



UNIVERSITY of HAWAII®
SYSTEM

**2017 Annual Financial Report,
Required Supplementary Information
and Other Supplementary Information
University of Hawai'i
State of Hawai'i**



Mānoa



Hilo



West O'ahu



Hawai'i



Honolulu



Kapi'olani



Kaua'i



Leeward



Maui



Windward

Research

Sustainability

Hawaiian Place of Learning

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
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June 30, 2017 and 2016

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Report of Independent Auditors

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the University of Hawai'i (the "University"), a component unit of the State of Hawai'i, as of and for the years ended June 30, 2017 and 2016, 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 13.1 percent and 13.3 percent, respectively, of the total assets and deferred outflows of resources and 0.8 percent of the total operating revenues of the University as of and for the years ended June 30, 2017 and 2016. 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, 2017 and 2016, are based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University of Hawai'i, as of June 30, 2017 and 2016, 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 consolidated financial statements, effective July 1, 2015, the University adopted new accounting guidance under Governmental Accounting Standards Board Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, 68 and 73*. 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.

The logo for Accuity LLP is written in a black, cursive script. The word "Accuity" is in a larger, flowing font, and "LLP" is in a smaller, simpler font to its right.

Honolulu, Hawai'i
December 7, 2017

University of Hawai'i
State of Hawai'i
 (A Component Unit of the State of Hawai'i)
Management's Discussion and Analysis (Unaudited)
June 30, 2017 and 2016

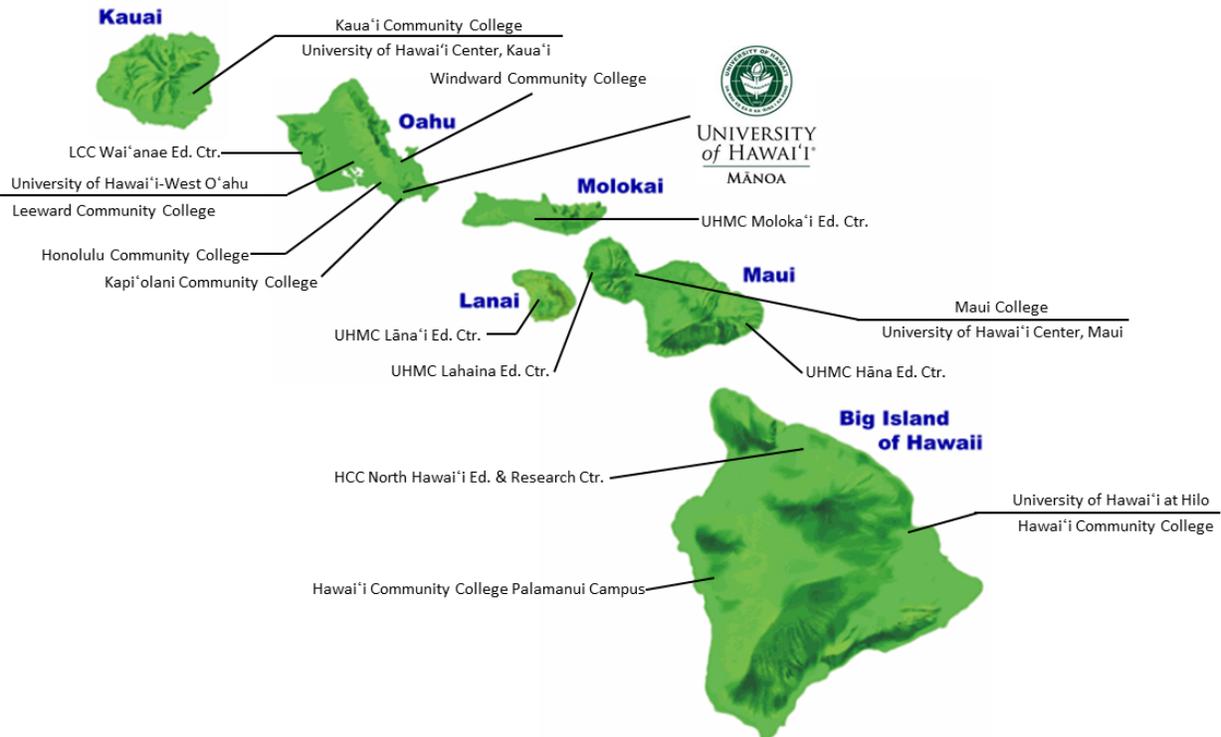
Introduction

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, 2017 and 2016, with selected information for the year ended June 30, 2015. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Founded in 1907 under the auspices of the Morrill Act, the University is a land-grant, sea-grant and space-grant institution and a 10-campus system comprised of a major research university (Mānoa), two baccalaureate campuses (Hilo and West O'ahu), seven community colleges (Hawai'i, Honolulu, Kapiolani, Kauai, Leeward, Maui, and Windward) and nine educational centers distributed across the State. The University of Hawai'i at Mānoa was ranked No. 159 on the publication's annual Best Colleges and No. 83 as a top public school, according to the latest surveys by *U.S. News & World Report*.

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

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



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University of Hawai'i Quick Facts

Students	Academic Year 2017	Academic Year 2016	Academic Year 2015
Undergraduate	47,903	50,011	48,494
Graduate	5,515	5,745	8,558
Total	53,418	55,756	57,052

Types of Degrees Awarded

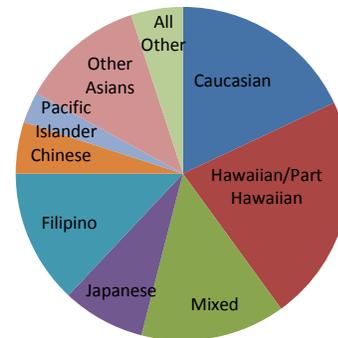
Certificates: Community Colleges	180
Certificates: University	101
Associate degrees	128
Bachelor's degrees	146
Master's degrees	91
Doctoral degrees	59
Professional degrees	5

Residency

Hawai'i	86%
Mainland	10%
Foreign	4%

Student Diversity (full time Students)

Caucasian	18%
Hawaiian/Part Hawaiian	22%
Mixed	14%
Japanese	8%
Filipino	13%
Chinese	5%
Pacific Islander	3%
Other Asians	12%
All Other (e.g. Hispanic, African American)	5%



Total Revenues (\$ in thousands)	Fiscal Year 2017	% of Total	Fiscal Year 2016	Fiscal Year 2015
Net tuition and fees	\$ 270,123	15%	\$ 272,306	\$ 262,660
Contracts and grants (including Pell grants)	424,592	23%	451,669	456,944
State appropriations	471,453	26%	441,373	413,148
Transfer from State for fringe benefits	179,715	10%	172,248	162,969
Sales and services	130,867	7%	134,787	135,315
Capital State appropriations	159,094	9%	16,547	161,822
Others	202,376	10%	79,701	82,244
Total	\$ 1,838,220	100%	\$ 1,568,631	\$ 1,675,102

