UNIVERSITY *of* HAWAI‘I®

SYSTEM

2015 Annual Financial Report, Required Supplementary Information and Other Supplementary Information University of Hawaii State of Hawaii

Page(s)

Accuity LLP
CERTIFIED PUBLIC ACCOUNTANTS

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, 2015 and 2014, and the related notes to the consolidated financial statements, which collectively comprise the University's basic financial statements as listed in the accompanying index.

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

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of the University of Hawai'i Foundation (the "Foundation"), which represent 13.5 percent and 13.0 percent, respectively, of the total assets and deferred outflows of resources and 1.1 percent and 1.0 percent, respectively, of the total operating revenues of the University as of and for the years ended June 30, 2015 and 2014. 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, 2015 and 2014, 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.

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Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University of Hawaiʻi, as of June 30, 2015 and 2014, 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.

Emphasis of Matter
As discussed in Note 1 to the basic financial statements, effective July 1, 2014, the University adopted new accounting guidance under Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment to Statement No. 27.* Our opinion is not modified with respect to this matter.

Other Matters
Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules of net pension liability, contributions, and 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, Hawaiʻi
February 11, 2016

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, 2015 and 2014, with selected information for the year ended June 30, 2013. 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 of Hawai‘i system is comprised of 10 campuses – seven community colleges (four on O‘ahu, one on Kaua‘i, one on Maui, and one on Hawai‘i), the University of Hawai‘i at Mānoa, the University of Hawai‘i at Hilo, and the University of Hawai‘i at West Oahu. In Fall 2014, enrollment totaled 57,052 (85 percent undergraduate and 15 percent graduate students). Hawai‘i residents comprised 85 percent of all enrolled students, nearly 11 percent were from the U.S. mainland, and the remaining four percent of students were international students from over 100 countries. The University of Hawai‘i continues to be one of the nation's more ethnically diverse higher education systems with roughly 26 percent of the students identifying as Asian, 17 percent as Caucasian, and 26 percent as either Hawaiian or Pacific Islander. The University system offers over 637 academic programs, including bachelor's degrees in 139 fields of study, master's degrees in 91 fields of study, doctoral degrees in 53 fields of study, and associate degrees in 117 fields of study. In addition to the educational campuses, the University system houses more than a hundred centers with a research, instruction or public service purpose and receives more than $425 million sponsored program awards. 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.

Using the Financial Statements

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

- **Statements of Net Position** – The Consolidated Statements of Net Position present information on the University’s assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the University’s financial condition is improving or deteriorating. Net position increases when revenues exceed expenses, or when assets increase without a corresponding increase in liabilities. This is an indication of improving financial condition. However, when expenses exceed revenues, or when liabilities increase without a corresponding increase in assets, there is an indication of deteriorating financial condition.

- **Statements of Revenues, Expenses and Changes in Net Position** – The Consolidated Statements of Revenues, Expenses and Changes in Net Position present the University’s revenues and expenses and illustrate how current year activities improve or weaken the University’s financial condition. Changes in net position are reported when the underlying event occurs (accrual basis of accounting), which may be different from actual cash flows. In accordance with GASB requirements, certain significant revenues budgeted for fundamental operational support of the core instructional mission of the University must be recorded as non-operating revenue, include state educational appropriations, private gifts, and investment income. Consequently, the Consolidated Statements of Revenues, Expenses and Changes in Net Position distinguish operating from non-operating revenues and expenses It is anticipated that the University will consistently report an operating loss since certain significant revenue sources relied upon for core operational needs are considered non-operating revenue.

- **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, 2015 and 2014 is presented in Note 18 to the consolidated financial statements.

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, 2015, 2014 and 2013 are summarized as follows (in thousands):

	2015	Percentage of Total Assets and Deferred Outflows	2014	Percentage of Total Assets and Deferred Outflows	2013	Percentage of Total Assets and Deferred Outflows	FY 15 vs 14 Change	FY 14 vs 13 Change
Current assets								
Cash and operating investments	$ 375,052	10%	$ 342,353	10%	$ 377,545	11%	$ 32,699	$ (35,192)
Receivables, net	104,711	3%	108,463	3%	112,384	3%	(3,752)	(3,921)
Other current assets	24,681	1%	23,597	1%	36,301	1%	1,084	(12,704)
Total current assets	504,444	14%	474,413	14%	526,230	15%	30,031	(51,817)
Noncurrent assets								
Endowment and other investments	477,243	13%	499,460	14%	468,120	14%	(22,217)	31,340
Capital assets, net	2,068,691	57%	2,071,850	60%	2,027,120	60%	(3,159)	44,730
Other noncurrent assets	466,840	12%	418,903	12%	379,184	11%	47,937	39,719
Total assets	3,517,218	96%	3,464,626	100%	3,400,654	100%	52,592	63,972
Deferred outflows of resources								
Deferred loss on refunding	5,251	0%	5,576	0%	5,883	0%	(325)	(307)
Difference between expected and actual experience	13,859	0%	-	0%	-	0%	13,859	-
Pension contributions subsequent to the measurement date	120,989	3%	-	0%	-	0%	120,989	-
Total deferred outflows of resources	140,099	4%	5,576	0%	5,883	0%	134,523	(307)
Total assets and deferred outflows of resources	$ 3,657,317	100%	$ 3,470,202	100%	$ 3,406,537	100%	$ 187,115	$ 63,665
Current liabilities	$ 270,047	7%	$ 263,583	8%	$ 269,754	8%	$ 6,464	$ (6,171)
Noncurrent liabilities								
Long-term debt	561,470	15%	578,585	17%	593,930	17%	(17,115)	(15,345)
Net pension liability	1,089,882	30%	-	0%	-	0%	1,089,882	-
Other noncurrent liabilities	742,335	21%	666,508	19%	605,956	17%	75,827	60,552
Total liabilities	2,663,734	73%	1,508,676	43%	1,469,640	43%	1,155,058	39,036
Deferred inflows of resources								
Difference between projected and actual earnings on pension plan	126,487	3%	-	0%	-	0%	126,487	-
Changes in proportionate rate	24,675	1%	-	0%	-	0%	24,675	-
Total deferred inflows of resources	151,162	4%	-	0%	-	0%	151,162	-
Net position								
Net investment in capital assets	1,503,902	41%	1,519,669	44%	1,482,274	44%	(15,767)	37,395
Restricted								
Nonexpendable	235,894	6%	218,133	6%	207,338	6%	17,761	10,795
Expendable	644,743	18%	598,070	17%	530,130	16%	46,673	67,940
Unrestricted	(1,542,118)	-42%	(374,346)	-11%	(282,845)	-8%	(1,167,772)	(91,501)
Total net position	842,421	23%	1,961,526	57%	1,936,897	57%	(1,119,105)	24,629
Total liabilities, deferred inflows of resources and net position	$ 3,657,317	100%	$ 3,470,202	100%	$ 3,406,537	100%	$ 187,115	$ 63,665

Implementation of GASB Statements No. 68 and 71

During fiscal year 2015, University of Hawai’i implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*.

The adoption of Statement Nos. 68 and 71 has significant impact on the University’s financial statements, which requires us to report expenditures and liabilities in the amount statutorily required. Readers of the FY15 financial statements will notice that the University’s balance sheet will show significant financial impact by inclusion of the University’s proportionate share of the net pension liability for the Employees’ Retirement System of the State of Hawai‘i (“ERS”) plan. The adoption resulted in the restatement of the University’s fiscal year 2014 net position. Accordingly, the University’s net position as of July 1, 2014 has been restated to $849 million from $1.962 billion, which reflects the retrospective effect of adoption for net pension liability of $1.113 billion. Retroactive implementation of GASB Statement No. 68 was not deemed practical due to the cost and timing required to obtain and analyze the activity covering FY14. As such, the University's FY14 financial statements are presented in accordance with GASB Statement No. 27.

As of June 30, 2015, the net pension liability decreased by $138 million to $1,090 billion, primarily due to the additional pension expense, the difference between expected and actual experience with economic and demographic factors, effect of changes in assumptions, and the difference between actual and projected earnings on plan investments. Refer to Note 14 for more information regarding the University's pension.

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, 2015 and 2014, working capital amounted to $234.4 million and $210.8 million, respectively. The University is committed to maintaining a prudent level of working capital to fund operations, including pre-funding its approximately $425 million in extramural grants which are mostly paid on a cost reimbursement basis. To enhance financial management, in November 2013, the University adopted a financial reserve policy to establish system-wide operating reserves from non-general fund revenue in amounts sufficient to provide continued operations for at least two months with a minimum of five percent unencumbered cash from all tuition and fee funds, special funds, and revolving funds. Based on the $1.533 billion of operating expenses (excluding depreciation) for the year ended June 30, 2015, the working capital at year end represents approximately 53 days of operating funds.

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

- Current assets consist primarily of cash and cash equivalents, operating investments and net receivables. Total current assets were $504.4 million and $474.4 million at June 30, 2015 and 2014, respectively. Total current assets increased by $30.0 million, or 6.3 percent, due to a $32.7 million increase in cash and operating investments, which primarily resulted from the implementation of the financial reserve policy. Cash balance from tuition and fees increased by $20 million in addition to the $6 million advance from the State of Hawaiʻi for the Snug Harbor project that was not spent as of June 30, 2015.

- Current liabilities consist primarily of accounts payable, accrued payroll and fringe benefits, advances from sponsors, and unearned revenue. Current liabilities also include amounts due to the State of Hawaiʻi, the current portion of long-term liabilities and other current liabilities. Total current liabilities were $270.0 million and $263.6 million at June 30, 2015 and 2014, respectively. Total current liabilities increased by $6.5 million, or 2.5 percent, primarily due to increase from the State of Hawaiʻi for the Snug Harbor $6 million project advance.

Endowment and Other Investments

The University’s endowment and other investments, including endowments held with the Foundation, decreased by $22.2 million to $477.2 million at June 30, 2015. The fiscal year 2015 decrease was primarily due to a $20.0 million reimbursement of preconstruction costs associated with a new facility for the Cancer Research Center, which was put into service in a prior fiscal year. Endowments and other investments held with the Foundation amounted to $373.2 million at June 30, 2015 and $365.8 million at June 30, 2014.

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

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

The 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 2015 and 2014, 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 $2.5 million and $2.4 million in fiscal years 2015 and 2014, respectively.

Capital and Debt Activities

The University’s capital assets are separated into seven categories: land, buildings, infrastructure, land improvements, equipment, library materials, and construction in progress. At June 30, 2015 and 2014, total capital assets, net of accumulated depreciation, amounted to $2.1 billion and $2.1 billion, respectively, which represented 59 percent and 60 percent, respectively, of the University’s total assets. Capital asset additions totaled $130.7 million and $186.5 million in fiscal years 2015 and 2014, respectively, while depreciable capital asset disposals, net of accumulated depreciation, amounted to $12.5 million and $32.3 million, respectively. The decrease of the additions was due to the completion of many strategic capital projects in prior years. In fiscal year 2015, the University transferred $5.3 million of capital assets to the Federal government.

Capital Projects

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

Significant capital projects completed during fiscal years 2015 and 2014 or in progress as of June 30, 2015 and 2014 included:

- **Culinary Institute of the Pacific** – The $25 million Phase I portion of the Culinary Institute of the Pacific broke ground on September 8, 2015. Phase I includes the infrastructure for the entire project, a parking lot, two single-story laboratory buildings, and an outdoor cooking area. Phase II will include the auditorium, administration building, classrooms, laboratories, and a restaurant.

- **Hawaiʻi Community College Pālamanui Campus** – The newest University of Hawaiʻi campus, the $27.8 million Hawaiʻi Community College Pālamanui opened on August 24, 2015. The community of Pālamanui, "A Place of Enlightenment," will consist of parks, a University Village Town Center, a University Inn, and placed in the middle will be the Hawaiʻi Community College Pālamanui Campus. The first phase includes five single-story buildings with kitchens, classrooms, laboratories, a computer lab, and a library.

- **Clarence T.C. Ching Athletics Complex** – The $16 million Clarence T.C. Ching Athletics Complex was completed on August 31, 2014. The three-story facility includes grandstand seating for 2,500 people and offices and locker rooms for women's soccer, cross country, track and field, and sand volleyball. Adjacent to the grandstand seating is a sand volleyball court with bleacher style seating.

- **Leeward Community College Ka ʻImi ʻIke** – The dedication ceremony of the $16.6 million Leeward Community College education building Ka ʻImi ʻIke, "The Search for Knowledge," was held on August 22, 2014. The 24,000 square foot teacher education building includes classrooms, a lecture hall, offices, a resource center, and meeting spaces. Ka ʻImi ʻIke is energy efficient, utilizing large windows for natural sunlight, photovoltaic panels, and a hybrid air-conditioning unit.

