
Series DG (interest rate, 5.00%)				
Student Housing				
Mānoa	82	59	9	50
Hilo	16	11	2	9
Parking Structure Phase I	47	34	5	29
	<u>145</u>	<u>104</u>	<u>16</u>	<u>88</u>
	<u>\$ 1,444</u>	<u>\$ 1,032</u>	<u>\$ 151</u>	<u>\$ 881</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, 2013, 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
2014	\$ 167	\$ 4
2015	175	3
2016	185	1
2017	195	-
	<u>\$ 722</u>	<u>\$ 8</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, 2013 and 2012 is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
2013					
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	<u>502,949</u>	<u>188,584</u>	<u>75,213</u>	<u>616,320</u>	<u>32,629</u>
Total long-term liabilities	<u>\$ 1,125,859</u>	<u>\$ 188,584</u>	<u>\$ 89,453</u>	<u>\$ 1,224,990</u>	<u>\$ 47,369</u>
2012					
Leases and bonds payable					
Revenue bonds payable	\$ 637,045	\$ 8,575	\$ 22,710	\$ 622,910	\$ 14,240
Other liabilities					
Workers' compensation	13,188	5,165	3,468	14,885	5,279
Accrued vacation	68,975	25,361	19,734	74,602	27,440
Postretirement health care/life insurance benefits (Note 15)	318,143	136,078	40,759	413,462	-
Total other liabilities	<u>400,306</u>	<u>166,604</u>	<u>63,961</u>	<u>502,949</u>	<u>32,719</u>
Total long-term liabilities	<u>\$ 1,037,351</u>	<u>\$ 175,179</u>	<u>\$ 86,671</u>	<u>\$ 1,125,859</u>	<u>\$ 46,959</u>

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Revenue Bonds Payable

The University's revenue bonds payable at June 30, 2013 and 2012 is as follows:

	Series	Date Issued	Authorized	2013	2012
University Health & Wellness Center (interest rate, 2.70% to 5.59%)	2002A	June 27, 2002	\$ 150,000	\$ -	\$ 3,395
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	92,020	94,130
University Health & Wellness Center (interest rate, 3.5% to 5.0%)	Ref 2006A	October 25, 2006	133,810	131,495	131,995
Various acquisition and construction projects (interest rate, 2.5% to 6.0%)	2009A	April 15, 2009	100,000	94,480	96,700
University's Cancer Center (interest rate, 2.5% to 6.0%)	2010A-1, 2010A-2	October 7, 2010	138,640	133,290	136,000
Various construction projects (interest rate, 2.5% to 6.0%)	2010B-1, 2010B-2	October 7, 2010	154,090	150,085	152,115
Student Housing System at Mānoa and Telecommunications System (interest rate, 2.0% to 5.0%)	2012A(R)	February 22, 2012	8,575	7,300	8,575
			<u>\$ 785,115</u>	<u>\$ 608,670</u>	<u>\$ 622,910</u>

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.

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The University receives funds from the State of Hawai'i Tobacco Settlement Special Fund for the payment of principal and interest on the Series 2002A and 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 2013 and \$9,923 in 2012.

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 Series 2002A and 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 monies on deposit in any special fund or revolving fund of the University, excluding monies on deposit in the University Revenue – Undertakings Fund ("University Bond System"), are pledged to the payment of the Series 2002A and 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).

At June 30, 2013, future maturities of revenue bonds are as follows:

Year ending June 30,	Principal	Interest
2014	\$ 14,740	\$ 30,461
2015	15,345	29,852
2016	17,115	29,126
2017	17,700	28,393
2018	18,585	27,651
2019–2023	97,925	125,159
2024–2028	118,655	98,841
2028–2033	141,500	67,585
2034–2038	114,340	32,435
2039–2041	52,765	4,495
	<u>\$ 608,670</u>	<u>\$ 473,998</u>

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Bond Premiums

Activity related to the premiums on general obligation and revenue bonds for the years ended June 30, 2013 and 2012 is as follows:

	Series	Beginning Balance	Additions	Reductions	Ending Balance
2013					
John A. Burns School of Medicine	Ref 2006A	\$ 1,383	\$ -	\$ 69	\$ 1,314
University's Cancer Center	2010A	1,777	-	376	1,401
Various construction projects	2010B	2,447	-	470	1,977
General obligation	DB	15	-	6	9
General obligation	DG	3	-	1	2
Total bond premiums		<u>\$ 5,625</u>	<u>\$ -</u>	<u>\$ 922</u>	<u>\$ 4,703</u>
2012					
Student Housing System at Mānoa and Telecommunications System	2001B	\$ 60	\$ -	\$ 60	\$ -
John A. Burns School of Medicine	Ref 2006A	1,450	-	67	1,383
University's Cancer Center	2010A	2,165	-	388	1,777
Various construction projects	2010B	2,920	-	473	2,447
General obligation	DB	22	-	7	15
General obligation	DG	4	-	1	3
Total bond premiums		<u>\$ 6,621</u>	<u>\$ -</u>	<u>\$ 996</u>	<u>\$ 5,625</u>

Deferred Bond Refunding and Issuance Costs

Activity related to issuance costs for general obligation and revenue bonds for the years ended June 30, 2013 and 2012 is as follows:

	Series	Beginning Balance	Additions	Reductions	Ending Balance
2013					
John A. Burns School of Medicine	Ref 2006A	\$ 7,222	\$ -	\$ 360	\$ 6,862
University's Cancer Center	2010A	125	-	26	99
Various construction projects	2010B	128	-	25	103
Student Housing System at Mānoa					
General obligation	DB	11	-	4	7
General obligation	DG	3	-	1	2
Total bond issuance costs		<u>\$ 7,489</u>	<u>\$ -</u>	<u>\$ 416</u>	<u>\$ 7,073</u>
2012					
Student Housing System at Mānoa and Telecommunications System	2001B	\$ 194	\$ -	\$ 194	\$ -
John A. Burns School of Medicine	Ref 2006A	7,571	-	349	7,222
University's Cancer Center	2010A	152	-	27	125
Various construction projects	2010B	153	-	25	128
General obligation	DB	16	-	5	11
General obligation	DG	4	-	1	3
Total bond issuance costs		<u>\$ 8,090</u>	<u>\$ -</u>	<u>\$ 601</u>	<u>\$ 7,489</u>

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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. In April and June 2013, the Lender advanced \$6,000 and \$10,500, respectively on the Note to the University. 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, 2013, \$16,500 remains outstanding.

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, 2014. 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, 2013 and 2012. At June 30, 2013 and 2012, 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
2014	\$ 2,283
2015	1,405
2016	760
2017	552
2018	552
2019–2023	649
2024–2028	400
Thereafter	1,723
	<u>\$ 8,324</u>

Rent expense for outside space for the years ended June 30, 2013 and 2012 approximated \$8,366 and \$7,863, respectively.

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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 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, 2013, 2012 and 2011 were \$84,154, \$75,497 and \$72,199, 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.

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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.

Other Benefits

The State absorbs the fringe benefit cost for employees paid from State and federal appropriations. In fiscal years 2013 and 2012, 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 \$154,757 and \$142,224 for fiscal years 2013 and 2012, 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, 2013 and 2012, accumulated sick leave approximated \$406,973 and \$414,970, 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 2013 and 2012 were \$2,146 and \$2,031, respectively. Temporary wage loss payments for fiscal years 2013 and 2012 amounted to \$625 and \$558, respectively.

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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.

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.