The University's Revenue Bond Ratings:

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

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Using the Financial Statements

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

- **Statements of Net Position** – The Consolidated Statements of Net Position present information on the University's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the University's financial condition is improving or deteriorating. Net position increases when revenues exceed expenses, or when assets increase without a corresponding increase in liabilities. This is an indication of improving financial condition. However, when expenses exceed revenues, or when liabilities increase without a corresponding increase in assets, there is an indication of deteriorating financial condition.
- **Statements of Revenues, Expenses and Changes in Net Position** – The Consolidated Statements of Revenues, Expenses and Changes in Net Position present the University's revenues and expenses and illustrate how current year activities improve or weaken the University's financial condition. Changes in net position are reported when the underlying event occurs (accrual basis of accounting), which may be different from actual cash flows. In accordance with GASB requirements, certain significant revenues budgeted for fundamental operational support of the core instructional mission of the University must be recorded as nonoperating revenue, including state educational appropriations, private gifts, and investment income. Consequently, the Consolidated Statements of Revenues, Expenses and Changes in Net Position distinguish operating from nonoperating revenues and expenses. It is anticipated that the University will consistently report an operating loss since certain significant revenue sources relied upon for core operational needs are considered nonoperating revenue.
- **Statements of Cash Flows** – The Consolidated Statements of Cash Flows 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, 2017 and 2016 is presented in Note 18 to the consolidated financial statements.

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Financial Position

The Consolidated Statements of Net Position present the financial position of the University at the end of the fiscal year and display all assets and liabilities of the University. Assets and liabilities are presented using fair and current values, respectively. Two notable exceptions are receivables and capital assets, which are stated at historical cost less an allowance for doubtful accounts and accumulated depreciation, respectively. The difference between assets and liabilities is net position, representing a measurement of the current financial condition of the University. The University's assets, liabilities and net position at June 30, 2017, 2016 and 2015 are summarized as follows (in thousands of dollars):

	2017	2016	FY 17 vs 16 Change	2015	FY 16 vs 15 Change
Current assets					
Cash and operating investments	\$ 424,276	\$ 401,881	\$ 22,395	\$ 375,052	\$ 26,829
Receivables, net	98,041	104,838	(6,797)	104,711	127
Other current assets	21,741	21,712	29	24,681	(2,969)
Total current assets	544,058	528,431	15,627	504,444	23,987
Noncurrent assets					
Endowment and other investments	507,613	475,040	32,573	477,243	(2,203)
Capital assets, net	2,087,733	2,053,385	34,348	2,068,691	(15,306)
Other noncurrent assets	507,535	388,709	118,826	466,840	(78,131)
Total assets	3,646,939	3,445,565	201,374	3,517,218	(71,653)
Deferred outflows of resources					
Deferred loss on refunding	9,995	11,383	(1,388)	5,251	6,132
Deferred outflows on net pension liability	557,225	134,715	422,510	106,848	27,867
Total deferred outflows of resources	567,220	146,098	421,122	112,099	33,999
Total assets and deferred outflows of resources	\$ 4,214,159	\$ 3,591,663	\$ 622,496	\$ 3,629,317	\$ (37,654)
Current liabilities	\$ 289,085	\$ 266,951	\$ 22,134	\$ 270,047	\$ (3,096)
Noncurrent liabilities					
Long-term debt	524,565	543,680	(19,115)	561,470	(17,790)
Net pension liability and other postemployment benefits	2,493,243	1,867,321	625,922	1,740,687	126,634
Other noncurrent liabilities	112,568	105,896	6,672	91,530	14,366
Total liabilities	3,419,461	2,783,848	635,613	2,663,734	120,114
Deferred inflows of resources					
Deferred inflows on net pension liability	65,171	111,364	(46,193)	151,162	(39,798)
Total deferred inflows of resources	65,171	111,364	(46,193)	151,162	(39,798)
Net position					
Net investment in capital assets	1,541,725	1,504,935	36,790	1,503,902	1,033
Restricted					
Nonexpendable	342,071	244,396	97,675	235,894	8,502
Expendable	586,825	561,093	25,732	644,743	(83,650)
Unrestricted	(1,741,094)	(1,613,973)	(127,121)	(1,570,118)	(43,855)
Total net position	729,527	696,451	33,076	814,421	(117,970)
Total liabilities, deferred inflows of resources and net position	\$ 4,214,159	\$ 3,591,663	\$ 622,496	\$ 3,629,317	\$ (37,654)

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Implementation of GASB Statements No. 68, 71 and 82

During fiscal year 2015, University 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*. During fiscal year 2017, the University implemented GASB Statement No. 82, *Pension Issues – an Amendment of GASB Statements No. 67, No. 68, and No. 73*.

The adoption of Statements No. 68 and 71 has a significant impact on the University's consolidated financial statements, which requires us to report expenditures and liabilities in the amount statutorily required. Readers of the fiscal year 2015 financial statements should notice that the University's balance sheet showed significant financial impact by the 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 of Statement No. 82 addresses certain issues that have been raised with respect to Statements No. 67, 68 and 73. The adoption resulted in the restatement of the University's fiscal year 2014 net position. Accordingly, the University's net position as of July 1, 2014 has been restated to \$822 million from \$1.962 billion, which reflects the retrospective effect of Statements No. 68 and 71 related to the adoption for net pension liability of \$1.113 billion during fiscal year 2015, plus the retrospective effect of Statement No. 82 related to the new calculation of deferred outflows of resources of \$27 million. 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.

The net pension liability increased by \$559.9 million to \$1.704 billion from \$1.144 billion in fiscal year 2017 when compared to fiscal year 2016. Similarly, the net pension liability increased by \$54.7 million from \$1.090 billion when compared to fiscal year 2015. The changes are 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.

The University recorded an increase in working capital the last three fiscal years, which resulted mainly from the implementation of the new financial management policy. In November 2013, the University adopted a financial reserve policy to establish 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. At June 30, 2017, 2016 and 2015, working capital amounted to \$255.0 million, \$261.5 million and \$234.4 million, respectively. The University is committed to maintaining a prudent level of working capital to fund operations, including pre-funding approximately \$368.9 million in extramural grants which were mostly paid on a cost reimbursement basis. Based on the \$1.655 billion of operating expenses (excluding depreciation) for the year ended June 30, 2017, the working capital at year end represents approximately 57 days of operating funds, as compared to 59 and 53 days of operating funds in 2016 and 2015, respectively.