- **University of Hawaiʻi at Hilo Student Services** – The new $22 million three-story, 35,000 square foot Student Services building was placed into service in May 2014. Students will now be able to attend to their financial, registration and counseling needs in one central location. The project included photovoltaic panels for the Library, College of Business Economics, Performing Arts Center, and the Student Services Buildings. The new University of Hawaiʻi at Hilo ("UH-Hilo") received the American Institute of Architects "Institutional Award of Merit" at the 2015 AIA-Honolulu Design Awards.

- **University of Hawaiʻi at Mānoa Campus Center Renovations and Expansion Project** – The $46 million project was completed on April 11, 2014. It included the addition of the two-story Warrior Recreation Center along with renovations to Campus Center and Hemenway Hall. The Warrior Recreation Center includes an indoor track, a fitness center, locker rooms, and a multi-purpose gymnasium. Renovations to Campus Center include the addition of Starbucks Coffee, an outdoor seating area, improvements to the central air conditioning system, and a new store-front for the University of Hawaiʻi Bookstore.

- **Ka Haka ‘Ula o Ke‘elikolani College of Hawaiian Language** – Hale ‘Olelo, the $24.4 million College of Hawaiian Language facilities on the University of Hawai‘i at Hilo campus, was completed on January 11, 2014. The featured space for this 36,800 square foot educational facility is a 200-seat performing arts room with enhanced acoustics and includes a custom retractable lighting system (Haka) and a 36-foot high ceiling. Other notable spaces include a distance learning center designed to support remote classroom instruction and video conferences as well as a library and archives collection for extremely rare printed and audio records. Hale ‘Olelo received a Silver LEED certification.

- **University of Hawai‘i Information Technology Center** – The $52.4 million Information Technology Center was completed on December 16, 2013. The building is six stories tall with approximately 74,000 square feet of floor space and has received a LEED silver certification. The Information Technology Center is equipped with an emergency situation room, meeting and training rooms, and houses the entire system-wide Information Technology department.

- **University of Hawai‘i at Hilo’s University Village** – Hale ‘Alahonua, the first phase of the University of Hawai‘i at Hilo’s University Village project, was completed on August 19, 2013. The $33.8 million, 105,505 square foot residence hall is located across the main campus of the University of Hawai‘i at Hilo’s entrance on Kawili Street. The facility is made up of three, three-story walk-ups and a student life common area where the students will be able to cook, do their laundry, and study.

- **University of Hawai‘i at Mānoa Edmondson Hall** – The $20.1 million four-story, 42,000 square foot renovation of Edmondson Hall was completed on July 10, 2013. Edmondson Hall, which was built in 1962, required major renovation due to the October 2007 fire that destroyed a research laboratory and caused extensive water damage to three of the four floors. The newly constructed structure in front of Edmondson Hall will house the stairs and elevators for both Edmondson and Snyder Halls and is scheduled to be completed in February 2016.

Financing

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

- **General obligation bonds** – The State of Hawai‘i issued general obligation bonds to help finance certain University projects. These bonds are carried as liabilities of the State. In fiscal years 2015 and 2014, the State appropriated funds directly to the Department of Budget and Finance to pay for debt service on general obligation bonds issued for the University. As a result, the University itself received no appropriations and made no transfers for debt service on general obligation bonds for these fiscal years. In fiscal years 2015 and 2014, $106.1 million and $101.0 million were appropriated in each year, respectively.

- **Revenue bonds** – The University also issued revenue bonds to finance capital projects. These bonds are carried as liabilities of the University. Total revenue bonds liabilities were $578.6 million and $593.9 million for fiscal years 2015 and 2014, respectively. The University revenue bonds were assigned municipal bond ratings of "A+," "Aa2," and "AA" by Standard & Poor's, Moody's Investors Service and Fitch Ratings, respectively. The University has appropriated funds, by statute, from the State of Hawai‘i Tobacco Settlement Special Fund for the payment of principal and interest on revenue bonds to finance the cost of construction of the medical school facility and for annual operating expenses incurred by the facility. The University received State of Hawai‘i Tobacco Settlement funds in the amount of $9.9 million in fiscal years 2015 and 2014 to cover debt service for the bonds that financed the medical school facility. Refer to Note 11 for more information regarding the University revenue bonds.

- **Loan agreement** – On May 4, 2012, the University entered into a five-year, unsecured loan agreement ("Note") with Hawai‘i Regional Center LP III ("Lender") for a commitment amount not to exceed $18 million, subject to certain limitations. The proceeds were used to facilitate and fund construction of the UH-West O‘ahu campus located at Kapolei, Hawai‘i. The Note bears interest at the rate of 1.5 percent per annum, which is due and payable semi-annually to the Lender on January 1 and July 1 each year until the Note has been paid in full. Under the terms of the Note, repayment each fiscal year is limited and subject to specific appropriations by the State to make such payments. The Note matures on July 16, 2017, at which time the unpaid principal will be due. As of June 30, 2015, $17 million remains outstanding.

Net Position

Net position represents the residual interest in the University's assets after liabilities are deducted. At June 30, 2015 and 2014, total net position amounted to $842.4 million 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 $1.50 billion and $1.52 billion at June 30, 2015 and 2014, respectively. The $15.8 million decrease in fiscal year 2015 was primarily attributable to $121.4 million of depreciation expense, $12.5 million in net disposals, and $12.6 million increase in related debt offset by $130.7 million of capital asset additions.

Restricted nonexpendable net position primarily represents the University's and Foundation's permanent endowment funds, which are required to be maintained in perpetuity and amounted to $235.9 million and $218.1 million at June 30, 2015 and 2014, respectively. The increase of $17.8 million was 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, 2015, 2014 and 2013 (in thousands):

	2015	2014	2013
Plant facilities	$ 386,742	$ 327,195	$ 315,102
Donor-restricted activities	224,904	234,200	178,018
Loan activities	24,363	24,172	24,648
External sponsor activities	8,734	12,502	12,362
	$ 644,743	$ 598,070	$ 530,130

In fiscal year 2015, the overall increase of $46.7 million in restricted expendable net position was attributable to a $56.8 million increase in State capital appropriations to fund construction for the UH-West Oahu Administration and Allied Health Facility and the UH-Hilo College of Pharmacy.

Net position that is not subject to externally imposed restrictions governing their use is classified as unrestricted for financial reporting purposes. At June 30, 2015 and 2014, unrestricted net position amounted to deficits of $1.54 billion and $374.3 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 $45.0 million and $46.7 million were designated for endowment activities at June 30, 2015 and 2014, respectively.

Excluding the $1.113 billion restatement of unrestricted net position from the retrospective adoption of the net pension liability, the reduction in unrestricted net position for the years ended June 30, 2015 and 2014 is primarily attributable to the University's required accounting and recognition of the University's allocated share of the State of Hawai‘i's actuarially determined total other post-employment benefits ("OPEB") liability. Similar to other state and local governments, the State of Hawai‘i ("State") plan has been paid on a "pay as you go" basis, which resulted in the OPEB liability growing substantially each year. As a result, despite total assets of the University staying relatively constant each year, unrestricted net position continues to decline due to recognition of the OPEB liability. The University's share of the OPEB liability as of June 30, 2015 and 2014 was $650.8 million and $579.2 million, respectively. Annual required OPEB contribution payments, on a "pay as you go" basis, towards this liability were paid directly by the State Department of Budget and Finance from its general fund appropriation and not out of the University's operating budget appropriation. The University makes contributions calculated as part of the State's total contribution requirements and are reimbursed to the State's General Fund as part of the fringe benefit rate on University employees' actual salaries.

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

	2015	2014	2013
Unrestricted net position	$ (1,542,118)	$ (374,346)	$ (282,845)
Pension liability	1,089,882	-	-
OPEB liability	650,805	579,196	514,364
Adjusted net unrestricted position	$ 198,569	$ 204,850	$ 231,519

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, 2015, 2014 and 2013 summarized to match revenues supporting core activities with expenses associated with core activities, are as follows (in thousands of dollars):

	2015		2014		2013		Increase (Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	FY 15 vs 14 Change	FY 14 vs 13 Change
Revenues								
Operating								
Tuition and fees	$ 392,471	30.1%	$ 377,550	27.4%	$ 362,175	27.8%	$ 14,921	$ 15,375
Less: Scholarship allowances	(129,811)	-10.0%	(129,173)	-9.4%	(120,364)	-9.2%	(638)	(8,809)
Grants and contracts	386,260	29.7%	427,056	30.9%	414,793	31.9%	(40,796)	12,263
Sales and services	135,315	10.4%	130,879	9.5%	133,211	10.2%	4,436	(2,332)
Other revenue	2,568	0.2%	2,935	0.2%	2,989	0.2%	(367)	(54)
Total operating revenues	786,803	60.4%	809,247	58.6%	792,804	60.9%	(22,444)	16,443
Non-operating								
State appropriations	413,148	31.7%	391,266	28.3%	374,280	28.7%	21,882	16,986
Federal Pell grant	66,144	5.1%	67,265	4.9%	67,826	5.2%	(1,121)	(561)
Net investment income	4,659	0.4%	51,520	3.7%	32,206	2.5%	(46,861)	19,314
Private gifts	31,870	2.4%	61,127	4.4%	35,206	2.7%	(29,257)	25,921
Total non-operating revenues	515,821	39.6%	571,178	41.4%	509,518	39.1%	(55,357)	61,660
Total revenues supporting core activities	1,302,624	100.0%	1,380,425	100.0%	1,302,322	100.0%	(77,801)	78,103
Expenses								
Operating								
Compensation and benefits	1,093,021	73.1%	1,070,419	71.0%	1,049,129	70.3%	22,602	21,290
Supplies, services and cost of goods sold	205,833	13.8%	238,687	15.8%	243,893	16.3%	(32,854)	(5,206)
Telecom and utilities	72,282	4.8%	79,860	5.3%	79,787	5.3%	(7,578)	73
Scholarships and fellowships	49,302	3.3%	50,835	3.4%	51,414	3.4%	(1,533)	(579)
Other expense	112,076	7.5%	110,597	7.3%	110,928	7.4%	1,479	(331)
Total operating expenses	1,532,514	102.5%	1,550,398	102.8%	1,535,151	102.9%	(17,884)	15,247
Non-operating (revenues) expenses								
Transfers from State, net	(191,584)	-12.8%	(183,460)	-12.2%	(172,757)	-11.6%	(8,124)	(10,703)
Transfers to Federal – capital assets	5,315	0.4%	4,156	0.3%	-	0.0%	1,159	4,156
Interest expense	27,523	1.8%	26,690	1.9%	23,452	1.6%	833	3,238
Total non-operating revenues	(158,746)	-10.6%	(152,614)	-10.0%	(149,305)	-10.0%	(6,132)	(3,309)
Expenses associated with core activities before depreciation	1,373,768	-	1,397,784	-	1,385,846	-	(24,016)	11,938
Loss from core activities before depreciation	(71,144)	-	(17,359)	-	(83,524)	-	(53,785)	66,165
Depreciation	121,378	8.1%	109,458	7.4%	106,631	7.1%	11,920	2,827
Expenses associated with core activities including depreciation	1,495,146	100.0%	1,507,242	100.0%	1,492,477	100.0%	(12,096)	14,765
Loss from core activities	(192,522)		(126,817)		(190,155)		$ (65,705)	$ 63,338
Other nonoperating activity								
Capital gifts and grants	171,174		146,068		147,772			
Permanent endowment	19,426		9,502		14,670			
Other revenue (expenses) net	(4,391)		(4,124)		(6,584)			
Other nonoperating income, net	186,209		151,446		155,858			
Increase (decrease) in net position	(6,313)		24,629		(34,297)			
Net position								
Beginning of year	1,961,526		1,936,897		1,971,194			
Adjustment for change in accounting principle	(1,112,792)		-		-			
Beginning of year, as restated	848,734		1,936,897		1,971,194			
End of year	$ 842,421		$ 1,961,526		$ 1,936,897			

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 $14.3 million, or 5.8 percent, to $262.7 million in fiscal year 2015. Scholarship allowances amounted to $129.8 million and $129.2 million in fiscal years 2015 and 2014, respectively. For fiscal years 2015 and 2014, the increase in tuition and fees revenue and scholarship allowances are primarily attributable to increases in tuition and fee rates offset by slight declines in enrollment.

Revenues from federal, state and local grants, and contracts and nongovernmental sponsored programs decreased by $40.8 million, or 9.6 percent, to $386.3 million in fiscal year 2015. The fiscal year 2015 net decrease was attributable to a $31.7 million decrease in federal grants and contracts due to the sunset of the American Recovery and Reinvestment Act of 2009 ("ARRA") and the timing of revenue recognition and a net decrease of $8.1 million in nongovernmental sponsored programs relating to the expiration of several major awards. Sales and services revenues, which are mainly comprised of bookstores, student and faculty housing, food services, parking and athletics, increased by $4.4 million, or 3.4 percent, to $135.3 million in fiscal year 2015. General state appropriations increased by $21.9 million, or 5.6 percent, to $413.1 million in fiscal year 2015. The increase in fiscal year 2015 was mainly attributable to an increase in legislative appropriations to pay for salary increases, called for in faculty union contracts, and to address the need for increased administrative support at the UH-West Oahu campus due to increased enrollment.