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,

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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, 2013:

Projected June 30, 2013 Net OPEB Obligation ("NOO")

July 1, 2012 net OPEB obligation	\$ 413,462
Plus: Annual OPEB cost	142,602
Less: Employer contributions (estimated "pay as you go" method)	<u>41,700</u>
Equals: Expected June 30, 2013 net OPEB obligation	<u>\$ 514,364</u>

The University remitted \$53,598 and \$40,200 in State assessed OPEB contributions for the years ended June 30, 2013 and 2012, respectively. The University's actuarially determined minimum OPEB contribution was \$41,700 and \$40,759 for the years ended June 30, 2013 and 2012, 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, 2013	\$142,602	29.2%	\$514,364
June 30, 2012	\$136,078	30.6%	\$413,462
June 30, 2011	\$150,637	25.7%	\$318,143

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	<u>1,965,769</u>
Unfunded actuarial accrued liability ("UAAL")	<u>\$ 1,965,769</u>
Funded ratio	0%
Covered payroll (active plan members)	\$ 517,856
UAAL as a percentage of covered payroll	379.6%

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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, 2011
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll
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	
HMSA Medical and Rx Pre-65	7.5% initial, 5% ultimate
HMSA Medical and Rx Post-65	8.25% initial, 5% ultimate
HMSAKaiser	8.25% initial, 5% ultimate
Kaiser and Rx Post-65	13.0% initial, 5% ultimate

16. Other Noncurrent Liabilities

Other noncurrent liabilities at June 30, 2013 and 2012 are comprised of:

	2013	2012
Liabilities under split interest agreements	\$ 6,488	\$ 6,209
Amounts held for others	2,946	2,462
Deferred revenue on pending sale of real estate	5,150	5,150
Other	2,430	2,023
	<u>\$ 17,014</u>	<u>\$ 15,844</u>

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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 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.

Act 164, SLH 2011 Section 32, provided \$82,528 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, 2012.

Act 180, SLH 2010 Section 57, provided \$72,116 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, 2011.

The net amount of the University's State general and capital appropriations for the years ended June 30, 2013 and 2012 were \$374,280 and \$128,186 and \$375,754 and \$137,388, respectively.

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

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

Net general and capital appropriations for the year ended June 30, 2012 were as follows:

General appropriations	
Act 164, SLH 2011, Appropriation Warrant No. 17	\$ 386,307
Total funds lapsed	(353)
Collective bargaining adjustment	37
Executive restrictions	<u>(10,237)</u>
Total general appropriations	<u>\$ 375,754</u>
Capital appropriations	
Act 162, SLH2009 as amended and renumbered by Act 180, SLH2010	\$ 1,578
Act 162, SLH2009 as amended by Act 180, SLH2010 as amended by Act 164, SLH2011	1,225
Section 36 and 73 of Act 164, SLH 2011	20,000
Act 164, SLH2011	115,213
Total funds lapsed	<u>(628)</u>
Total capital appropriations	<u>\$ 137,388</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 for the years ended June 30, 2013 and 2012:

Condensed Consolidating Statements of Net Position

	2013				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Assets					
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	-	854,022
Total assets	3,027,467	59,600	374,586	(54,281)	3,407,372
Liabilities					
Current liabilities	254,364	12,446	2,944	-	269,754
Interdepartmental payables	14,059	33,867	3,040	(50,966)	-
Noncurrent liabilities	1,186,590	3,869	9,434	-	1,199,893
Total liabilities	1,455,013	50,182	15,418	(50,966)	1,469,647
Net position					
Net investment in capital assets	1,489,400	983	2,216	-	1,492,599
Restricted					
Nonexpendable	10,493	-	200,104	(3,259)	207,338
Expendable	366,912	-	159,672	-	526,584
Unrestricted	(294,351)	8,435	(2,824)	(56)	(288,796)
Total net position	\$ 1,572,454	\$ 9,418	\$ 359,168	\$ (3,315)	\$ 1,937,725
2012					
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Assets					
Current assets	\$ 491,556	\$ 47,713	\$ 27,296	\$ -	\$ 566,565
Interdepartmental receivables	33,204	35,901	4,238	(73,343)	-
Capital assets, net	1,823,629	1,055	2,253	-	1,826,937
Other assets	667,246	-	302,676	-	969,922
Total assets	3,015,635	84,669	336,463	(73,343)	3,363,424
Liabilities					
Current liabilities	278,077	10,291	1,842	-	290,210
Interdepartmental payables	6,314	61,532	1,259	(69,105)	-
Noncurrent liabilities	1,088,629	3,791	8,671	-	1,101,091
Total liabilities	1,373,020	75,614	11,772	(69,105)	1,391,301
Net position					
Net investment in capital assets	1,333,069	1,055	2,253	-	1,336,377
Restricted					
Nonexpendable	10,493	-	185,068	(4,029)	191,532
Expendable	433,244	-	141,100	-	574,344
Unrestricted	(134,191)	8,000	(3,730)	(209)	(130,130)
Total net position	\$ 1,642,615	\$ 9,055	\$ 324,691	\$ (4,238)	\$ 1,972,123