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

- Current assets consist primarily of cash and cash equivalents, operating investments and net receivables. Total current assets were \$544.0 million, \$528.4 million and \$504.4 million at June 30, 2017, 2016 and 2015, respectively. Total current assets increased by \$15.6 million, or 3.0 percent, at June 30, 2017, primarily due to a \$22.4 million increase in cash, offset by a \$6.8 million decrease in accounts receivable. The cash increase was attributable to the operating surplus from tuition and fees. During fiscal year 2017, with the anticipation of enrollment decline, the University implemented various cost control initiatives including personnel cost reduction, which resulted in operating surplus. The \$6.8 million accounts receivable reduction was due to the decrease of federal awards. Total current assets increased by \$24.0 million, or 4.8 percent, at June 30, 2016, primarily due to a \$26.8 million increase in cash and operating investments. The increase was made up of the \$12.0 million cash balance increase from tuition and fees, the receipt of \$3.6 million from revolving funds, the proceeds of \$8.5 million from the 2015 revenue bond issuance, offset by the repayment of a \$6.0 million advance to the State of Hawai'i for the Snug Harbor project.
- Current liabilities consist primarily of accounts payable, accrued payroll and fringe benefits, advances from sponsor and unearned revenue. Current liabilities also include amounts due to the State of Hawai'i, the current portion of long-term liabilities and other current liabilities. Total current liabilities were \$289.1 million, \$267.0 million and \$270.0 million at June 30, 2017, 2016 and 2015, respectively. Total current liabilities increased by \$22.1 million, or 8.3 percent, at June 30, 2017, primarily due to increases in accounts payable of \$9.1 million and the current portion of long-term liabilities of \$17.8 million. The increase in accounts payable was mainly due to the timing of recording and the increase in the current portion of long-term liabilities is because the repayment of the \$17.0 million note payable (EB-5 loan) with Hawaii Regional Center LP III is due in fiscal year 2018. The aggregated increase is offset by a net decrease in accrued payroll of \$4.2 million primarily due to the negotiated bonus payments accrued for in fiscal year 2016 and paid in fiscal year 2017. Total current liabilities decreased by \$3.1 million, or 1.1 percent, at June 30, 2016, primarily due to the decrease in accounts payable of \$5.1 million due to decreases in construction in progress expenditures accrued for coupled with a \$6.0 million repayment to the State of Hawai'i for the Snug Harbor project. The aggregated decrease is offset by an increase in accrued payroll of \$7.4 million in negotiated bonus payments paid in fiscal year 2017.

Endowment and Other Investments

The University's endowment and other investments, including endowments held with the Foundation, increased by \$32.6 million, or 6.9 percent, to \$507.6 million at June 30, 2017 as a result of an \$8.6 million gift, and favorable market conditions. The June 30, 2016 decrease of \$2.2 million, or 0.5 percent, was primarily due to a result of market value decline.

Realized and unrealized net gains in fiscal year 2017 totaled \$34.7 million, versus \$6.1 million realized and unrealized net losses in fiscal year 2016. A summarized comparison of the University investments as of June 30, 2017, 2016 and 2015, are as follows (in thousands of dollars):

	2017	2016	2015
University of Hawai'i	\$ 100.1	\$ 103.8	\$ 104.0
Foundation	407.5	371.2	373.2
Total	<u>\$ 507.6</u>	<u>\$ 475.0</u>	<u>\$ 477.2</u>

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

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

The spending rate policy for the University's self-managed endowment is to limit the immediate impact that significant changes in the fair value of the endowment portfolio have on annual distributions. The spending rate policy provides for an annual distribution, ranging between three percent and five percent of the five-year moving average of the endowment portfolio's fair value. In fiscal years 2017, 2016 and 2015, 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 \$2.6 million, \$2.6 million and \$2.5 million in fiscal years 2017, 2016 and 2015, 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, 2017, 2016 and 2015, total capital assets, net of accumulated depreciation, remained constant at \$2.1 billion, which represented approximately 57 percent of the University's total assets. Capital asset additions totaled \$173.1 million, \$118.5 million and \$130.7 million in fiscal years 2017, 2016 and 2015, respectively, while depreciable capital asset disposals, net of accumulated depreciation, amounted to \$15.9 million, \$8.8 million and \$12.5 million, respectively.

The increase of the additions in fiscal year 2017 was due to the purchase of the Atherton building for \$8.2 million and an increased number of strategic capital projects that are ongoing as of fiscal year end 2017. The decrease of the additions in fiscal year 2016 was due to the completion of many strategic capital projects in prior years.

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Capital Projects

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

Significant capital projects completed during fiscal years 2017 and 2016 or in progress as of June 30, 2017 and 2016 included:

- **Hawai'i Community College Pāalamanui Campus** – The newest University of Hawai'i campus, the \$27.8 million Hawai'i Community College Pāalamanui opened on August 24, 2015. The community of Pāalamanui, "A Place of Enlightenment," will consist of homes, parks, a University Village Town Center, a University Inn, and the Hawai'i Community College Pāalamanui Campus. The first phase includes five single-story buildings with kitchens, classrooms, laboratories, computer lab, and a library. The Hawai'i Community College Pāalamanui Campus was awarded a Leadership in Energy and Environmental Design ("LEED") Platinum rating from the U.S. Green Building Council.
- **Community College Energy Conservation Project** – The \$38 million Leeward, Windward, Honolulu, and Kapiolani Community Colleges portion of the energy conservation project was completed on September 11, 2015. The \$10 million University of Hawai'i Maui College project was placed in service on July 15, 2016. The project will reduce the consumption of electricity, water, wastewater and Syngas as well as create a curriculum based on conservation for each campus. The community colleges are leading the way to reach the University of Hawai'i's goal of net-zero energy by 2035.
- **University of Hawai'i at Mānoa Elevator Modernization Phase III** – Most of the elevators at the University of Hawai'i at Mānoa exceeded normal service life expectancy and as a result required frequent service and repair calls. The modernization project was executed in phases and Phase III should be completed in August 2017. The new systems will be reliable and will comply with all current and accessibility standards and includes the installation of security access surveillance in the elevator lobbies and cabs.
- **Culinary Institute of the Pacific** – The \$30.5 million Phase I portion of the Culinary Institute of the Pacific was placed in service on April 17, 2017. Phase I includes the infrastructure for the entire project, a parking lot, two single story laboratory buildings, a student lounge, and an outdoor cooking area. Phase II will include an auditorium, administration building, classrooms, laboratories, and a restaurant.
- **William S. Richardson School of Law Clinical Building** – The \$7 million William S. Richardson School of Law Clinical Building (Clinical Legal Outreach Center) broke ground on September 30, 2016. The new building will provide law students a professional space required for trial practice and advocacy. U.S. Green Building Council will award the project a Silver LEED rating upon completion, with the opportunity to receive a Gold rating. The estimated completion date is November 2017.