The University's net investment income for fiscal year 2015, as compared to fiscal year 2014, decreased by $46.8 million, resulting in net investment income of $4.7 million. The fiscal year 2015 decrease was mainly due to the decrease in realized gain of $13.6 million and the decrease in unrealized gain of $31.1 million, which was in line with the decrease in the market performance in the current year.

The components of net investment income for the years ended June 30, 2015, 2014 and 2013 were as follows (in thousands):

				Increase (Decrease)	
	2015	2014	2013	FY 15-14 Change	FY 14-13 Change
Interest and dividend income	$ 7,974	$ 7,621	$ 10,232	$ 353	$ (2,611)
Net realized gains (losses)	8,336	21,904	4,878	(13,568)	17,026
Net unrealized gains (losses)	(8,232)	22,826	19,102	(31,058)	3,724
Other, net	(3,419)	(831)	(2,006)	(2,588)	1,175
	$ 4,659	$ 51,520	$ 32,206	$ (46,861)	$ 19,314

Private gifts, most of which are restricted as to use, decreased by $29.3 million, or 48 percent, to $31.9 million in fiscal year 2015 when compared to $61.1 million in fiscal year 2014. The fiscal year 2015 decrease was primarily attributable to a one-time $40 million donation received in fiscal year 2014 offset by a one-time $5.7 million donation received in fiscal year 2015. 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 73.1 percent during fiscal year 2015 and 71.0 percent during fiscal year 2014, were related to compensation and benefits.

Compensation and benefits increased by $22.6 million, or 2.1 percent, to $1,093.0 million in fiscal year 2015 as compared to fiscal year 2014.

The fiscal year 2015 increase was attributable to pay and postretirement health and life insurance benefit increases offset by a decrease in the number of employees. The University recognized $113.0 million and $106.8 million related to postretirement health and life insurance benefits in fiscal years 2015 and 2014, respectively. The increase was due to enacted Act 268, SLH 2013 during the 2013 legislative session. The Act requires the State and the University to establish a phased annual contribution schedule starting in fiscal year 2015 to fully fund the Annual Required Contribution as determined by an actuary within 30 years. As a result, the discount rate used to calculate the liability has changed from four percent to seven percent, which resulted in a lower cost in fiscal year 2014.

Supplies, services and cost of goods sold expense includes service fees, printing and binding, advertising, dues and subscriptions, controlled property acquisitions, cost of goods sold for resale items, and other miscellaneous operating costs. In fiscal year 2015, such expenses decreased by $32.9 million, or 13.8 percent, to $205.8 million as compared to fiscal year 2014. The fiscal year 2015 decrease was primarily attributable to the decrease in sponsored project expenditures due to the sunset of ARRA of 2009 funds.

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 decreased by $1 million, or 0.5 percent, to $179.1 million in fiscal year 2015 as compared to the prior fiscal year 2014. The decrease in fiscal year 2015 is in line with decreased enrollment offset by scheduled tuition increases.

The University depreciates its capital assets over their estimated useful lives using the straight-line method. Depreciation expense increased by $11.9 million, or 10.9 percent, to $121.4 million during fiscal year 2015 as compared to fiscal year 2014. The increase in 2015 was primarily attributable to building and equipment additions and reclassifications from construction in progress.

Transfers from State amounted to $191.6 million and $183.5 million in fiscal years 2015 and 2014, respectively. Transfers from State were primarily for fringe benefit expenses and the UH 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:

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

Other Nonoperating Activities

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

In fiscal year 2015, capital gifts and grants, including state capital appropriations and transfers, increased by $25.1 million, or 17.2 percent, to $171.2 million compared to $146.1 million in fiscal year 2014. The State of Hawai‘i capital appropriations increased by $19.8 million, or 13.9 percent, to $161.8 million. Other capital gifts and grants during fiscal year 2015 included federal capital grants of $4.5 million and private capital gifts and grants of $5.9 million.

Cash Flows

The Consolidated Statements of Cash Flows present the University's significant sources and uses of cash and cash equivalents, including restricted cash balances. The University's cash is comprised primarily of cash held with the state treasury, demand deposits, and time certificates of deposit with an original maturity of three months or less. A summary of the University's cash flows for the years ended June 30, 2015, 2014 and 2013 are as follows (in thousands):

	2015	2014	2013	FY 15 vs. 14 Change	FY 14 vs. 13 Change
Cash received from operations	$ 799,834	$ 799,092	$ 778,370	$ 742	$ 20,722
Cash payments for operations	(1,299,687)	(1,314,062)	(1,331,830)	14,375	17,768
Net cash used in operating activities	(499,853)	(514,970)	(553,460)	15,117	38,490
Net cash provided by noncapital financing activities	538,045	508,527	501,084	29,518	7,443
Net cash used in capital and related financing activities	(36,149)	(50,446)	(110,101)	14,297	59,655
Net cash provided by investing activities	23,461	42,492	185,614	(19,031)	(143,122)
Net increase (decrease) in cash	25,504	(14,397)	23,137	39,901	(37,534)
Cash					
Beginning of year	64,307	78,704	55,567	(14,397)	23,137
End of year	$ 89,811	$ 64,307	$ 78,704	$ 25,504	$ (14,397)

The University’s cash and cash equivalents increased by $25.5 million, or 40 percent, to $89.8 million at June 30, 2015 from $64.3 million at June 30, 2014. During fiscal year 2015, $499.9 million in cash was used for operating activities, offset by $538.0 million in cash provided by noncapital financing activities. Net cash used in capital and related financing activities amounted to $36.1 million and $50.4 million in fiscal years 2015 and 2014, respectively.

The $14.3 million decrease in cash used in capital and related financing activities in fiscal year 2015 as compared to fiscal year 2014 was primarily attributable to a decrease in capital asset purchases of $44.2 million, offset by an increase in capital gifts and grants of $11.4 million and a $20.0 million transfer of funds for reimbursement of preconstruction costs associated with the UH Cancer Center.

Looking Forward

The University of Hawai‘i plays a vital role as the sole public higher education institution in the State of Hawai‘i and has a total estimated impact of $3.61 billion on Hawai‘i’s economy. To effectively provide higher education to the community, the University has developed and implemented a results-focused strategic plan that is aimed at increasing graduation opportunities, providing affordable access to students, driving economic innovation throughout the State, modernizing the University’s facilities, and implementing cost-effective, transparent and accountable practices to ensure the University’s financial viability and sustainability.

Looking toward the future, Hawai‘i’s economy is expected to continue positive growth into 2016. While the tourism and construction industries continue to increase, the government and military sectors remain stable. The robust economy resulted in declining unemployment from 4.2 percent in 2014 to three percent in 2015.

While caution is being exercised in light of federal program cutbacks as well as realignment of research and development funding to improve health care and expanding coverage through the Affordable Care Act, the University achieved an 8.5 percent increase in funding from sponsored awards. This increase has positioned the University 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

As the sole provider of public higher education in Hawai‘i, the University’s enrollment remains near historic highs with a highly diverse ethnic mix of students. In academic year 2014–2015, total full time equivalent enrollment equaled 39,237, with over 16,000 at Mānoa, 3,500 at UH-Hilo, 1,600 at West O’ahu, and the remaining 17,800 throughout the University’s community college campuses. The applications, acceptances and new enrollments at UH Mānoa, the System’s largest campus, have been relatively stable with enrollment slightly down from 4,162 in academic year 2012–2013 to 3,852 in 2014–2015. Enrollment grew during the recession but has since moderated due to the strong economy in Hawai‘i.

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 to public higher education in the State of Hawai‘i.

The University is committed to maintaining affordability for underserved and low income target groups, with a portion of the additional revenues generated by tuition increases used to enhance financial aid. Institutional financial aid increased for students from $34.8 million in academic year 2007–2008 to $65.2 million in academic year 2013–2014.

Extramural Funds

Funding profile uncertainties with sponsored agencies, federal sequestration and the realignment of research and development (“R&D”) funding priorities have impacted the research community nationwide. In order to minimize the impact by the federal funding reduction and build a steady stream of revenue for future years, the University has strategically diversified a mix of research programs and funding. In 2015, the percentage of awards from the federal government has been reduced to 66 percent from 74 percent in 2011. The extramural funds also include a mix of research and non-research programs that provide financial stability and balance to the University. About 40–50 percent of the projects are non-research in nature and are for training, workforce development, outreach and community services, clinical trials, and others.

For fiscal year 2015, extramural awards totaled $425 million, which reflects an increase of 8.5 percent over last year’s total of $392 million and marked the first increase in extramural award funding after three straight years of decline. One of the significant awards received by the University’s community colleges and University campuses was $69 million in federal grants to support programs serving Native Hawaiians, from pre-school through college and career training. These funds are supporting innovations on campuses, leadership development for Native Hawaiians, STEM education, college student success and Hawai’i culture and language.

Facilities and Infrastructure

The University has a strong commitment to its core facilities and infrastructure. In the past three years, the University completed many major construction projects, which include a new campus at West Oahu, an innovative Cancer Center, an Information Technology Center building that serves all 10 campuses, and new buildings at the Hilo campus, Maui College and Windward Community College to accommodate anticipated enrollment growth. The State of Hawai‘i Legislature continued its strong support of the University’s capital improvement program and provided general obligation bond appropriations for the 2013–2015 and 2011–2013 fiscal biennia that were approximately $390 million and $297 million, respectively.

The University’s recent capital plan has been focusing predominantly on addressing deferred maintenance, as exemplified by the Board of Regents instituting a moratorium on new construction until the deferred maintenance backlog has been adequately addressed. The goal is to reduce the deferred maintenance backlog to 40 percent of current levels by the year 2021.

In September 2015, the University issued Series 2015-A Taxable Revenue Bonds to fund two new but strategic construction projects: $5 million for the Hilo College of Pharmacy and $3.5 million for the Law School. Both projects were also funded with $28 million and $3.5 million, respectively, in GO bond funds.

Fundraising

The University launched a seven-year $500 million fundraising campaign and began its “quiet phase” on July 1, 2011. Since the launch of the campaign, the University has consistently exceeded the fundraising goals. In fiscal year 2015, the University had another record year and raised $129.0 million as compared to $98.6 million in fiscal year 2014 and $66.3 million in fiscal year 2013.

State General Fund Appropriations

The State of Hawaiʻi continues to provide strong support to the University as the sole provider of public higher education in Hawaiʻi. When compared to other universities in the nation, the University is well supported by the State and is ranked 11th in the category of higher education operating appropriation per full-time equivalent in 2014. The Hawaiʻi Governor supported, and the State Legislature appropriated, an increase of $18 million, or 4.4 percent, in general funds to the University's fiscal year 2016 operating budget. These funds were allocated throughout the campuses to fund faculty salary increases that were negotiated through collective bargaining. Future general fund appropriations are dependent upon quarterly State Council of Revenues projections and priorities yet to be articulated by the newly elected Governor and State legislature. The Board of Regents has been working closely with the University leadership in reviewing the fiscal year 2017 campus financial operating plans, to include campus minimum operating reserves to ensure sufficient operating funds for Academic Year 2015–2016, and beyond.

Hawaiʻi Graduation Initiative and 15 to Finish Campaign

Hawaiʻi 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 Hawaiʻi P-20 goal to increase the number of working age adults in the state who hold a degree to 55 percent by 2025. Because of this focused effort, the UH campuses have increased the number of degrees and certificates awarded to 11,104 or by 34 percent since 2010.

15 to Finish is a campaign within the University of Hawaiʻi's Hawaiʻi Graduation Initiative. The campaign encourages students attending or planning to attend the University's two or four-year campuses to take 15 credits per semester to graduate on time. The campaign has garnered national attention. In Fall 2015, there was a 34.6 percent increase in the number of undergraduate students taking 15 credits or more system-wide since 2009. Because of these and other measures, Hawaiʻi 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.

Hawaiʻi Innovation Initiative

To leverage its distinctive strengths in earth and ocean sciences, astronomy, evolutionary biology, and energy research, the University is working in partnership with community and business groups to build the state's research industry through the Hawaiʻi Innovation Initiative. The goal of this initiative is to build a thriving research enterprise that will be driven by the growth of new industries including a robust advanced manufacturing community in Hawaiʻi – fueled by the University's plans to commercialize its research and to employ and develop top researchers in several focus areas over the next decade. Between 2010–2014, the University completed 200 invention disclosures, issued 30 patents, and created eight start-ups.