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

	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	420,631	4,284	-	(4,284)	420,631
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	51,625	-	5,480	(3,000)	54,105
Auxiliary enterprises	85,544	-	-	(62)	85,482
Other operating revenues	520	-	2,469	-	2,989
Total operating revenues	<u>870,968</u>	<u>6,167</u>	<u>7,949</u>	<u>(18,078)</u>	<u>867,006</u>
Operating expenses					
Depreciation	106,428	166	37	-	106,631
Other operating expenses	1,510,496	5,705	47,393	(22,067)	1,541,527
Total operating expenses	<u>1,616,924</u>	<u>5,871</u>	<u>47,430</u>	<u>(22,067)</u>	<u>1,648,158</u>
Operating income (loss)	(745,956)	296	(39,481)	3,989	(781,152)
Nonoperating activity					
Nonoperating revenues (expenses)	362,112	67	60,059	(3,838)	418,400
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>675,796</u>	<u>67</u>	<u>73,958</u>	<u>(3,067)</u>	<u>746,754</u>
Increase (decrease) in net position	(70,160)	363	34,477	922	(34,398)
Net position					
Beginning of year	<u>1,642,616</u>	<u>9,055</u>	<u>324,691</u>	<u>(4,239)</u>	<u>1,972,123</u>
End of year	<u>\$ 1,572,456</u>	<u>\$ 9,418</u>	<u>\$ 359,168</u>	<u>\$ (3,317)</u>	<u>\$ 1,937,725</u>

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	2012				Total
	University	Research Corporation	Foundation	Consolidation Adjustments	
Operating revenues					
Student tuition and fees, net	\$ 238,172	\$ -	\$ -	\$ (1,101)	\$ 237,071
Federal appropriations, grants and contracts	419,847	4,326	-	(4,326)	419,847
State and local grants and contracts	20,309	1,931	-	(887)	21,353
Nongovernmental sponsored programs	40,646	-	-	(5,615)	35,031
Sales and services of educational departments, other	46,970	-	5,455	(2,999)	49,426
Auxiliary enterprises	87,566	-	-	(93)	87,473
Other operating revenues	614	-	2,493	-	3,107
Total operating revenues	<u>854,124</u>	<u>6,257</u>	<u>7,948</u>	<u>(15,021)</u>	<u>853,308</u>
Operating expenses					
Depreciation	91,798	102	33	-	91,933
Other operating expenses	1,481,419	5,861	45,200	(19,025)	1,513,455
Total operating expenses	<u>1,573,217</u>	<u>5,963</u>	<u>45,233</u>	<u>(19,025)</u>	<u>1,605,388</u>
Operating income (loss)	(719,093)	294	(37,285)	4,004	(752,080)
Nonoperating activity					
Nonoperating revenues (expenses)	361,197	(203)	39,838	(4,205)	396,627
Capital contributions and additions to permanent and term endowments	153,682	-	5,482	3,272	162,436
Transfers	179,495	-	-	-	179,495
Total nonoperating activity	<u>694,374</u>	<u>(203)</u>	<u>45,320</u>	<u>(933)</u>	<u>738,558</u>
Increase (decrease) in net position	(24,719)	91	8,035	3,071	(13,522)
Net position					
Beginning of year	1,667,335	8,964	316,656	(7,310)	1,985,645
End of year	<u>\$ 1,642,616</u>	<u>\$ 9,055</u>	<u>\$ 324,691</u>	<u>\$ (4,239)</u>	<u>\$ 1,972,123</u>