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- **Coconut Island Marine Laboratory Buildings 1 & 2** – The estimated completion date for the \$21 million Coconut Island Marine Laboratory Buildings 1 & 2 renovation project is March 2018. This is the home of the Hawaii Institute of Marine Biology. The renovation project will provide state of the art research and teaching laboratories, replace and upgrade mechanical, electrical and architectural systems and structures, and perform significant structural retrofitting.
- **Daniel K. Inouye College of Pharmacy** – The \$31.3 million Daniel K. Inouye College of Pharmacy broke ground in December of 2014. The 35,000 square foot instructional and research facility will be the permanent home of the Daniel K Inouye College of Pharmacy. The building will include classrooms, student lounge, biolabs, faculty offices, a mock pharmacy, a resource center, and simulation labs. The estimated completion date is May 2018.
- **University of Hawai'i West O'ahu Allied Health and Administration Building** – The ground breaking for the University of Hawai'i West O'ahu Allied Health and Administration building took place on November 28, 2016. The \$30 million two-story 43,000 square foot building will house the allied health, community health, health information management, long-term care, and biology programs and will contain administrative offices, faculty offices, classrooms and lab spaces. The building is expected to be completed in 2018.
- **University of Hawai'i at Mānoa Life Sciences Building** – The design portion of \$49.5 million University of Hawai'i at Mānoa Life Sciences Building has been completed. This design-build project is being developed at the site of Henke Hall and will support botany, PBRC, biology and microbiology. The estimated completion date is spring 2019.

Financing

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

- **General obligation bonds** – The State of Hawai'i continues to provide strong support to the University and issued general obligation bonds to help finance certain University projects. These bonds are carried as liabilities of the State. In fiscal years 2017, 2016 and 2015, 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 2017, 2016 and 2015, \$111.3 million, \$106.8 million and \$106.1 million, respectively, were appropriated.

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- **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 \$543.7 million, \$562.6 million and \$578.6 million for fiscal years 2017, 2016 and 2015, respectively. The University revenue bonds were assigned municipal bond ratings of “Aa2” and “AA” by Moody’s Investors Service and Fitch Ratings, respectively. The University has appropriated funds, by statute, from the State of Hawai'i Tobacco Settlement Special Fund for the payment of principal and interest on revenue bonds to finance the cost of construction of the medical school facility and for annual operating expenses incurred by the facility. The University received State of Hawai'i Tobacco Settlement funds in the amount of \$11.8 million, \$9.5 million and \$9.9 million in fiscal years 2017, 2016 and 2015, respectively, to cover debt service for the bonds that financed the medical school facility. The University also receives a portion of the State of Hawai'i's cigarette tax revenues, by statute, for the UH Cancer Center to be used for research and operating expenses and capital expenditures. In each of the fiscal years 2017, 2016 and 2015, \$7.9 million from cigarette tax revenues was used to cover debt service for the bonds that financed the UH Cancer Center. Refer to Note 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 April 22, 2018, at which time the unpaid principal will be due. As of June 30, 2017, \$17 million remains outstanding.
- **Line of credit** – On April 20, 2017, the Foundation entered into a 10-year \$13.2 million acquisition and construction credit facility (the “Loan”) for the purchase and renovation of the Charles Atherton House and the Mary Atherton Richards House (the “Atherton Property”). The Loan is secured by the fee simple interest and improvements on the Atherton Property, along with an assignment of a long-term lease and rents due thereunder from the University. Under terms of the credit facility, interest-only payments are required for the first 36 months at a fixed rate of three percent and, thereafter monthly installments of principal and interest, based on a 25-year amortization schedule, at a fixed rate of four percent through the remaining term of the Loan. The Loan matures on April 1, 2027. As of June 30, 2017, the outstanding balance on the Loan was \$8.2 million.

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Net Position

Net position represents the residual interest in the University’s assets after liabilities are deducted. At June 30, 2017, 2016 and 2015, total net position amounted to \$729.5 million, \$696.5 million and \$814.4 million, respectively. Net position is reported in four major categories: net investment in capital assets, restricted nonexpendable, restricted expendable and unrestricted. The University’s net position at June 30, 2017, 2016 and 2015 is summarized as follows (in thousands of dollars):

	2017	2016	2015
Net investment in capital assets	\$ 1,541,725	\$ 1,504,935	\$ 1,503,902
Restricted – Nonexpendable	342,071	244,396	235,894
Restricted – Expendable	586,825	561,093	644,743
Unrestricted	<u>(1,741,094)</u>	<u>(1,613,973)</u>	<u>(1,570,118)</u>
Total net position	<u>\$ 729,527</u>	<u>\$ 696,451</u>	<u>\$ 814,421</u>

Net investment in capital assets is the University’s capital asset, net of accumulated depreciation and the related outstanding debt used to finance the acquisition, construction or improvement of those assets. The net investment in capital assets increased by \$36.8 million in fiscal year 2017, primarily due to \$122.8 million of depreciation expense, \$15.9 million in net disposals offset by \$19.2 million in related debt retirement, and \$173.1 million of capital asset additions. The net investment in capital assets increased by \$1 million in fiscal year 2016, primarily due to \$124.9 million of depreciation expense, \$8.8 million in net disposals offset by a \$16.0 million decrease in related debt and \$118.4 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 \$342.1 million, \$244.4 million and \$235.9 million at June 30, 2017, 2016 and 2015, respectively. The increases of \$97.7 million and \$8.5 million in fiscal years 2017 and 2016, respectively, were primarily attributable to new permanent endowment gifts received, including the receipt of three properties as part of the Shidler gift valued at \$80.2 million in fiscal year 2017. The University’s alumnus, Jay H. Shidler, has provided significant gifts to the College of Business at Mānoa with a safe, predictable and continuous revenue stream to help insure long-term financial stability.

Restricted expendable net position is subject to externally imposed restrictions governing their use. Net position was restricted for the following purposes at June 30, 2017, 2016 and 2015 (in thousands of dollars):

	2017	2016	2015
Plant facilities	\$ 354,780	\$ 319,809	\$ 386,742
Donor-restricted activities	215,608	210,404	224,904
Loan activities	24,131	37,229	24,363
External sponsor activities	<u>(7,694)</u>	<u>(6,349)</u>	<u>8,734</u>
	<u>\$ 586,825</u>	<u>\$ 561,093</u>	<u>\$ 644,743</u>

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In fiscal year 2017, the overall increase of \$25.7 million in restricted expendable net position was primarily attributable to a \$25.6 million increase in capital assets due to increased State capital appropriations in fiscal year 2017. In fiscal year 2016, the overall decrease of \$83.7 million in restricted expendable net position was primarily attributable to the spending of State capital appropriations received in the prior year.

Net position that is not subject to externally imposed restrictions governing their use is classified as unrestricted for financial reporting purposes. At June 30, 2017, 2016 and 2015, unrestricted net positions amounted to deficits of \$1.74 billion, \$1.61 billion and \$1.57 billion, respectively. Although unrestricted net position is not subject to externally imposed restrictions, all of the University's unrestricted net positions have been internally designated for various academic and research programs and initiatives, contractual commitments, and capital projects. In addition, unrestricted net positions of \$44.8 million, \$37.6 million and \$45.0 million were designated for endowment activities at June 30, 2017, 2016 and 2015, respectively.