University of Hawai‘i
State of Hawai‘i
Consolidated Statements of Net Position
June 30, 2015 and 2014
(All dollars reported in thousands)

	2015	2014
Assets and Deferred Outflows of Resources		
Current assets		
Cash and cash equivalents	$ 89,811	$ 64,307
Operating investments	285,241	278,046
Due from State of Hawai‘i	188	924
Accounts receivable, net	87,719	89,301
Current portion of notes and contributions receivable, net	16,221	17,788
Accrued interest receivable	583	450
Inventories	11,765	11,608
Prepaid expenses and other current assets	12,916	11,989
Total current assets	504,444	474,413
Noncurrent assets		
Due from State of Hawai‘i	399,144	349,084
Endowment and other investments	477,243	499,460
Notes and contributions receivable, net	48,155	52,116
Capital assets, net	2,068,691	2,071,850
Other noncurrent assets	19,541	17,703
Total noncurrent assets	3,012,774	2,990,213
Total assets	3,517,218	3,464,626
Deferred outflows of resources		
Deferred loss on refunding	5,251	5,576
Difference between expected and actual experience	13,859	-
Pension contributions subsequent to measurement date	120,989	-
Total deferred outflows of resources	140,099	5,576
Total assets and deferred outflows of resources	$ 3,657,317	$ 3,470,202
Liabilities, Deferred Inflows of Resources and Net Position		
Current liabilities		
Accounts payable	$ 56,702	$ 71,078
Accrued payroll and fringe benefits	57,434	57,496
Advances from sponsors	33,979	26,636
Unearned revenue	48,361	44,010
Due to State of Hawai‘i	12,510	6,272
Current portion of long-term liabilities	51,923	49,186
Other current liabilities	9,138	8,905
Total current liabilities	270,047	263,583
Noncurrent liabilities		
Accrued vacation	44,618	44,341
Accrued workers’ compensation	9,926	8,918
Net pension liability	1,089,882	-
Other postemployment benefits	650,805	579,196
Due to State of Hawai‘i	195	380
Revenue bonds payable	561,470	578,585
Premium on bonds payable	2,972	3,802
Note payable	17,000	17,000
Other noncurrent liabilities	16,819	12,871
Total noncurrent liabilities	2,393,687	1,245,093
Total liabilities	2,663,734	1,508,676
Deferred inflows of resources		
Difference between projected and actual earnings on pension plan	126,487	-
Changes in proportionate rate	24,675	-
Total deferred inflows of resources	151,162	-
Commitments and contingencies		
Net position		
Net investment in capital assets	1,503,902	1,519,669
Restricted		
Nonexpendable	235,894	218,133
Expendable	644,743	598,070
Unrestricted	(1,542,118)	(374,346)
Total net position	842,421	1,961,526
Total liabilities, deferred inflows of resources and net position	$ 3,657,317	$ 3,470,202

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, 2015 and 2014
(All dollars reported in thousands)

	2015	2014
Operating revenues		
Student tuition and fees	$ 392,471	$ 377,550
Less: Scholarship allowances	129,811	129,173
Net student tuition and fees	262,660	248,377
Federal appropriations, grants and contracts	325,531	357,185
State and local grants and contracts	29,033	30,072
Nongovernmental sponsored programs	31,696	39,799
Sales and services of educational departments, other	36,163	32,943
Auxiliary enterprises		
Bookstores	22,467	23,638
Student housing (net of scholarship allowances of $1,537 and $1,503)	31,164	29,644
Other auxiliary enterprises revenues	45,521	44,654
Other operating revenues	2,568	2,935
Total operating revenues	786,803	809,247
Operating expenses		
Compensation and benefits	1,093,021	1,070,419
Supplies, services and cost of goods sold	205,833	238,687
Depreciation	121,378	109,458
Telephone and utilities	72,282	79,860
Scholarships and fellowships	49,302	50,835
Travel expenses	33,022	33,279
Repairs and maintenance	33,545	26,907
Rental expenses	12,747	13,043
Other operating expenses	32,762	37,368
Total operating expenses	1,653,892	1,659,856
Operating loss	(867,089)	(850,609)
Nonoperating revenues (expenses)		
State appropriations	413,148	391,266
Federal Pell grants	66,144	67,265
Private gifts	31,870	61,127
Net investment income	4,659	51,520
Interest expense	(27,523)	(26,690)
Net transfers from (to) State of Hawai‘i for		
Fringe benefits	162,969	153,919
Tobacco settlement	1,707	2,644
Interest on Tobacco settlement	(3)	(5)
Hawaii Barrel Tax	2,051	201
School of Nursing	133	983
University of Hawai‘i Cancer Center	6,919	7,893
Loss on disposal of capital assets	(4,907)	(4,486)
Other, net	516	362
Net nonoperating revenues before capital and endowment additions (deductions)	657,683	705,999
Capital – state appropriations	161,822	142,029
Capital – federal grants/subsidies	4,460	15,865
Capital – gifts and grants	5,918	5,901
Net transfers to State of Hawai‘i for capital assets	(1,026)	(17,727)
Transfers from State of Hawai‘i, Tobacco settlement	9,924	9,926
Transfers from State of Hawai‘i, University of Hawai‘i Cancer Center	7,884	7,899
Transfers to Federal – capital assets	(5,315)	(4,156)
Additions to permanent endowments	19,426	9,502
Total other revenues	203,093	169,239
Net nonoperating revenues	860,776	875,238
Change in net position	(6,313)	24,629
Net position		
Beginning of year	1,961,526	1,936,897
Adjustment for change in accounting principle (Note 1)	(1,112,792)	-
Beginning of year, as restated	848,734	1,936,897
End of year	$ 842,421	$ 1,961,526

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, 2015 and 2014
(All dollars reported in thousands)

	2015	2014
Cash flows from operating activities		
Student tuition and fees	$ 261,826	$ 247,158
Grants and contracts	396744	416,854
Other revenues	141,264	135,080
Payments to employees	(862,510)	(847,053)
Payments to suppliers and other	(387,875)	(416,174)
Payments for scholarships and fellowships	(49,302)	(50,835)
Net cash used in operating activities	(499,853)	(514,970)
Cash flows from noncapital financing activities		
State appropriations	413,884	390,671
Gifts and grants for other than capital purposes	113,125	106,180
Transfer from State of Hawai‘i for		
Hawaii Barrel Tax	2,051	201
School of Nursing	133	983
Tobacco Settlement	1,707	2,644
University of Hawai‘i Cancer Center	6,919	7,893
Transfers to State of Hawai‘i for		
Interest on Tobacco Settlement	(3)	(5)
Other receipts (disbursements)	229	(40)
Net cash provided by noncapital financing activities	538,045	508,527
Cash flows from capital and related financing activities		
Capital appropriations	111,762	131,053
Capital gifts and grants	10,382	21,748
Proceeds from note payable	-	500
Purchases of capital assets	(137,954)	(182,112)
Proceeds from sale of capital assets	1,245	5,912
Principal paid on capital debt	(15,521)	(14,906)
Interest paid on capital debt	(29,871)	(30,466)
Advance from State of Hawai‘i	6,000	-
Transfer from State of Hawai‘i, Tobacco settlement	9,924	9,926
Transfer from State of Hawai‘i, University of Hawai‘i Cancer Center	7,884	7,899
Net cash used in capital and related financing activities	(36,149)	(50,446)
Cash flows from investing activities		
Interest and dividends on investments, net	975	7,888
Proceeds from sales and maturities of investments	1,116,678	1,239,893
Purchase of investments	(1,094,192)	(1,205,289)
Net cash provided by investing activities	23,461	42,492
Net increase (decrease) in cash and cash equivalents	25,504	(14,397)
Cash and cash equivalents		
Beginning of year	64,307	78,704
End of year	$ 89,811	$ 64,307

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

University of Hawaiʻi
State of Hawaiʻi
Consolidated Statements of Cash Flows
Years Ended June 30, 2015 and 2014
(All dollars reported in thousands)

	2015	2014
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	$ (867,089)	$ (850,609)
Adjustments to reconcile operating loss to net cash used in operating activities		
On behalf payments by State for fringe benefits	162,969	153,919
Depreciation expense	121,378	109,458
Pension expense	(6,596)	-
Bad debt expense, net	3,454	2,651
Changes in operating assets and liabilities		
Accounts receivable	2,168	4,458
Notes and contributions receivable	317	497
Inventories	(157)	680
Prepaid expenses and other assets	(1,219)	10,097
Accounts payable	(4,990)	(6,063)
Accrued payroll and benefits	923	4,743
Accrued workers' compensation liability	1,244	(430)
Advances from sponsors	7,343	(8,566)
Other postemployment benefits	71,609	64,832
Other, net	8,793	(637)
Net cash used in operating activities	$ (499,853)	$ (514,970)
Supplemental information of noncash transactions		
Noncash contributions	$ 2,196	$ 1,437
Net transfers to State of Hawaiʻi for capital assets	(1,026)	(17,727)
Transfers to Federal for capital assets	(5,315)	(4,156)
Accounts payable for capital assets	20,577	29,963

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

1. Organization and Summary of Significant Accounting Policies

Financial Reporting Entity

The accompanying consolidated financial statements of the University of Hawaiʻi (the "University") include the activities of the University of Hawaiʻi at Mānoa, University of Hawaiʻi at Hilo, University of Hawaiʻi at West Oʻahu, University of Hawaiʻi at Maui College, University of Hawaiʻi 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 Hawaiʻi (the "Research Corporation") and the University of Hawaiʻi 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 Hawaiʻi, 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 Hawaiʻi Foundation, 2444 Dole Street, Bachman Hall, Room 101, Honolulu, HI 96822.

Similarly, the University is fiscally dependent upon the State of Hawaiʻi (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.

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

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

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

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

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

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

Capital Assets
Capital assets are recorded at cost, or if donated, at an appraised value at the date of the gift. Depreciation of capital assets is provided for on a straight-line basis over the estimated useful lives (3 to 100 years) of the respective assets. The University's policy is to capitalize tangible, nonexpendable personal property having an estimated useful life of more than one year. Interest incurred on tax-exempt construction financing, net of investment income on any unspent financing proceeds, is capitalized as a cost of construction. When taxable debt is incurred specifically for a project, interest is capitalized on amounts expended on the project using the weighted-average cost of outstanding borrowings. The capitalization of interest ceases when the project is substantially complete or construction activity is suspended for more than a brief period. The University incurred interest cost of $29,156 and $29,720 for the years ended June 30, 2015 and 2014, respectively, of which capitalized interest as a cost of construction amounted to $1,633 and $3,030, 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.

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

Deferred Outflows of Resources
Deferred outflows of resources represent a consumption of net position that applies to a future period. The University defers recognition of the loss on debt refunding related to issuance of its revenue bonds and amortizes these costs over the life of the bonds using the effective interest rate method. The deferred outflow of resources related to pensions resulted from differences between expected and actual experience which will be amortized over five years and University contributions to the pension plan subsequent to the measurement date of the actuarial valuations for the pension plans which will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

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

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

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

Other Postemployment Benefits
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.

Deferred Inflows of Resources
Deferred inflows of resources represent an acquisition of net position by the University that is applicable to a future reporting period. The deferred inflow of resources related to pensions resulted from the difference between projected and actual earnings on the pension plan and changes in the proportionate rate. These amounts are deferred and amortized over five years.

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

- **Net investment in capital assets** – This component of net position represents the University's total investment in capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those capital assets.

- **Restricted**
  - Nonexpendable – Net position subject to externally imposed stipulations that they be maintained permanently by the University, which includes the University's permanent endowment funds.
  - Expendable – Net position that is restricted for specific purposes by sponsors, donors or law. Restrictions in these assets are released when the University complies with the stipulations required by the sponsor, donor or legislative act.

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

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

Net Position Restricted by Enabling Legislation
GASB Statement No. 46*, Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34*, requires that limitations on the use of net position imposed by enabling legislation be reported as restricted net position. GASB Statement No. 46 also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Restricted net position at June 30, 2015 and 2014 amounted to $880,637 and $816,203, respectively, of which $380,053 and $323,863 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.

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

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

The University also uses a third-party actuary to estimate its net pension liability and postretirement health care and life insurance benefit obligations. The assumptions used to determine the liabilities are described in Notes 14 and 15.

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

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

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

New Accounting Pronouncements

In 2015, the University adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. Management has adopted the new standard as presented in the University’s consolidated financial statements. Due to the adoption of GASB Statement No. 68 in fiscal year 2015, beginning net position was restated. The beginning net position as of July 1, 2014 was restated by $1,112,792 from $1,961,526 to $848,734. Retroactive implementation of GASB Statement No. 68 was not deemed practical due to the cost and timing required to obtain and analyze the activity covering fiscal year 2014. As such, the University's fiscal year 2014 financial statements are presented in accordance with GASB Statement No. 27.

In 2015, the University adopted GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. This Statement amends and addressed an issue regarding application of the transition provisions of Statement No. 68. Management has adopted the new standard as presented in the University’s financial statements.

The GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015. The University is currently evaluating this accounting pronouncement.

The GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The Statement establishes accounting and financial reporting requirements by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The University is currently evaluating this accounting pronouncement.

The GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. The Statement replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The Statement addresses the financial reports of defined benefit other post-employment benefit plans that are administered through trusts that meet specified criteria. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The University is currently evaluating this accounting pronouncement.

The GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The Statement replaces GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Statement will require governments to report a liability on the face of the financial statements for the other post-employment benefits that they provide. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The University is currently evaluating this accounting pronouncement.

The GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The Statement reduces the generally accepted accounting principles (“GAAP”) to two categories of authoritative GAAP. The first category of authoritative GAAP consists of GASB Statements of Governmental Accounting Standards. The second category includes GASB Implementation Guides, GASB Technical Bulletins, and guidance from the American Institute of Certified Public Accountants that is cleared by the GASB. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015. The University is currently evaluating this accounting pronouncement.

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, 2015 and 2014, classified as cash and cash equivalents and operating investments, were $299,528 and $267,023, with corresponding bank balances of $292,908 and $285,460, 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 $282,960 at June 30, 2015 and $280,632 at June 30, 2014. Additional cash equivalent balances of $6,608 at June 30, 2015 and $2,180 at June 30, 2014 represent deposits with investment brokers covered by the Securities Investor Protection Corporation and additional insurance provided by the investment brokers.

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

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

As a result of market fluctuations, the fair market value of certain donor-restricted endowments was less than the historical cost of such funds by $4,161 and $2,099 at June 30, 2015 and 2014, respectively. These unrealized losses have been recorded as reductions in unrestricted net position. Future market gains will be used to restore this deficiency in unrestricted net position before any net appreciation above the historical cost value of such funds increases restricted expendable net position.

- **Endowment funds** are received from benefactors who, by the terms of their conveying instruments, have stipulated that the principal of their gifts may never be expended, and use of the income is generally restricted.

- **Quasi-endowment funds** are funds that have been transferred to the endowment funds by the Board. Use of the income is either restricted by the donor or unrestricted and designated by the Board.

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

(All dollars reported in thousands)

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 2015 and 2014, the University's spending rate policy provided for annual distributions was four and a half percent of the trailing five-year moving average of the endowment fair value.

Investment management fees incurred by the University during fiscal years 2015 and 2014 were $1,423 and $1,486, respectively.

At June 30, 2015 and 2014, the University's investments were comprised of the following:

	2015		2014	
	Fair Value	**Cost**	**Fair Value**	**Cost**
Money market funds	$ 17,880	$ 17,880	$ 25,406	$ 25,406
Fixed income securities	171,488	172,227	197,922	199,786
Equity securities	5,658	5,183	5,754	5,137
Mutual funds	170,153	166,251	159,894	149,981
Time certificates of deposit	210,015	210,015	203,014	203,014
Limited partnerships	75,651	43,105	72,645	42,392
Absolute return	27,814	22,905	26,914	22,349
Real estate	23,957	27,365	24,802	23,435
Other investments	59,868	48,304	61,155	48,525
Total investments	762,484	713,235	777,506	720,025
Less: Current portion	285,241	284,871	278,046	277,865
Total noncurrent investments	$ 477,243	$ 428,364	$ 499,460	$ 442,160

(All dollars reported in thousands)

Changes in the University's investments for the year ended June 30, 2015 were as follows:

	Fair Value	Cost Basis	Net Unrealized Gain (Loss)	Net Realized Gain (Loss)
University Endowment Pool				
End of year	$ 65,557	$ 63,930	$ 1,627	
Beginning of year	66,217	64,643	1,574	
Net change	(660)	(713)	53	$ (234)
Foundation Endowment Pool				
End of year	265,685	217,861	47,824	
Beginning of year	264,174	210,514	53,660	
Net change	1,511	7,347	(5,836)	6,861
Associated Students of the University of Hawai‘i				
End of year	8,099	7,613	486	
Beginning of year	8,251	7,561	690	
Net change	(152)	52	(204)	161
School of Medicine				
End of year	5,516	5,516	-	
Beginning of year	5,622	5,622	-	
Net change	(106)	(106)	-	-
University Bond System				
End of year	24,830	24,830	-	
Beginning of year	53,537	53,539	(2)	
Net change	(28,707)	(28,709)	2	-
Operating investments				
End of year	285,241	284,871	370	
Beginning of year	278,046	277,865	181	
Net change	7,195	7,006	189	49
Other				
End of year	107,556	108,614	(1,058)	
Beginning of year	101,659	100,281	1,378	
Net change	5,897	8,333	(2,436)	1,499
Total investments				
End of year	762,484	713,235	49,249	
Beginning of year	777,506	720,025	57,481	
Net change	$ (15,022)	$ (6,790)	$ (8,232)	$ 8,336

(All dollars reported in thousands)

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

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

(All dollars reported in thousands)

	2015	2014
Summary of net investment income		
Change in unrealized net gain (loss)	$ (8,232)	$ 22,826
Net realized gain	8,336	21,904
	104	44,730
Interest and dividend income	7,974	7,621
Other	(1,996)	655
Investment income before management fees	6,082	53,006
Less: Management fees	1,423	1,486
Net investment income	$ 4,659	$ 51,520

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.

(All dollars reported in thousands)

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

The composition of fixed income securities at June 30, 2015 and 2014, along with credit quality ratings, is summarized below:

		Credit Quality Rating					
	Fair Value	U.S. Govt-Exempt	AAA	AA	A	BBB	Not Rated
2015							
U.S. Treasury	$ 62,153	$ 62,153	$ -	$ -	$ -	$ -	$ -
U.S. government agencies	108,746	-	-	108,746	-	-	-
Corporate bonds	589	-	27	134	264	164	-
Mutual bond funds	106,767	-	-	-	-	-	106,767
Total fixed income securities	$ 278,255	$ 62,153	$ 27	$ 108,880	$ 264	$ 164	$ 106,767

		Credit Quality Rating					
	Fair Value	U.S. Govt-Exempt	AAA	AA	A	BBB	Not Rated
2014							
U.S. Treasury	$ 76,926	$ 76,926	$ -	$ -	$ -	$ -	$ -
U.S. government agencies	120,278	-	-	120,278	-	-	-
Corporate bonds	718	-	-	79	346	293	-
Mutual bond funds	106,417	-	-	-	-	-	106,417
Total fixed income securities	$ 304,339	$ 76,926	$ -	$ 120,357	$ 346	$ 293	$ 106,417

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.

(All dollars reported in thousands)

At June 30, 2015, the composition of the University's fixed income investments and maturities are summarized below:

		Investment Maturities (in Years)			
	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
U.S. Treasury	$ 62,153	$ 20,311	$ 40,118	$ 1,707	$ 17
U.S. government agencies	108,746	36,655	47,824	13,533	10,734
Corporate bonds	589	35	372	182	-
Mutual bond funds	106,767	23,479	20,165	54,866	8,257
Total fixed income securities	$ 278,255	$ 80,480	$ 108,479	$ 70,288	$ 19,008

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, 2015 and 2014, the University's exposure to foreign currency risk expressed in U.S. dollars was not significant.

3. Accounts Receivable

The composition of accounts receivable at June 30, 2015 and 2014 is summarized as follows:

	2015	2014
U.S. government	$ 56,904	$ 58,485
State and local government	7,211	6,403
Private agencies	7,237	7,773
Other	45,372	42,984
	116,724	115,645
Less: Allowance for uncollectible receivables	29,005	26,344
	$ 87,719	$ 89,301

4. U.S. Government Funding

The federal government reimburses the University for certain overhead costs (e.g., facilities and administrative costs) incurred in support of federally-sponsored programs based on cost reimbursement rates negotiated with the University's cognizant agency, the U.S. Department of Health and Human Services. These reimbursements amounted to approximately $44,936 in 2015 and $44,142 in 2014.

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.

(All dollars reported in thousands)

5. Notes and Contributions Receivable

The composition of notes and contributions receivable at June 30, 2015 and 2014 is summarized as follows:

	2015	2014
Student notes		
Federal loan programs	$ 18,181	$ 19,079
State loan programs	7,999	8,095
University loan funds	68	68
Other notes receivable	43	47
Total student and other notes outstanding	26,291	27,289
Less: Allowance for uncollectible receivables	7,760	7,954
Total student and other notes receivable, net	18,531	19,335
Contributions receivable	48,066	52,635
Less: Allowance for uncollectible pledges	1,300	1,207
Less: Discount to present value	921	859
Total contributions receivable, net	45,845	50,569
Total student notes and contributions receivable, net	64,376	69,904
Less: Current portion, net	16,221	17,788
	$ 48,155	$ 52,116

The allowance for uncollectible receivables at June 30, 2015 and 2014 is comprised of:

	2015	2014
Federal Perkins loan program	$ 4,393	$ 4,575
State of Hawaiʻi Higher Education loans	3,305	3,317
Nursing/Health Profession loans	34	34
Hawaiʻi Educator loans	-	-
Short-term loans	28	28
	$ 7,760	$ 7,954

Payments on contributions receivable at June 30, 2015 are expected to be collected in:

Less than one year	$ 13,600
One year to five years	34,466
	$ 48,066

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

(All dollars reported in thousands)

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

During the years ended June 30, 2015 and 2014, the University distributed $2,668 and $2,628 in student loans through the U.S. Department of Education Federal Perkins Loan Program, respectively, and $157,913 and $151,730 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 $39,960 and $9,359 at June 30, 2015 and 2014, respectively, were not recognized as assets in the accompanying consolidated financial statements because of uncertainties with regard to their realizability, valuation, bequest intentions and other conditional promises until the specified conditions are met.

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

6. Inventories

The inventories and the methods of valuation at June 30, 2015 and 2014 are summarized below:

		2015	2014
University of Hawai‘i Bookstore merchandise inventory	Lower of cost or market using the first-in, first-out retail inventory method.	$ 8,396	$ 8,453
University of Hawai‘i Chemistry Stockroom	Cost applied on the first-in, first-out basis.	988	1,103
University of Hawai‘i Facilities Management Warehouse	Cost applied on the first-in, first-out basis.	1,055	1,034
University of Hawai‘i Press merchandise inventory	Job order or specific identification method. Books remaining in the inventory after the first year of publication are written off on the straight-line basis over a five-year period.	758	676
University of Hawai‘i other inventory	Lower of cost or market using the weighted average cost method.	568	342
		$ 11,765	$ 11,608

(All dollars reported in thousands)

7. Capital Assets

A summary of capital assets at June 30, 2015 and 2014 is as follows:

	Beginning Balance	Additions	Deductions	Transfers	Ending Balance
2015					
Nondepreciable capital assets					
Land	$ 36,211	$ -	$ -	$ 1,385	$ 37,596
Construction in progress	230,965	100,367	3,303	(78,241)	249,788
Total capital assets not being depreciated	267,176	100,367	3,303	(76,856)	287,384
Depreciable capital assets					
Land improvements	127,590	307	-	1,116	129,013
Infrastructure	170,432	624	-	3,320	174,376
Buildings	2,192,091	13,474	24,063	67,124	2,248,626
Equipment	383,343	13,368	24,652	5,296	377,355
Library materials	161,839	2,571	-	-	164,410
Total capital assets being depreciated	3,035,295	30,344	48,715	76,856	3,093,780
Less: Accumulated depreciation	1,230,621	121,378	39,526	-	1,312,473
Capital assets, net	$ 2,071,850	$ 9,333	$ 12,492	$ -	$ 2,068,691
2014					
Nondepreciable capital assets					
Land	$ 14,891	$ 87	$ -	$ 21,233	$ 36,211
Construction in progress	397,825	145,838	6,080	(306,618)	230,965
Total capital assets not being depreciated	412,716	145,925	6,080	(285,385)	267,176
Depreciable capital assets					
Land improvements	122,161	28	-	5,401	127,590
Infrastructure	149,100	552	15,290	36,070	170,432
Buildings	1,964,451	15,062	20,988	233,566	2,192,091
Equipment	366,068	22,529	15,602	10,348	383,343
Library materials	159,466	2,373	-	-	161,839
Total capital assets being depreciated	2,761,246	40,544	51,880	285,385	3,035,295
Less: Accumulated depreciation	1,146,842	109,458	25,679	-	1,230,621
Capital assets, net	$ 2,027,120	$ 77,011	$ 32,281	$ -	$ 2,071,850

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 5,374 acres, or 22 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.

(All dollars reported in thousands)

8. Other Noncurrent Assets

Other noncurrent assets at June 30, 2015 and 2014 were comprised of:

	2015	2014
Interest in beneficial trusts held by others	$ 17,044	$ 15,159
Prepaid bond insurance	317	337
Other	2,180	2,207
	$ 19,541	$ 17,703

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, 2015 and 2014 were as follows:

	2015		2014	
	Due from	Due to	Due from	Due to
State appropriations for current operations	$ 188		$ 924	
State capital appropriations – noncurrent	399,144		349,084	
Total due from State of Hawai‘i	$ 399,332		$ 350,008	
Imprest/petty cash advances		$ 84		$ 86
Advance		12,000		6,000
General obligation bonds – current		185		176
Employee fringe adjustments		241		10
Due to State of Hawai‘i – current		12,510		6,272
General obligation bonds – noncurrent		195		380
Total due to State of Hawai‘i		$ 12,705		$ 6,652

(All dollars reported in thousands)

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, 2015 is as follows:

	Original Amount	Beginning Balance	Principal Repayment	Ending Balance
Series DB (interest rate, 2.80% to 5.25%)				
Student Housing				
Mānoa	$ 731	$ 282	$ 89	$ 193
Hilo	143	55	17	38
Parking Structure Phase I	425	164	52	112
	1,299	501	158	343
Series DG (interest rate, 5.00%)				
Student Housing				
Mānoa	82	32	10	22
Hilo	16	5	2	3
Parking Structure Phase I	47	18	6	12
	145	55	18	37
	$ 1,444	$ 556	$ 176	$ 380

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

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

(All dollars reported in thousands)

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, 2015, principal and interest maturities on general obligation bonds are as follows:

	Principal	Interest
Year ending June 30,		
2016	$ 185	$ 1
2017	195	-
	$ 380	$ 1

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.