Condensed Consolidating Statements of Cash Flows

	2013			
	University	Research Corporation	Foundation	Total
Net cash provided by (used in)				
Operating activities	\$ (478,274)	\$ 253	\$ (7,613)	\$ (485,634)
Noncapital financing activities	419,699	-	13,559	433,258
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	<u>\$ 35,296</u>	<u>\$ 33,819</u>	<u>\$ 9,589</u>	<u>\$ 78,704</u>

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	2012			
	University	Research Corporation	Foundation	Total
Net cash provided by (used in)				
Operating activities	\$ (395,042)	\$ 15,185	\$ 14,585	\$ (365,272)
Noncapital financing activities	443,057	-	2,497	445,554
Capital and related financing activities	(227,396)	(707)	-	(228,103)
Investing activities	145,251	86	(13,658)	131,679
Total change in cash	(34,130)	14,564	3,424	(16,142)
Cash and cash equivalent balances				
Beginning of year	46,035	18,033	7,641	71,709
End of year	\$ 11,905	\$ 32,597	\$ 11,065	\$ 55,567

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

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

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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.

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's estimated liability for workers' compensation claims is included in "Other Liabilities" in the accompanying Statements of Net Position (see Note 11).

Construction and Other Contracts

The University is committed under contracts awarded for construction and other services. These commitments amounted to approximately \$250,036 and \$401,286 as of June 30, 2013 and 2012.

On October 2011, the University entered into an agreement for the sale of approximately six acres of land adjacent to the UH-West O'ahu campus located in Kapolei, Hawaii. The buyer made deposits totaling \$5,150 as of June 30, 2012, which is included in other noncurrent liabilities in the statement of net assets. The sale closed on July 2, 2013 for \$5,850.

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

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to salary schedules that effectively increase salaries in each year covered by the terms of these agreements which have already been legislatively approved.

In January 2010, Unit 7 faculty members of the University ratified a six-year CBA covering the period July 1, 2009 through June 30, 2015. The 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 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. While the Legislature has already approved the duration of the 2009-2015 Unit 7 Agreement, they did not fund nor allocate any cost appropriations for the University this session to account for the 3% salary increase due on July 1, 2013.

BU 9, which is represented by less than 15 staff members at the University, is currently proceeding to interest arbitration (HLRB Case No. I-09-150); the decision and its respective costs will be subject to legislative approval/appropriations.

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 the University of Hawai'i Professional Assembly who is 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;
- 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;

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- If an impasse exists regarding successor negotiations involving BUs 2, 3, 4, 8, 9 or 10, 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 nations 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.

New Accounting Pronouncements

The GASB has recently issued the following accounting pronouncements:

- Statement No. 65, *Items Previously Reported as Assets and Liabilities*, issued in March 2012. The objective of this Statement is to reclassify assets and liabilities as deferred outflows of resources and deferred inflow of resources for consistency in financial reporting. The requirements of this Statement are effective for reporting periods beginning after December 15, 2012.
- Statement No. 66, *Technical Corrections – 2012 – An Amendment of GASB Statements No. 10 and No. 62*, issued in March 2012. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012.
- 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 the above-noted accounting pronouncements.

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

University of Hawai'i
State of Hawai'i
Schedule of Funding Progress (Unaudited)
Year Ended June 30, 2013
(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, 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%
July 1, 2007	\$0	\$1,135,855	\$1,135,855	0%	\$477,152	238.0%

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, 2013 and 2012, 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 24, 2014

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, 2013 and 2012
(All dollars reported in thousands)