In addition to the impact of the net pension liability recorded in accordance with GASB Statements No. 68 and 71, the reduction in unrestricted net positions for the years ended June 30, 2017 and 2016 was caused by the University's required accounting and recognition of the University's allocated share of the State of Hawai'i's actuarially determined total other postemployment 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, unrestricted net position continues to decline, despite the unrestricted net position of the University from operations showing growth. The University's share of the OPEB liability as of June 30, 2017, 2016 and 2015 was \$788.8 million, \$722.8 million and \$650.8 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 made contributions calculated as part of the State's total contribution requirements and were 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 the impact of the net pension and OPEB liabilities (in thousands of dollars):

	2017	2016	2015
Unrestricted net position	\$ (1,741,094)	\$ (1,613,973)	\$ (1,570,118)
Pension	2,001,189	1,843,970	1,785,001
OPEB	<u>788,773</u>	<u>722,757</u>	<u>650,805</u>
Adjusted net unrestricted position	<u>\$ 1,048,868</u>	<u>\$ 952,754</u>	<u>\$ 865,688</u>

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Results of Operations

The Consolidated Statements of Revenues, Expenses and Changes in Net Position are a presentation of the University's results of operations for the year. It indicates whether the financial condition of the University improved or deteriorated. For financial reporting purposes, certain significant revenues, including state appropriations, private gifts and investment income, which are relied upon and budgeted to support the University's core operations, are required to be reported as nonoperating revenues. The University's results of operations for the years ended June 30, 2017, 2016 and 2015 summarized to match revenues supporting core activities with expenses associated with core activities, are as follows (in thousands of dollars):

	2017	2016	FY 17 vs 16 Change	2015	FY 16 vs 15 Change
Revenues					
Operating					
Tuition and fees	\$ 403,177	\$ 403,411	\$ (234)	\$ 392,471	\$ 10,940
Less: Scholarship allowances	(133,054)	(131,105)	(1,949)	(129,811)	(1,294)
Grants and contracts	368,892	390,231	(21,339)	390,800	(569)
Sales and services	130,867	134,787	(3,920)	135,315	(528)
Other revenue	1,648	2,211	(563)	2,568	(357)
Total operating revenues	<u>771,530</u>	<u>799,535</u>	<u>(28,005)</u>	<u>791,343</u>	<u>8,192</u>
Nonoperating					
State appropriations	471,453	441,373	30,080	413,148	28,225
Federal Pell grant	55,701	61,438	(5,737)	66,144	(4,706)
Net investment income	42,509	679	41,830	4,659	(3,980)
Private gifts	31,233	32,382	(1,149)	32,600	(218)
Total nonoperating revenues	<u>600,896</u>	<u>535,872</u>	<u>65,024</u>	<u>516,551</u>	<u>19,321</u>
Total revenues supporting core activities	<u>1,372,426</u>	<u>1,335,407</u>	<u>37,019</u>	<u>1,307,894</u>	<u>27,513</u>
Expenses					
Operating					
Compensation and benefits	1,235,479	1,114,755	120,724	1,094,407	20,348
Supplies, services and cost of goods sold	193,411	202,157	(8,746)	205,833	(3,676)
Telecom and utilities	59,957	64,633	(4,676)	72,282	(7,649)
Scholarships and fellowships	41,771	43,440	(1,669)	49,302	(5,862)
Other expense	124,786	111,615	13,171	112,076	(461)
Total operating expenses	<u>1,655,404</u>	<u>1,536,600</u>	<u>118,804</u>	<u>1,533,900</u>	<u>2,700</u>
Nonoperating (revenues) expenses					
Transfers from State, net	(208,594)	(200,216)	(8,378)	(191,584)	(8,632)
Transfers (from) to Federal – capital assets	505	(4,081)	4,586	5,315	(9,396)
Interest expense	26,900	25,064	1,836	27,523	(2,459)
Total nonoperating revenues	<u>(181,189)</u>	<u>(179,233)</u>	<u>(1,956)</u>	<u>(158,746)</u>	<u>(20,487)</u>
Expenses associated with core activities before depreciation	<u>1,474,215</u>	<u>1,357,367</u>	<u>116,848</u>	<u>1,375,154</u>	<u>(17,787)</u>
Loss from core activities before depreciation	<u>(101,789)</u>	<u>(21,960)</u>	<u>(79,829)</u>	<u>(67,260)</u>	<u>45,300</u>
Depreciation	<u>122,841</u>	<u>124,937</u>	<u>(2,096)</u>	<u>121,378</u>	<u>3,559</u>
Expenses associated with core activities including depreciation	<u>1,597,056</u>	<u>1,482,304</u>	<u>114,752</u>	<u>1,496,532</u>	<u>(14,228)</u>
Loss from core activities	<u>(224,630)</u>	<u>(146,897)</u>	<u>(77,733)</u>	<u>(188,638)</u>	<u>41,741</u>
Other nonoperating activity					
Capital gifts and grants	171,652	28,122	143,530	165,904	(137,782)
Permanent endowment	96,024	9,254	86,770	19,426	(10,172)
Other expenses, net	(9,970)	(8,449)	(1,521)	(4,391)	(4,058)
Other nonoperating income, net	<u>257,706</u>	<u>28,927</u>	<u>228,779</u>	<u>180,939</u>	<u>(152,012)</u>
Increase (decrease) in net position	<u>33,076</u>	<u>(117,970)</u>	<u>151,046</u>	<u>(7,699)</u>	<u>(110,271)</u>
Net position					
Beginning of year	696,451	814,421		1,961,526	
Adjustment for change in accounting principle	-	-		(1,139,406)	
Beginning of year, as restated	<u>696,451</u>	<u>814,421</u>		<u>822,120</u>	
End of year	<u>\$ 729,527</u>	<u>\$ 696,451</u>		<u>\$ 814,421</u>	

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Revenues Supporting Core Activities

The University has a diversified stream of revenues to support its operations. No single source generated more than 35 percent of the total 2017 revenue. State appropriations and tuition and fees are the core components that support the University's instructional and academic programs. Government and nongovernmental grants and contracts provide opportunities for under-graduate and graduate students to participate in basic research with renowned researchers. Private gifts contribute toward the support of the University's instructional and academic initiatives. Sales and services revenues include revenues from educational departments and auxiliary enterprises, including bookstores, student and faculty housing, food services, parking and athletics.

Tuition and fees revenue, net of scholarship allowances, was down by \$2.2 million, or 0.8 percent, to \$270.1 million in fiscal year 2017. The decrease in fiscal year 2017 was primarily attributable to the continued decline in enrollment offset by an increase in tuition rates between one percent and eight percent among all campuses. The increase in fiscal year 2016 was \$9.6 million, or 3.7 percent, to \$272.3 million, which was primarily attributable to the increase in tuition rates between four percent and five percent among all campuses offset by a decline in enrollment. Scholarship allowances amounted to \$133.1 million, \$131.1 million and \$129.8 million in fiscal years 2017, 2016 and 2015, respectively.