(All dollars reported in thousands)

11. Long-Term Liabilities

Long-term liability activity for the years ended June 30, 2015 and 2014 is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
2015					
Bonds payable					
Revenue bonds payable	$ 593,930	$ -	$ 15,345	$ 578,585	$ 17,115
Other liabilities					
Workers' compensation	14,268	6,064	4,820	15,512	5,586
Accrued vacation	72,832	26,803	25,795	73,840	29,222
Net pension liability (Note 14)	-	1,329,425	239,543	1,089,882	-
Postretirement health care/life insurance benefits (Note 15)	579,196	113,009	41,400	650,805	-
Note payable	17,000	-	-	17,000	-
Total other liabilities	683,296	1,475,301	311,558	1,847,039	34,808
Total long-term liabilities	$ 1,277,226	$ 1,475,301	$ 326,903	$ 2,425,624	$ 51,923
2014					
Bonds payable					
Revenue bonds payable	$ 608,670	$ -	$ 14,740	$ 593,930	$ 15,345
Other liabilities					
Workers' compensation	14,698	3,866	4,296	14,268	5,350
Accrued vacation	70,758	26,843	24,769	72,832	28,491
Postretirement health care/life insurance benefits (Note 15)	514,364	106,832	42,000	579,196	-
Note payable	16,500	500	-	17,000	-
Total other liabilities	616,320	138,041	71,065	683,296	33,841
Total long-term liabilities	$ 1,224,990	$ 138,041	$ 85,805	$ 1,277,226	$ 49,186

Revenue Bonds Payable

The University's revenue bonds payable at June 30, 2015 and 2014 is as follows:

	Series	Date Issued	Authorized	2015	2014
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	$ 87,540	$ 89,825
University Health & Wellness Center (interest rate, 3.5% to 5.0%)	Ref 2006A	October 25, 2006	133,810	123,140	127,420
Various acquisition and construction projects (interest rate, 2.5% to 6.0%)	2009A	April 15, 2009	100,000	89,820	92,195
University's Cancer Center (interest rate, 2.5% to 6.0%)	2010A-1, 2010A-2	October 7, 2010	138,640	127,600	130,495
Various construction projects (interest rate, 2.5% to 6.0%)	2010B-1, 2010B-2	October 7, 2010	154,090	145,830	147,995
Student Housing System at Mānoa and Telecommunications System (interest rate, 2.0% to 5.0%)	2012A(R)	February 22, 2012	8,575	4,655	6,000
			$ 635,115	$ 578,585	$ 593,930

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 two percent to five percent (first interest payment due on April 1, 2012) and mature on October 1, 2018.

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

The University receives funds from the State of Hawai‘i Tobacco Settlement Special Fund for the payment of principal and interest on the Refunding Series 2006A 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 $9,924 and $9,926 in 2015 and 2014, respectively.

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

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

(All dollars reported in thousands)

At June 30, 2015, future maturities of revenue bonds are as follows:

	Principal	Interest
Year ending June 30,		
2016	$ 17,115	$ 29,126
2017	17,700	28,393
2018	18,585	27,651
2019	18,065	26,836
2020	18,690	25,976
2021–2025	106,450	115,394
2026–2030	126,475	87,007
2031–2035	133,450	53,388
2036–2040	105,800	19,423
2041	16,255	490
	$ 578,585	$ 413,684

In September 2015, the University priced $166,285 in Series 2015A ($8,575, taxable new money), 2015B ($47,010, tax-exempt refunding), 2015C ($17,585, taxable refunding), 2015D ($25,715, taxable refunding), and 2015E ($67,400, tax-exempt forward delivery refunding) bonds (collectively, the “Series 2015 Bonds”) for the purpose of financing the costs of University projects and refunding previously issued bonds. All Series 2015 bonds were closed in September 2015 with the exception of the forward delivery Series 2015E bonds which will close on April 20, 2016. Total premium for the Series 2015 Bonds approximated $13,698. The University projects include the UH Mānoa Law School Expansion and Modernization Project and the UH Hilo College of Pharmacy Project. The Series 2015B and 2015C bonds will refund a portion of the Series 2006A University Revenue Bonds and the Series 2015D and 2015E bonds refunds a portion of the Refunding Series 2006A University Bonds. The coupon interest rates for the Series 2015 Bonds range from 0.811 percent to 5.000 percent (first interest payment due on April 1, 2016) with the last maturity on October 1, 2044.

(All dollars reported in thousands)

Bond Premiums

Activity related to the premiums on general obligation and revenue bonds for the years ended June 30, 2015 and 2014 is as follows:

	Series	Beginning Balance	Additions	Reductions	Ending Balance
2015					
John A. Burns School of Medicine	Ref 2006A	$ 1,256	$ -	$ 73	$ 1,183
University's Cancer Center	2010A	1,030	-	315	715
Various construction projects	2010B	1,511	-	437	1,074
General obligation	DB	4	-	4	-
General obligation	DG	1	-	1	-
Total bond premiums		$ 3,802	$ -	$ 830	$ 2,972
2014					
John A. Burns School of Medicine	Ref 2006A	$ 1,314	$ -	$ 58	$ 1,256
University's Cancer Center	2010A	1,395	-	365	1,030
Various construction projects	2010B	1,976	-	465	1,511
General obligation	DB	9	-	5	4
General obligation	DG	2	-	1	1
Total bond premiums		$ 4,696	$ -	$ 894	$ 3,802

Note Payable

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

The Note bears interest at the rate of 1.5 percent 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, 2015, $17,000 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, 2016. 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, 2015 and 2014. At June 30, 2015 and 2014, there were no borrowings under this line.

(All dollars reported in thousands)

13. Property Leases

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

	Lease Amount
Year ending June 30,	
2016	$ 2,468
2017	1,851
2018	1,760
2019	1,102
2020	555
2021–2025	358
2026–2030	333
Thereafter	1,734
	$ 10,161

Rent expense for outside space for the years ended June 30, 2015 and 2014 approximated $7,540 and $7,913, respectively.

14. Employee Benefits

Employees’ Retirement System
General Information on the Pension Plan

Plan Description
All eligible employees of the University are provided with pensions through a cost-sharing multiple-employer defined benefit pension plan administered by the Employees’ Retirement System of the State of Hawai‘i (“ERS”). Benefit terms, eligibility, and contribution requirements are established by HRS Chapter 88 and can be amended through legislation. The ERS issues a publicly available financial report that can be obtained at ERS’s website: http://ers.ehawaii.gov/.

Benefits Provided
The ERS provides retirement, disability and death benefits that are covered by the provisions of the noncontributory, contributory and hybrid retirement plans. The three plans provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25 percent or 2 percent) multiplied by the average final compensation multiplied by years of credited service. The benefit multiplier decreased by 0.25 percent for new hybrid and contributory plan members hired after June 30, 2012. Average final compensation is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for employees hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for employees hired prior to January 1, 1971.

For members hired before July 1, 2012, the original retirement allowance is increased by 2.5 percent each July 1 following the calendar year of retirement. This cumulative benefit is not compounded and increases each year by 2.5 percent of the original retirement allowance without a ceiling (2.5 percent of the original retirement allowance the first year, 5.0 percent the second year, 7.5 percent the third year, etc.). For members hired after June 30, 2012 the post-retirement annuity increase was decreased to 1.5 percent per year.

Noncontributory Plan

- Retirement Benefits – General employees’ retirement benefits are determined as 1.25 percent of average final compensation multiplied by the years of credited service. Employees with 10 years of credited service are eligible to retire at age 62. Employees with 30 years of credited service are eligible to retire at age 55.

- Disability Benefits – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35 percent of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 12.5 percent of average final compensation.

- Death Benefits – For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a monthly benefit of 30 percent of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. Additional benefits are payable to surviving dependent children up to age 18. If there is no spouse/reciprocal beneficiary or dependent children, no benefit is payable.

  Ten years of credited service is required for ordinary death benefits. For ordinary death benefits, the surviving spouse/reciprocal beneficiary (until remarriage/reentry into a new reciprocal beneficiary relationship) and dependent children (up to age 18) receive a benefit equal to a percentage of member’s accrued maximum allowance unreduced for age or, if the member was eligible for retirement at the time of death, the surviving spouse/reciprocal beneficiary receives 100 percent joint and survivor lifetime pension.

Contributory Plan for Employees Hired prior to July 1, 2012

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

- Disability Benefits – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 66-2/3 percent of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 30 percent of average final compensation.

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

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

Hybrid Plan for Employees Hired Prior to July 1, 2012

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

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

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

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

Hybrid Plan for Employees Hired After June 30, 2012

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

- Disability and Death Benefits – Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least 10 years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage multiplied by 50 percent Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death and designated one beneficiary, or 100 percent Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Contributions

Contributions are established by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rates for fiscal year 2015 and 2014 16.50 percent and 16.00 percent, respectively. Contributions to the pension plan from the University for the years ended June 30, 2015, 2014 and 2013 were $92,988, $87,753 and $84,154, respectively.

The University is required to make all contributions for members in the noncontributory plan. For contributory plan employees hired prior to July 1, 2012, general employees are required to contribute 7.8 percent of their salary. Hybrid plan members hired prior July 1, 2012 are required to contribute 6.0 percent of their salary. Hybrid plan members hired after June 30, 2012 are required to contribute 8.0 percent of their salary.

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

At June 30, 2015, the University reported a liability of $1,089,882 for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The University's proportion of the net pension liability was based on a projection of the University's long-term share of contributions to the pension plan relative to projected contributions of all participants, actuarially determined. At June 30, 2014, the University's proportion was 13.59 percent which was an increase of 0.16 percent from its proportion measured as of June 30, 2013.

There were no changes in other assumptions and inputs that affected the measurement of the total pension liability since the prior measurement date. There were no changes between the measurement date, June 30, 2014, and the reporting date, June 30, 2015, that are expected to have a significant effect on the proportionate share of the net pension liability.

(All dollars reported in thousands)

For the year ended June 30, 2015, the University recognized pension expense of $87,780. At June 30, 2015, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 13,859	$ -
Net difference between projected and actual investment earnings on pension plan investments	-	126,487
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	24,675
Contributions subsequent to the measurement date	120,989	-
Total deferred inflows and outflows of resources	$ 134,848	$ 151,162

The $120,989 of deferred outflows of resources resulting in the University's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred (inflows) of resources will be recognized in pension expense as follows:

Year ending June 30,	
2016	$ 33,891
2017	33,891
2018	33,891
2019	33,891
2020	1,739
	$ 137,303

Actuarial Assumptions

The total pension liability as of the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Inflation	3.00 %
Payroll growth rate	3.50 %
Investment rate of return	7.75 %

Post-retirement mortality rates are based on Client Specific Tables and the 1994 U.S. Group Annuity Mortality Statistic Tables for police and firefighters. Pre-retirement mortality rates are based on the RP-2000 tables.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period for the five-year period ending June 30, 2010. ERS updates their experience studies every five years.

(All dollars reported in thousands)

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

	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	30%	8.50%
International equity	26%	9.00%
Total fixed-income	20%	3.10%
Real estate	7% *	8.46%
Private equity	7% *	11.75%
Real return	5% *	6.10%
Covered calls	5%	7.65%
Total	100%	

* The real estate, private equity and real return targets will be the percentage actually invested up to 7.0%, 7.0% and 5.0%, respectively, of the total fund. Changes in the real estate, private equity and real return targets will be offset by an equal percentage in the large cap domestic equity target.

Discount Rate

The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability. There has been no change to the discount rate since the prior measurement date.

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

The following presents the University's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent) or one percentage point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Discount Rate (7.75%)	1% Increase (8.75%)
The University's proportionate share of the net pension liability	$ 1,381,405	$ 1,089,882	$ 798,360

Plan Fiduciary Net Position

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

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

Payable to the Pension Plan

At June 30, 2015, the amount payable to the ERS was $1,204.

Other Benefits

The State absorbs the fringe benefit cost for employees paid from State and federal appropriations. In fiscal years 2014 and 2013, the State appropriated funds to the Department of Budget and Finance to pay for these fringe benefit costs on behalf of the University. Fringe benefit costs included in total revenue and total expenditures amounted to $179,007 and $168,891 for fiscal years 2015 and 2014, 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, 2015 and 2014, accumulated sick leave approximated $443,641 and $428,237, 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 2015 and 2014 were $2,377 and $2,080, respectively. Temporary wage loss payments for fiscal years 2015 and 2014 amounted to $795 and $577, respectively.