Schedule I

	2013	2012
Condensed statements of net position		
Assets		
Current assets	\$ 308,613	\$ 368,818
Noncurrent assets	2,172	2,354
Total assets	<u>\$ 310,785</u>	<u>\$ 371,172</u>
Liabilities		
Current liabilities	\$ 90,452	\$ 91,574
Noncurrent liabilities	20,671	17,597
Total liabilities	<u>111,123</u>	<u>109,171</u>
Net position		
Unrestricted	<u>199,662</u>	<u>262,001</u>
Total net position	<u>199,662</u>	<u>262,001</u>
Total liabilities and net position	<u>\$ 310,785</u>	<u>\$ 371,172</u>
Condensed statements of revenues, expenses and changes in net position		
Operating revenues	\$ 352,961	\$ 347,111
Operating expenses	<u>406,462</u>	<u>379,267</u>
Operating loss	(53,501)	(32,156)
Nonoperating revenues and transfers	50,270	54,358
Nonoperating expenses and transfers	<u>59,108</u>	<u>62,424</u>
Change in net position	(62,339)	(40,222)
Net position		
Beginning of year	<u>262,001</u>	<u>302,223</u>
End of year	<u>\$ 199,662</u>	<u>\$ 262,001</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
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Condensed Statements of Net Position
Condensed Statements of Revenues, Expenses and Changes in Net Position
Current Unrestricted Funds Excluding General Fund and University Bond System
As of and for the Years Ended June 30, 2013 and 2012
(All dollars reported in thousands) **Schedule I**

2. Reclassifications

Certain amounts in the 2012 condensed statement of net assets and related 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 2013 presentation. Such reclassifications have no impact on the 2012 change in net position as previously reported.

University of Hawai'i
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Schedules of Series 2002A Revenue Bond Proceeds Activity
Years Ended June 30, 2013 and 2012
(All dollars reported in thousands)

Schedule II

	2013	2012
Beginning balance	\$ 9,087	\$ 11,661
Additions		
Interest and investment income	<u>8</u>	<u>10</u>
Total additions	<u>8</u>	<u>10</u>
Deductions		
Payments – building, construction in progress, other	2,989	2,575
Management fees	<u>6</u>	<u>9</u>
Total deductions	<u>2,995</u>	<u>2,584</u>
Ending balance	<u>\$ 6,100</u>	<u>\$ 9,087</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, 2013 and 2012
(All dollars reported in thousands)

Schedule III

	2013	2012
Condensed statements of net position		
Assets		
Current assets	\$ 341,536	\$ 399,858
Noncurrent assets	2,175	2,382
Total assets	<u>\$ 343,711</u>	<u>\$ 402,240</u>
Liabilities		
Current liabilities	\$ 109,012	\$ 108,255
Noncurrent liabilities	21,795	18,735
Total liabilities	<u>130,807</u>	<u>126,990</u>
Net position		
Unrestricted	<u>212,904</u>	<u>275,250</u>
Total net position	<u>212,904</u>	<u>275,250</u>
Total liabilities and net position	<u>\$ 343,711</u>	<u>\$ 402,240</u>
Condensed statements of revenues, expenses and changes in net position		
Operating revenues	\$ 429,412	\$ 422,306
Operating expenses	<u>461,276</u>	<u>435,396</u>
Operating loss	(31,864)	(13,090)
Nonoperating revenues and transfers	50,619	55,031
Nonoperating expenses and transfers	<u>81,101</u>	<u>81,375</u>
Change in net position	(62,346)	(39,434)
Net position		
Beginning of year	<u>275,250</u>	<u>314,684</u>
End of year	<u>\$ 212,904</u>	<u>\$ 275,250</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 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, 2013 and 2012
(All dollars reported in thousands)**

Schedule III

2. Reclassifications

Certain amounts in the 2012 condensed statement of net assets and related condensed statement of revenues, expenses and changes in net position – Current Unrestricted Funds Excluding General Fund have been reclassified to conform to the 2013 presentation. Such reclassifications have no impact on the 2012 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, 2013 and 2012
(All dollars reported in thousands)

Schedule IV

	2013	2012
Beginning balance	\$ 6,835	\$ 18,009
Additions		
Interest and investment income	<u>7</u>	<u>49</u>
Total additions	<u>7</u>	<u>49</u>
Deductions		
Payments – building, construction in progress, other	2,543	11,212
Management fees	<u>4</u>	<u>11</u>
Total deductions	<u>2,547</u>	<u>11,223</u>
Ending balance	<u>\$ 4,295</u>	<u>\$ 6,835</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, 2013 and 2012
(All dollars reported in thousands)