One of the largest sources of revenue (27 percent) continues to be grants and contracts. Total grants and contracts revenue decreased by \$21.3 million, or 5.5 percent in fiscal year 2017. The decrease was mainly from federal awards where the University is experiencing unaccustomed peaks and troughs in funding — a direct consequence of federal budget cuts, the lingering effects of sequestration, and other uncertainties in Washington, D.C. The total revenue decrease from federal awards was approximately \$26.9 million offset by a slight revenue increase in State and local grants and contracts of \$6.3 million and private grants and contracts of \$0.8 million. Although the federal reductions were evident across all federal agencies, the greatest revenue cuts were from three federal agencies: Department of Health & Human Services, Department of the Navy, and Department of Labor, totaling \$19 million. The grants and contracts revenue amounted to \$368.9 million, \$390.2 million and \$390.8 million in fiscal year 2017, 2016 and 2015, respectively.

Sales and services revenues, which are mainly comprised of bookstores, student and faculty housing, food services, parking and athletics, was down by \$3.9 million, or 2.9 percent, to \$130.9 million in fiscal year 2017. The decrease was primarily attributable to a decline in Research Corporation of the University of Hawai'i project activities due to the federal award cuts. Sales and services revenues decreased by \$0.5 million, or 0.4 percent, to \$134.8 million in fiscal year 2016 from fiscal year 2015. The decrease was primarily attributable to the decline in textbook sales, where the University faced increasing competition with online retailers and direct marketing from publishers.

The State continues to provide strong financial support to the University as the sole public higher education system within the State. General state appropriations increased by \$30.1 million, or 6.8 percent, to \$471.5 million in fiscal year 2017 and by \$28.2 million, or 6.8 percent, to \$441.4 million in fiscal year 2016. The increase in fiscal year 2017 was primarily attributable to a \$38.4 million allotment for salary increases as negotiated by the collective bargaining agreements, which is a \$20.8 million increase from the fiscal year 2016 allotment of \$17.6 million. The State also provided an additional \$7.1 million for the Hawai'i Promise Program, Athletics program, and special equipment fund for Community Colleges in fiscal year 2017. The additional funding in fiscal year 2016 included \$6.3 million for performance-based funding, \$1.2 million for Title IX compliance support, \$19.3 million for salary increase negotiated by the collective bargaining agreements, and \$1.4 million for other mission critical programs.

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The University's net investment income for fiscal year 2017, as compared to fiscal year 2016, went up by \$41.8 million. The fiscal year 2017 increase was mainly due to the increase in realized gains of \$10.2 million and an increase in unrealized gains of \$30.7 million. The University's net investment income for fiscal year 2016, as compared to fiscal year 2015, decreased by \$4.0 million, or 85.4 percent, mainly due to the decrease in realized gain of \$7.8 million offset by the decrease in unrealized loss and other investment loss of \$1.5 million and \$1.4 million, respectively.

The components of net investment income for the years ended June 30, 2017, 2016 and 2015 were as follows (in thousands):

	2017	2016	FY 17 vs 16 Change	2015	FY 16 vs 15 Change
Interest and dividend income	\$ 9,149	\$ 8,640	\$ 509	\$ 7,974	\$ 666
Net realized gains	10,733	572	10,161	8,336	(7,764)
Net unrealized gains (losses)	23,974	(6,703)	30,677	(8,232)	1,529
Other, net	<u>(1,347)</u>	<u>(1,830)</u>	<u>483</u>	<u>(3,419)</u>	<u>1,589</u>
	<u>\$ 42,509</u>	<u>\$ 679</u>	<u>\$ 41,830</u>	<u>\$ 4,659</u>	<u>\$ (3,980)</u>

Private gifts, most of which are restricted as to use, stayed relatively consistent at \$31.2 million in fiscal year 2017 compared to \$32.4 million and \$32.6 million in fiscal years 2016 and 2015, respectively.

Expenses Associated with Core Activities

The University is committed to recruiting and retaining outstanding faculty and staff and providing compensation equivalent to peer institutions and nonacademic employers. Of the University's operating expenses, approximately 77.3 percent during fiscal year 2017, 75.2 percent during fiscal year 2016, and 73.1 percent during fiscal year 2015, were related to compensation and benefits.

Compensation and benefits went up by \$120.7 million, or 10.8 percent, to \$1,235 million in fiscal year 2017 as compared to fiscal year 2016, and increased by \$20.3 million, or 1.9 percent, to \$1,115 million in fiscal year 2016 as compared to \$1,094 million in fiscal year 2015. The fiscal year 2017 increase was attributable to a \$103.5 million increase in pension expense, and an increase in fringe benefits of \$40.6 million, offset by a decrease in OPEB of \$26.2 million. The fiscal year 2016 increase was attributable to a 4.0 percent pay increase, or \$3.1 million, and one-time pay bonus, or \$7.4 million, negotiated by the collective bargaining agreements, and an increase in fringe benefits of \$9.3 million. The increase of OPEB assessment was a result from the enacted Act 268, SLH 2013 during the 2013 legislative session. The Act requires the State and the University to fully fund the Annual Required contribution as determined by an actuary within 30 years. The University recognized \$115.7 million, \$117.1 million and \$113.0 million of postretirement health and life insurance benefits in fiscal years 2017, 2016 and 2015, respectively. The fiscal year 2017 decrease in postretirement health and life insurance benefits was due to a decrease in the net OPEB obligation adjustment factor determined by actuarial assumptions whereas the increases in fiscal years 2016 and 2015 were a result of year-to-year increases in the payroll expense actuarial assumptions.

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.

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In fiscal year 2017, such expenses decreased by \$8.7 million, or 4.3 percent, to \$193.4 million as compared to fiscal year 2016. The fiscal year 2017 decrease was primarily attributable to decreases in other services and controlled property purchases relating to declining federal awards, and cost of goods sold at the Bookstores offset by an increase in purchases of supplies. In fiscal year 2016, such expenses decreased by \$3.7 million, or 1.8 percent, to \$202.2 million as compared to fiscal year 2015. The fiscal year 2016 decrease was primarily attributable to decreases in purchases of supplies, federal property acquisitions, and other miscellaneous operating costs offset by increases in controlled property acquisitions and cost of goods sold.

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 of \$174.8 million in fiscal year 2017 stayed relatively consistent as compared to the prior year. Total aid to students decreased by \$4.6 million, or 2.6 percent, to \$174.5 million in fiscal year 2016 as compared to prior year. The decrease was primarily attributable to the number of Pell grants awarded, and the contributing factors were: 1) decreased enrollment and 2) increase in overall household income that stemmed from the effect of the low unemployment rate in Hawai'i that took families out of the Pell grant eligibility.