15. Postemployment Benefits Other than Pensions

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

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.

(All dollars reported in thousands)

Funding Policy and Annual OPEB Cost

Employer contributions are financed on a pay-as-you-go basis. The University's contributions are calculated as part of the State's total contribution requirements and are reimbursed to the State's General Fund as part of the fringe benefit rate on the University employees' actual salaries. The University's annual OPEB cost is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 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, 2015:

Projected June 30, 2015 Net OPEB Obligation ("NOO")

July 1, 2014 net OPEB obligation	$ 579,196
Plus: Annual OPEB cost	113,009
Less: Employer contributions (estimated "pay as you go" method)	41,400
Equals: Expected June 30, 2015 net OPEB obligation	$ 650,805

The University remitted $57,438 and $56,972 in State assessed OPEB contributions for the years ended June 30, 2015 and 2014, respectively. The University's actuarially determined minimum OPEB contribution was $41,400 and $42,000 for the years ended June 30, 2015 and 2014, 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, 2015	$113,009	36.6%	$650,805
June 30, 2014	$106,832	39.3%	$579,196
June 30, 2013	$142,602	29.2%	$514,364

(All dollars reported in thousands)

Funded Status

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

Actuarial value of assets	$ -
Actuarial accrued liability	1,265,625
Unfunded actuarial accrued liability (“UAAL”)	$ 1,265,625
Funded ratio	0%
Covered payroll (active plan members)	$ 564,736
UAAL as a percentage of covered payroll	224.1%

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

Actuarial Methods and Assumptions

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

State of Hawai‘i actuarial valuation date	July 1, 2013
Actuarial cost method	Entry age normal
Amortization method	Level percentage, closed
Amortization period	30 years
Asset valuation method	Fair value
Actuarial assumptions	
Investment rate of return	7.0%
Projected salary increases	3.5%
Health care inflation rates	
PPO	9.0% initial, 5.0% after 10 years
HMO	7.5% initial, 5.0% after 10 years
Dental	4.0%
Vision	3.0%
Medicare Part B	5.0%

(All dollars reported in thousands)

16. Other Noncurrent Liabilities

Other noncurrent liabilities at June 30, 2015 and 2014 are comprised of:

	2015	2014
Liabilities under split interest agreements	$ 9,999	$ 6,889
Amounts held for others	3,645	3,182
Other	3,175	2,800
	$ 16,819	$ 12,871

17. State Appropriations

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

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

Act 122, SLH 2014 Section 35, provided $106,110 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, 2015.

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

The net amount of the University’s State general and capital appropriations for the years ended June 30, 2015 and 2014 were $413,148 and $161,822 and $391,266 and $142,029, respectively.

(All dollars reported in thousands)

Net general and capital appropriations for the year ended June 30, 2015 were as follows:

General appropriations	
Act 134, SLH 2013, Amended by Act 122, SLH 2014 Appropriation Warrant No. 35	$ 409,656
Act 122, SLH 2014, Appropriation Warrant No. 117	200
Total funds lapsed	(34)
Executive Restriction	(5,375)
Collective bargaining adjustment	8,701
Total general appropriations	$ 413,148
Capital appropriations	
Sections 39 & 71 of Act 134, SLH 2013, Amended by Act 122 SLH 2014	$ 90,500
Sections 39 of Act 134, SLH 2013, Amended by Act 122, SLH 2014	73,800
Total funds lapsed	(2,478)
Total capital appropriations	$ 161,822

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

General appropriations	
Act 134, SLH 2013, Amended by Act 122, SLH 2014 Appropriation Warrant No. 35	$ 386,721
Act 237, SLH 2013, Appropriation Warrant No. 89	500
Act 272, SLH 2013, Appropriation Warrant No. 97	100
Act 275, SLH 2013, Appropriation Warrant No. 89	150
Total funds lapsed	(158)
Collective bargaining adjustment	3,953
Total general appropriations	$ 391,266
Capital appropriations	
Act 134, SLH2013	$ 83,900
Sections 39 & 71 of Act 134, SLH 2013	51,940
Section 39 of Act 134, SLH 2013	10,000
Total funds lapsed	(3,811)
Total capital appropriations	$ 142,029

(All dollars reported in thousands)

18. Blended Component Information

The following condensed combining information summarizes the individual components of the University's consolidated financial position, results of operations and cash flows as of and for the years ended June 30, 2015 and 2014:

Condensed Consolidating Statements of Net Position

	2015				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Assets and deferred outflows of resources					
Current assets	$ 436,106	$ 39,487	$ 28,851	$ -	$ 504,444
Interdepartmental receivables	25,600	4,148	39,960	(69,708)	-
Capital assets, net	2,064,651	1,757	2,283	-	2,068,691
Other assets	520,926	-	423,157	-	944,083
Total assets	3,047,283	45,392	494,251	(69,708)	3,517,218
Deferred outflows of resources	140,099	-	-	-	140,099
Total deferred outflows of resources	140,099	-	-	-	140,099
Total assets and deferred outflows of resources	$ 3,187,382	$ 45,392	$ 494,251	$ (69,708)	$ 3,657,317
Liabilities					
Current liabilities	$ 240,491	$ 28,261	$ 1,295	$ -	$ 270,047
Interdepartmental payables	22,508	2,204	4,972	(29,684)	-
Noncurrent liabilities	2,375,511	4,532	13,644	-	2,393,687
Total liabilities	2,638,510	34,997	19,911	(29,684)	2,663,734
Deferred inflows of resources	151,162	-	-	-	151,162
Total deferred inflows of resources	151,162	-	-	-	151,162
Net position					
Net investment in capital assets	1,499,861	1,757	2,284	-	1,503,902
Restricted					
Nonexpendable	10,493	-	265,361	(39,960)	235,894
Expendable	440,642	-	204,101	-	644,743
Unrestricted	(1,553,286)	8,638	2,594	(64)	(1,542,118)
Total net position	397,710	10,395	474,340	(40,024)	842,421
Total liabilities, deferred inflows of resources and net position	$ 3,187,382	$ 45,392	$ 494,251	$ (69,708)	$ 3,657,317

(All dollars reported in thousands)

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

(All dollars reported in thousands)

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

	2015				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Operating revenues					
Student tuition and fees, net	$ 263,247	$ -	$ -	$ (587)	$ 262,660
Federal appropriations, grants and contracts	325,531	-	-	-	325,531
State and local grants and contracts	28,297	2,125	-	(1,389)	29,033
Nongovernmental sponsored programs	45,729	-	-	(14,033)	31,696
Sales and services of educational departments, other	32,318	4,384	6,844	(7,383)	36,163
Auxiliary enterprises	99,166	-	-	(14)	99,152
Other operating revenues	616	-	1,952	-	2,568
Total operating revenues	794,904	6,509	8,796	(23,406)	786,803
Operating expenses					
Depreciation	121,126	216	36	-	121,378
Other operating expenses	1,498,021	5,915	54,820	(26,242)	1,532,514
Total operating expenses	1,619,147	6,131	54,856	(26,242)	1,653,892
Operating income (loss)	(824,243)	378	(46,060)	2,836	(867,089)
Nonoperating activity					
Nonoperating revenues (expenses)	457,576	91	34,258	(3,111)	488,814
Capital contributions and additions to permanent and term endowments	166,269	(2)	50,027	(30,601)	185,693
Special and extraordinary items	-	-	-	-	-
Transfers	186,269	(250)	-	250	186,269
Total nonoperating activity	810,114	(161)	84,285	(33,462)	860,776
Increase (decrease) in net position	(14,129)	217	38,225	(30,626)	(6,313)
Net position					
Beginning of year	1,524,632	10,178	436,115	(9,399)	1,961,526
Adjustment for change in accounting principle	(1,112,792)	-	-	-	(1,112,792)
Beginning of year, as restated	411,840	10,178	436,115	(9,399)	848,734
End of year	$ 397,711	$ 10,395	$ 474,340	$ (40,025)	$ 842,421

(All dollars reported in thousands)

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

Condensed Consolidating Statements of Cash Flows

	2015			
	University	Research Corporation	Foundation	Total
Net cash provided by (used in)				
Operating activities	$ (495,020)	$ (5,474)	$ 641	$ (499,853)
Noncapital financing activities	531,407	(250)	6,888	538,045
Capital and related financing activities	(35,447)	(702)	-	(36,149)
Investing activities	23,320	89	52	23,461
Total change in cash	24,260	(6,337)	7,581	25,504
Cash and cash equivalent balances				
Beginning of year	23,146	37,311	3,850	64,307
End of year	$ 47,406	$ 30,974	$ 11,431	$ 89,811

(All dollars reported in thousands)

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

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 from ceded lands. The University's financial statements reflect the liabilities and disbursements in connection with this agreement.

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

Construction and Other Contracts
The University is committed under contracts awarded for construction and other services. These commitments amounted to approximately $165,506 and $207,076 as of June 30, 2015 and 2014.

Collective Bargaining Agreements
The Hawaii State Constitution under Article XIII, Section 2, grants public employees in the State the right to organize for the purpose of collective bargaining as provided by law. Chapter 89, HRS, provides for 14 recognized bargaining units ("BU") for all public employees throughout the State, including State, county and municipal employees. Each BU is represented by an employee organization otherwise known as the exclusive bargaining representative of all employees within each unit which negotiates with the public employer. For the purpose of negotiating a collective bargaining agreement ("CBA"), the public employer of an appropriate BU is statutorily defined by law under HRS, §89-6. In BUs with employees in multiple jurisdictions (i.e., State, Counties, Judiciary, Hawaii Health Systems Corporation), the public employer includes the Governor and an employer representative from each applicable jurisdiction to include the Mayors, the Chief Justice, the Hawaii Health Systems Corporation board, the President of the University, the Superintendent of Education, the Board of Regents of the University, and the Board of Education. In the case of the University's BUs 7 and 8 employees, the public employers are the Governor, the Board of Regents, and the President of the University.

Decisions by the employer representatives of the State and county employees are determined by simple majority vote with the Governor having varying numbers of votes depending on the bargaining unit involved. Decisions by the public employer of Board of Regent appointed employees (BUs 7 and 8) are determined by simple majority vote with the Governor having three votes, the Board of Regents having two votes, and the University President having one vote. By statute, statutory impasse is declared by the Hawaii Labor Relations Board on February 1st in the final year of any contract if there is no resolution by January 31st, and the parties may attempt to resolve the impasse through voluntary mediation and mandatory mediation. If the impasse is not resolved through mediation, for BUs 2, 3, 4, 6, 8, 9, 10, 11, 12, 13 and 14, it shall be submitted to a three-member arbitration panel (i.e., interest arbitration) for these bargaining units do not have the right to strike. The BUs that do have the right to strike (i.e., BUs 1, 5 and 7) are still able to mutually agree to other impasses processes and procedures, including the possibility of entering into interest arbitration. Although the statute characterizes arbitration decision as "final and binding," it also provides that all cost items are subject to appropriations by the appropriate legislative bodies.

Employees of the University belong to one of eight BUs: Unit 1 (nonsupervisory employees in blue collar positions), Unit 2 (supervisory employees in blue collar positions), Unit 3 (nonsupervisory employees in white collar positions), Unit 4 (supervisory employees in white collar positions), Unit 7 (faculty of the University), Unit 8 (personnel of the University, other than faculty), Unit 9 (registered professional nurses) or Unit 10 (institutional, health and correctional workers). Employees in executive/managerial positions, as well as certain other personnel designated as excluded from collective bargaining pursuant to HRS, §89-6(f), are not represented by any union, and some employees (e.g., certain contractual hires) are not parties to any recognized bargaining unit.

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 five percent salary reduction during fiscal years 2012 and 2013. Thereafter, multi-year, successor CBAs for BUs 1, 2, 3, 4, 8, 9 and 10 were reached between the unions and the Employer in 2013. CBAs pertaining to BUs 2, 3, 4, 8 and 9 were 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 stipulated across-the-board (“ATB”) salary increases or changes to salary schedules that effectively increase salaries in each year covered by the terms of these agreements which have already been legislatively approved.

The Unit 7 faculty members of the University were under a six-year CBA covering the period July 1, 2009 through June 30, 2015. The subject Unit 7 CBA included a provision to temporarily reduce the salaries of faculty paid by appropriated funds by 6.667 percent 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 stipulated 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 percent), 2014 (25 percent) and 2015 (50 percent) all due on August 1st of each respective fiscal year. The Unit 7 CBA also provided for all faculty members to have their base salaries increased by three percent effective July 1, 2013 and July 1, 2014.