Schedule V

	2013	2012
Beginning balance	\$ 31,131	\$ 42,379
Additions		
Interest and investment income	<u>27</u>	<u>80</u>
Total additions	<u>27</u>	<u>80</u>
Deductions		
Payments – building, construction in progress, other	14,124	11,299
Management fees	<u>23</u>	<u>29</u>
Total deductions	<u>14,147</u>	<u>11,328</u>
Ending balance	<u>\$ 17,011</u>	<u>\$ 31,131</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, 2013 and 2012
(All dollars reported in thousands)

Schedule VI

	2010A-1	2010A-2
Balance at July 1, 2011	\$ 88,516	\$ 29,660
Additions		
Interest and investment income	40	108
Total additions	<u>40</u>	<u>108</u>
Deductions		
Payments – building, construction in progress, other	56,308	-
Management fees	49	23
Total deductions	<u>56,357</u>	<u>23</u>
Balance at June 30, 2012	<u>32,199</u>	<u>29,745</u>
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>

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, 2013 and 2012
(All dollars reported in thousands)

Schedule VII

	2010B-1	2010B-2
Balance at July 1, 2011	\$ 114,475	\$ 29,392
Additions		
Interest and investment income	112	65
Total additions	<u>112</u>	<u>65</u>
Deductions		
Payments – building, construction in progress, other	62,573	10,024
Management fees	73	22
Total deductions	<u>62,646</u>	<u>10,046</u>
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	<u>\$ 21,538</u>	<u>\$ 13,351</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, construction of a new Regional Biocontainment Laboratory, and various energy conservation/efficiency projects on the community college campuses on O'ahu, Kaua'i and Maui. 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, 2013 and 2012
(All dollars reported in thousands)

Schedule VIII

	2013	2012
Condensed statements of net position		
Assets		
Current assets	\$ 79,591	\$ 79,656
Capital assets, net	484,513	423,702
Other assets	84,077	171,557
Total assets	<u>\$ 648,181</u>	<u>\$ 674,915</u>
Liabilities		
Current liabilities	\$ 37,489	\$ 54,672
Noncurrent liabilities	471,846	483,505
Total liabilities	<u>509,335</u>	<u>538,177</u>
Net position		
Net investment in capital assets	83,487	83,231
Restricted expendable	1,065	1,065
Unrestricted	54,294	52,442
Total net position	<u>138,846</u>	<u>136,738</u>
Total liabilities and net assets	<u>\$ 648,181</u>	<u>\$ 674,915</u>
Condensed statements of revenues, expenses and changes in net position		
Operating revenues		
Bookstores	\$ 27,265	\$ 29,008
Room and other rentals	28,036	26,902
Parking	6,643	6,668
Telecommunications	5,487	3,887
Other operating revenues	9,020	8,729
Total operating revenues	<u>76,451</u>	<u>75,194</u>
Operating expenses (including \$17,040 and \$11,284 in depreciation expense in 2013 and 2012, respectively)	<u>(82,437)</u>	<u>(83,222)</u>
Operating loss	(5,986)	(8,028)
Nonoperating revenues	25,400	41,655
Nonoperating expenses	(17,306)	(16,610)
Change in net position	<u>2,108</u>	<u>17,017</u>
Net position		
Beginning of year	<u>136,738</u>	<u>119,721</u>
End of year	<u>\$ 138,846</u>	<u>\$ 136,738</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, 2013 and 2012
(All dollars reported in thousands)

Schedule IX

	2013	2012
Condensed statements of cash flows		
Net cash flows provided by operating activities	\$ 2,368	\$ 765
Net cash flows provided by non-capital financing activities	6,737	23,109
Net cash flows used in capital and related financing activities	(95,669)	(166,107)
Net cash flows provided by investing activities	548	591
Net decrease in cash and cash equivalents	<u>(86,016)</u>	<u>(141,642)</u>
Cash and cash equivalents		
Beginning of year	232,470	374,112
End of year	<u>\$ 146,454</u>	<u>\$ 232,470</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) all University parking units located on any campus of the University 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.