Other operating expenses increased by \$13.2 million, or 11.8 percent, to \$124.8 million in fiscal year 2017. Due to the expiration of the Federal Perkins Loan program in September 2017, the University is required to return the Federal Capital Contribution ("FCC") from the Perkins Loan Revolving Funds on a regular basis until such time as all of the University's outstanding Perkins Loans have been paid in full or otherwise fully retired, or assigned to the federal government. During fiscal year 2017, the University recognized a noncurrent liability and operating expense of \$13.6 million in accordance with GASB Statement No. 33 as the FCC was previously recorded as nonexchange grant revenue upon initial receipt from the federal government.

The University depreciates its capital assets over their estimated useful lives using the straight-line method. Depreciation expense decreased by \$2.1 million, or 1.7 percent, to \$122.8 million during fiscal year 2017 as compared to fiscal year 2016. The decrease in fiscal year 2017 was primarily attributable to a decrease in capital projects placed into service in the current year. Depreciation expense increased by \$3.6 million, or 2.9 percent, to \$124.9 million during fiscal year 2016 as compared to fiscal year 2015. The increase in fiscal year 2016 was primarily attributable to building and equipment additions and reclassifications from construction in progress.

Transfers from the State amounted to \$208.6 million, \$200.2 million and \$191.6 million in fiscal years 2017, 2016 and 2015, respectively. Transfers from the State were primarily for fringe benefit expense paid by the State for the University, the tobacco settlement moneys paying for John A. Burns School of Medicine revenue bond debt service, and the UH Cancer Center cigarette stamp tax collections. The increase in Transfer from the State for both fiscal years 2017 and 2016 were primarily attributable to the increase in fringe benefit rates.

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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 2017, capital gifts and grants, including state capital appropriations and transfers, increased by \$143.5 million, or 510.4 percent, to \$171.7 million as compared to \$28.1 million in fiscal year 2016. In fiscal year 2016, there was a decrease of \$137.8 million, or 83.0 percent, to \$28.1 million compared to \$165.9 million in fiscal year 2015. The State of Hawai'i Legislature continues its strong financial support to the University's capital improvement programs as the increase in fiscal year 2017 was primarily attributable to the increase of capital appropriations from the State of Hawai'i by \$142.5 million, or 861.5 percent, to \$159.1 million as compared to the decrease of capital appropriations in fiscal year 2016 of \$145.3 million. The capital appropriation fluctuations were mainly due to the timing of capital appropriation requests and lapses. Other capital gifts and grants during fiscal year 2017 included federal capital grants of \$11.2 million and private capital gifts and grants of \$1.8 million. During fiscal year 2016, other capital gifts and grants included federal capital grants of \$4.8 million and private capital gifts and grants of \$1.1 million.

Endowed gifts supply permanent capital and an ongoing stream of current earnings to the University. Programs supported by endowment returns include academic programs, scholarships, fellowships, professorships, chairs and research activities. In fiscal year 2017, additions to the permanent endowment increased by \$86.7 million to \$96.0 million, when compared to \$9.2 million in fiscal year 2016. The increase is due to the generosity of alumnus Jay H. Shidler, who provided the \$80.2 million endowed gifts.

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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, 2017, 2016 and 2015 are as follows (in thousands of dollars):

	2017	2016	FY 17 vs 16 Change	2015	FY 16 vs 15 Change
Cash received from operations	\$ 789,810	\$ 799,112	\$ (9,302)	\$ 804,374	\$ (5,262)
Cash payments for operations	<u>(1,313,781)</u>	<u>(1,293,552)</u>	<u>(20,229)</u>	<u>(1,299,687)</u>	<u>6,135</u>
Net cash used in operating activities	<u>(523,971)</u>	<u>(494,440)</u>	<u>(29,531)</u>	<u>(495,313)</u>	<u>873</u>
Net cash provided by noncapital financing activities	578,881	560,769	18,112	538,775	21,994
Net cash used in capital and related financing activities	(51,003)	(43,518)	(7,485)	(41,419)	(2,099)
Net cash provided by (used in) investing activities	<u>(37,990)</u>	<u>(9,443)</u>	<u>(28,547)</u>	<u>23,461</u>	<u>(32,904)</u>
Net increase (decrease) in cash	<u>(34,083)</u>	<u>13,368</u>	<u>(47,451)</u>	<u>25,504</u>	<u>(12,136)</u>
Cash					
Beginning of year	<u>103,179</u>	<u>89,811</u>	<u>13,368</u>	<u>64,307</u>	<u>25,504</u>
End of year	<u>\$ 69,096</u>	<u>\$ 103,179</u>	<u>\$ (34,083)</u>	<u>\$ 89,811</u>	<u>\$ 13,368</u>

The University's cash and cash equivalents decreased by \$34.1 million, or 33.0 percent, to \$69.1 million at June 30, 2017 from \$103.1 million at June 30, 2016. The University's cash and cash equivalents increased by \$13.4 million, or 14.9 percent, to \$103.1 million at June 30, 2016 from \$89.8 million at June 30, 2015. During fiscal year 2017, \$524.0 million in cash was used for operating activities, offset by \$578.9 million in cash provided by noncapital financing activities. Net cash used in capital and related financing activities and investing activities amounted to \$51.0 million and \$38.0 million in fiscal year 2017.

The net cash used in operating activities increased by \$29.5 million in fiscal year 2017 and decreased by \$0.9 million in fiscal year 2016. The increase in fiscal year 2017 was largely due to an increase in personnel costs. The reduction in fiscal year 2016 was the result of the implementation of the financial reserve policy that required the University to reserve at least two months of working capital with a minimum of five percent unencumbered cash from non-general fund revenue.

The \$7.5 million increase in net cash used in capital and related financing activities in fiscal year 2017 as compared to fiscal year 2016 were attributable to increases in capital appropriations of \$23.3 million and capital gifts and grants of \$7.4 million, the \$6 million repayment of funds to the State of Hawai'i in fiscal year 2016, offset by an increase in capital asset purchases of \$44.6 million. The \$2.1 million increase in net cash used in capital and related financing activities in fiscal year 2016 as compared to fiscal year 2015 was primarily attributable to a reduction of capital appropriation received from the State of Hawai'i of \$25.8 million and \$12.0 million due to the advance and repayment of funds to the State of Hawai'i offset by a decrease in capital asset purchases of \$28.5 million and the receipt of proceeds from the Series 2015A bond issuance of \$8.6 million.

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The net cash used in investing activities increased by \$28.5 million and \$32.9 million in fiscal year 2017 and 2016, respectively. The increase in fiscal year 2017 was primarily due to an increase in available funds from net operating gains invested in the University's operating fund investment pool of \$42.3 million, offset by an \$11.4 million net increase in cash provided by the University's bond system. The increase in fiscal year 2016 was primarily due to a \$30.5 million net increase in cash provided by the University's bond system.