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

Negotiations for BUs 2, 3, 4 and 9 are completed and have ratified and agreed upon successor bargaining contracts for the period July 1, 2015 to June 30, 2017. The aforementioned CBAs stipulated step movements and ATB salary increases, or changes to salary schedules, that effectively increase salaries in each year covered by the terms of these agreements which have already been legislatively approved. The University completed interest arbitration proceedings in early July 2015 with the Hawai‘i Government Employees Association for BU 8 administrative, professional and technical employees of the University for a successor contract beyond July 1, 2015. The University’s employees in BU 1 and BU 10 are working under a four-year contract that covers the period July 1, 2013 to July 1, 2017.

Required Supplementary Information Other Than Management's Discussion and Analysis

University of Hawai‘i
State of Hawai‘i
Schedule of Proportionate Share of the Net Pension Liability (Unaudited)
Schedule of Contributions (Unaudited)
Year Ended June 30, 2015
(All dollars reported in thousands)

Net Pension Liability

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

Fiscal Year Ending	Proportionate Share of the Net Pension Liability as a Percentage	Proportionate Share of the Net Pension Liability as an Amount (a)	Annual Covered Payroll (b)	Proportion of the Net Pension Liability as a Percentage of Covered Payroll (a) / (b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2015	13.60%	$1,089,882	$564,736	193%	63.92%
June 30, 2014	13.75%	$1,227,787	$550,758	223%	57.96%

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Contributions

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a) - (b)	Covered Annual Payroll (c)	Contributions as a Percentage of Covered Payroll (a) / (c)
June 30, 2015	$88,381	$88,381	$0	$567,567	15.57%
June 30, 2014	$80,765	$80,765	$0	$550,758	14.66%

1. **Changes of benefit terms**

   There were no changes of benefit terms in 2015 or 2014.

2. **Changes of assumptions**

   There were no changes of assumptions in 2015 or 2014.

(All dollars reported in thousands)

Postemployment Benefits Other than Pensions

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b) - (a)	Funded Ratio (a) / (b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b) - (a) / (c)
July 1, 2013	$0	$1,185,790	$1,185,790	0%	$550,758	215.3%
July 1, 2011	$0	$1,860,680	$1,860,680	0%	$503,900	369.3%
July 1, 2009	$0	$1,849,949	$1,849,949	0%	$495,498	373.4%

Other Supplementary Information

Accuity LLP

CERTIFIED PUBLIC ACCOUNTANTS

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, 2015 and 2014, 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.

Accuity LLP

Honolulu, Hawai'i
February 11, 2016

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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, 2015 and 2014
(All dollars reported in thousands) Schedule I

	2015	2014
Condensed statements of net position		
Assets		
Current assets	$ 264,216	$ 251,619
Noncurrent assets	2,181	2,207
Total assets	$ 266,397	$ 253,826
Liabilities		
Current liabilities	$ 91,573	$ 80,830
Noncurrent liabilities	18,742	17,640
Total liabilities	110,315	98,470
Net position		
Unrestricted	156,082	155,356
Total net position	156,082	155,356
Total liabilities and net position	$ 266,397	$ 253,826
Condensed statements of revenues, expenses and changes in net position		
Operating revenues	$ 371,244	$ 354,256
Operating expenses	401,395	416,097
Operating loss	(30,151)	(61,841)
Nonoperating revenues and transfers	56,837	61,610
Nonoperating expenses and transfers	25,960	44,075
Change in net position	726	(44,306)
Net position		
Beginning of year	155,356	199,662
End of year	$ 156,082	$ 155,356

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 Refunding Series 2006A University 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.

(All dollars reported in thousands) Schedule I

2. Employee Benefits

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

In accordance with University policy, the University's liability for pension benefits, deferred outflows and deferred inflows of resources related to pensions (“pension benefits”) are not allocated internally to individual departments and funds. Accordingly, pension benefits are not reflected in this schedule.

3. Revisions

Certain amounts in the 2014 condensed statement of revenues, expenses and changes in net position – Current Unrestricted Funds Excluding General Fund and University Bond System have been revised due to improper presentation of revenues, expenses and transfers. Such revisions had no impact on the 2014 change in net position as previously reported, however, did impact operating loss and net nonoperating expenses and transfers.

	2014 As Previously Reported	Reclassifications	2014 Revised
Operating revenues	$ 346,444	$ 7,812	$ 354,256
Operating expenses	413,077	3,020	416,097
Operating loss	(66,633)	4,792	(61,841)
Nonoperating expenses and transfers	39,283	4,792	44,075

University of Hawai‘i
State of Hawai‘i
Schedules of Series 2002A University Bond Proceeds Activity
Years Ended June 30, 2015 and 2014
(All dollars reported in thousands) **Schedule II**

	2015	2014
Beginning balance	$ 5,622	$ 6,100
Additions		
Interest and investment income	3	7
Total additions	3	7
Deductions		
Payments – building, construction in progress, other	104	480
Management fees	5	5
Total deductions	109	485
Ending balance	$ 5,516	$ 5,622

1. Basis of Presentation

The accompanying schedules of Series 2002A University Bond proceeds activity present the sources and uses of 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 University Bonds through the issuance of Refunding Series 2006A University Bonds and, in September 2015, priced the Series 2015D and 2015E revenue bonds to refinance a portion of the outstanding Refunding Series 2006A University Bonds. The Series 2015D revenue bonds closed on September 24, 2015 and the forward delivery Series 2015E revenue bonds will close on April 20, 2016. Proceeds from the State’s settlement agreement with tobacco companies are expected to be utilized to service the 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, 2015 and 2014
(All dollars reported in thousands) Schedule III

	2015	2014
Condensed statements of net position		
Assets		
Current assets	$ 297,976	$ 282,790
Noncurrent assets	2,181	2,207
Total assets	$ 300,157	$ 284,997
Liabilities		
Current liabilities	$ 107,977	$ 97,115
Noncurrent liabilities	19,818	18,710
Total liabilities	127,795	115,825
Net position		
Unrestricted	172,362	169,172
Total net position	172,362	169,172
Total liabilities and net position	$ 300,157	$ 284,997
Condensed statements of revenues, expenses and changes in net position		
Operating revenues	$ 445,010	$ 427,554
Operating expenses	453,782	468,290
Operating loss	(8,772)	(40,736)
Nonoperating revenues and transfers	56,956	61,893
Nonoperating expenses and transfers	44,994	64,889
Change in net position	3,190	(43,732)
Net position		
Beginning of year	169,172	212,904
End of year	$ 172,362	$ 169,172

1. Basis of Presentation

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

2. Employee Benefits

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

In accordance with University policy, the University’s liability for pension benefits, deferred outflows and deferred inflows of resources related to pensions (“pension benefits”) are not allocated internally to individual departments and funds. Accordingly, pension benefits are not reflected in this schedule.

University of Hawai‘i
State of Hawai‘i
Schedules of Series 2006A Revenue Bond Proceeds Activity
Years Ended June 30, 2015 and 2014
(All dollars reported in thousands) Schedule IV

	2015	2014
Beginning balance	$ 4,106	$ 4,295
Additions		
Interest and investment income	3	3
Total additions	3	3
Deductions		
Payments – building, construction in progress, other	32	189
Management fees	3	3
Total deductions	35	192
Ending balance	$ 4,074	$ 4,106

1. Basis of Presentation

The accompanying schedules of Series 2006A revenue bond proceeds activity present the sources and uses of 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.

2. Refinancing

In September 2015, the University refinanced a portion of the outstanding Series 2006A revenue bonds through the issuance of Series 2015B and 2015C revenue bonds.

University of Hawai‘i
State of Hawai‘i
Schedules of Series 2009A Revenue Bond Proceeds Activity
Years Ended June 30, 2015 and 2014
(All dollars reported in thousands)

Schedule V

	2015	2014
Beginning balance	$ 8,571	$ 17,011
Additions		
Interest and investment income	5	9
Total additions	5	9
Deductions		
Payments – building, construction in progress, other	6,325	8,438
Management fees	4	11
Total deductions	6,329	8,449
Ending balance	$ 2,247	$ 8,571

1. Basis of Presentation

The accompanying schedules of Series 2009A revenue bond proceeds activity present the sources and uses of 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, 2015 and 2014
(All dollars reported in thousands) Schedule VI

	2010A-1	2010A-2
Balance at June 30, 2013	$ 111	$ 27,756
Additions		
Interest and investment income	-	26
Total additions	-	26
Deductions		
Payments − building, construction in progress, other	-	1,966
Transfers to State	-	1,045
Management fees	-	22
Total deductions	-	3,033
Balance at June 30, 2014	111	24,749
Additions		
Interest and investment income	-	15
Total additions	-	15
Deductions		
Payments − building, construction in progress, other	-	20,423
Management fees	-	9
Total deductions	-	20,432
Balance at June 30, 2015	$ 111	$ 4,332

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 Hawaiʻi
State of Hawaiʻi
Schedules of Series 2010B Revenue Bond Proceeds Activity
Years Ended June 30, 2015 and 2014
(All dollars reported in thousands) — Schedule VII

	2010B-1	2010B-2
Balance at June 30, 2013	$ 21,538	$ 13,351
Additions		
Interest and investment income	27	18
Total additions	27	18
Deductions		
Payments – building, construction in progress, other	10,224	8,693
Management fees	12	7
Total deductions	10,236	8,700
Balance at June 30, 2014	11,329	4,669
Additions		
Interest and investment income	6	2
Total additions	6	2
Deductions		
Payments – building, construction in progress, other	1,307	620
Management fees	8	4
Total deductions	1,315	624
Balance at June 30, 2015	$ 10,020	$ 4,047

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 Oʻahu campus, various energy conservation/efficiency projects on the community college campuses on Oʻahu and Maui, and the financing of costs of renovation and construction of other University projects. The financial information of the Research Corporation of the University of Hawaiʻi and the University of Hawaiʻi 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, 2015 and 2014
(All dollars reported in thousands) Schedule VIII

	2015	2014
Condensed statements of net position		
Assets and deferred outflows of resources		
Current assets	$ 91,231	$ 82,356
Capital assets, net	495,191	489,452
Other assets	24,830	53,536
Total assets	611,252	625,344
Deferred outflows of resources	2	5
Total deferred outflows of resources	2	5
Total assets and deferred outflows of resources	$ 611,254	$ 625,349
Liabilities		
Current liabilities	$ 32,586	$ 31,972
Noncurrent liabilities	446,197	459,728
Total liabilities	478,783	491,700
Net position		
Net investment in capital assets	62,467	73,422
Restricted expendable	1,037	1,037
Unrestricted	68,967	59,190
Total net position	132,471	133,649
Total liabilities and net position	$ 611,254	$ 625,349
Condensed statements of revenues, expenses and changes in net position		
Operating revenues		
Bookstores	$ 24,418	$ 25,687
Room and other rentals	32,462	30,907
Parking	6,689	6,186
Telecommunications	3,496	3,527
Other operating revenues	10,074	10,387
Total operating revenues	77,139	76,694
Operating expenses (including $23,779 and $20,601 in depreciation expense in 2015 and 2014, respectively)	(84,261)	(85,205)
Operating loss	(7,122)	(8,511)
Nonoperating revenues	27,649	25,226
Nonoperating expenses	(21,705)	(21,726)
Change in net position	(1,178)	(5,011)
Net position		
Beginning of year	133,649	138,660
End of year	$ 132,471	$ 133,649

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, 2015 and 2014
(All dollars reported in thousands) Schedule IX

	2015	2014
Condensed statements of cash flows		
Net cash flows provided by operating activities	$ 16,392	$ 6,785
Net cash flows provided by non-capital financing activities	1,469	5,578
Net cash flows used in capital and related financing activities	(38,286)	(40,259)
Net cash flows provided by investing activities	202	754
Net decrease in cash and cash equivalents	(20,223)	(27,142)
Cash and cash equivalents		
Beginning of year	119,312	146,454
End of year	$ 99,089	$ 119,312

1. Reporting Entity

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

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

On August 20, 2015, the University of Hawai‘i Board of Regents adopted a supplemental resolution authorizing the issuance of University Revenue Bonds. The University, in September 2015, priced $166,285 in Series 2015A ($8,575, taxable new money), 2015B ($47,010, tax-exempt refunding), 2015C ($17,585, taxable refunding), 2015D ($25,715, taxable refunding), and 2015E ($67,400, tax-exempt forward delivery refunding) bonds (collectively, the "Series 2015 Bonds") for the purpose of financing the costs of University projects and refunding previously issued bonds. The Series 2015 Bonds closed on September 24, 2015 with the exception of the forward delivery Series 2015E bonds which will close on April 20, 2016. The Series 2015B and 2015C bonds were issued to refund a portion of the Series 2006A University Revenue Bonds and the Series 2015D and 2015E bonds to refund a portion of the Refunding Series 2006A University Bonds issued under a different bond resolution.

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.

3. Employee Benefits

In accordance with University policy, the University’s liability for other postemployment benefits (“OPEB”) is not allocated internally to individual departments and funds. Accordingly, no liability for OPEB is reflected in these schedules.

In accordance with University policy, the University’s liability for pension benefits, deferred outflows and deferred inflows of resources related to pensions (“pension benefits”) are not allocated internally to individual departments and funds. Accordingly, pension benefits are not reflected in these schedules.