Looking Forward

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

In the 2018 Best Colleges Rankings released by *U.S. News & World Report*, the University of Hawai'i at Mānoa, West O'ahu and Hilo once again made the ranking, along with the Mānoa Shidler College of Business. Mānoa has gained 10 spots on the annual list of the nation's top universities and secured No. 83 as a top public school. West O'ahu ranked 25 among Best Regional Colleges West, placing it in the top 38 percent of schools in its respective category, while Hilo ranked 66 among Best Regional Universities West, placing it in the top 47 percent in its respective category.

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

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

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

The four strategic directions outlined below describe the University's priorities for 2015–2021:

- Hawai'i Graduation Initiative.
- Hawai'i Innovation Initiative.
- 21st Century Facilities.
- High Performance Mission-Driven System.

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Hawai'i Graduation Initiative

An educated labor force and engaged citizenry are essential in today's global, knowledge-based economy. The State of Hawai'i has set goals to increase the percentage of working age adults with two- or four-year degrees to 55 percent by 2025 (*55 by '25 Campaign*). As the sole provider of public higher education in Hawai'i, the University is doing its part to increase number of educated citizens within the State. The Hawai'i Graduation Initiative ("HGI") was established with a set of goals to increase the graduation rate each year between four percent and five percent. Because of the focused efforts, the University of Hawai'i at Mānoa improved its four-year graduation rate from 17.5 percent in 2010 to an all-time high of 34 percent in 2017, and awarded 3,347 undergraduate degrees and certificates in spring 2017, just 302 shy of the record 3,649 degrees in spring 2016.

The University of Hawai'i at Hilo also set a record in 2017 with 798 undergraduate degrees awarded, a 37.3 percent increase from 2011. The University of Hawai'i at West O'ahu awarded 623 degrees, a 144 percent increase from six years ago, and the seven Community Colleges awarded 5,118 degrees and certificates, the third highest ever, and a 53.8 percent increase from 2011.

As part of the HGI's tactical plans, *15 to Finish Campaign* was launched to encourage students to take 15 credits per semester (or 30 credits per year) to graduate on time (i.e., in most cases, two years for an associate degree and four years for a bachelor's degree). As a result, the percentage of first-time freshmen who enroll in 15 or more credits in their first semester has nearly doubled since the start of the campaign in 2012.

To further the HGI, the University has developed the *Guided Pathways System* ("GPS") that provides undergraduate students with the optimal path to their destination, i.e., graduation. When students select a new program of study, GPS will help with their registration and create a path for the students based on where they are and where they want to go. The GPS pilot test results showed an impressive reduction in the share of credits taken that do not count towards a degree, from 22 percent, which is consistent with national averages, to just four percent. This represents a remarkable cost savings toward a student's degree. STAR GPS registration was in full use across the University for summer and fall 2017.

HGI is a winning strategy because it helps students graduate faster, reduce debt, and prevent drop-outs.

Enrollment and Tuition

Enrollment at the University of Hawai'i's 10 campuses dropped slightly in fall 2017 to 51,674 total students, a decrease of 1,744 students, or 3.3 percent compared to fall 2016, as Hawai'i's robust economy continues. As of September 2017, the State unemployment rate was at 2.5 percent. The overall decline was no surprise, as the University continues to graduate more students on time while competing for students with a tight local labor market experiencing extraordinarily low unemployment. The largest decrease in enrollment were at the Community Colleges, as students commonly attend college during a recession and enter the job market with the improved economy.

The fall 2017 enrollment at the University of Hawai'i at West O'ahu is up 4.9 percent to 3,082 students from fall 2016, continuing the trend that began in 2012 when the school moved to its Kapolei campus. The campus was recently recognized as the fastest growing public baccalaureate campus in the nation.

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Fall census headcount comparisons are as follows:

	Fall 2017	Fall 2016	% Change	Fall 2015	% Change
Mānoa	17,612	18,056	-2.5	18,865	-4.3
Hilo	3,539	3,666	-3.5	3,829	-4.3
West O‘ahu	3,082	2,939	4.9	2,692	9.2
Community Colleges	27,441	28,757	-4.6	30,370	-5.3
Total	<u>51,674</u>	<u>53,418</u>	<u>-3.3</u>	<u>55,756</u>	<u>-4.2</u>

With the goal to reverse the enrollment decline and address the higher education gaps for the underserved regions and populations, the Community Colleges, working with the State legislators, secured \$1.8 million to establish the *Hawai‘i Promise* scholarship program that provides free in-state tuition for qualified community college students with financial needs in fiscal year 2017. The program is a “last dollar” scholarship that would provide any financial needs that are not met by other forms of financial aid, such as federal grants, the University scholarships, and other private sources. Because of the success of the program, the University will continue to request funding from the State.

To further grow student enrollment and help reach the State’s goal of *55 by ‘25 Campaign*, the University has developed a 2017–2020 Enrollment Management Plan to steadily grow enrollment over the next five years. This framework will guide the University’s overall enrollment, retention, and degree efforts.

Specific initiatives and strategies are:

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

On October 11, 2011, the Board approved a five-year tuition schedule. Fiscal year 2015–2016 was the fourth year of the schedule. Tuition rates for fiscal year 2015–2016 were scheduled to increase as much as seven percent. However, in the interest of preserving affordability and access to public higher education in the State of Hawai‘i, the Board amended the previously-approved schedule and reduced the percentage of tuition increase scheduled for years four and five of the schedule — reducing tuition rate increases to not more than five percent. On July 21, 2016, the Board approved a new three-year tuition increase schedule for fiscal year to begin July 1, 2017. This new schedule has no increases for fiscal year 2017–2018, and tuition increases in fiscal years 2018–2019 and 2019–2020 ranging from one to two percent at various campuses.

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Research and Innovation

The University's extramural fund awards include a mix of research and non-research programs that provide financial stability and balance to the University. About 40 to 50 percent of the projects are non-research in nature and are intended for training, workforce development, outreach and community services, clinical trials, and others. The University of Hawai'i at Mānoa, the flagship campus, is ranked by National Science Foundation ("NSF") as number 48th among 398 public universities for research and development expenditures in fiscal year 2015.

The extramural awards totaled \$387 million in fiscal year 2017, representing an almost flat to slight decrease of one percent from the previous year's tally. Like many of our counterpart universities in recent years, the University is experiencing unaccustomed peaks and troughs in funding — a direct consequence of federal budget cuts, the lingering effects of sequestration and other uncertainties in Washington, D.C.

Despite the significant reductions in federal support that have put a strain on research institutions across the country, the University is doing its best to weather the storm through the dedicated efforts of our talented research faculty and support staff. Here are some highlights of fiscal year 2017:

- The Hawai'i Natural Energy Institute received an \$8.6 million award from the Office of Naval Research for its Asia-Pacific Research Initiative for Sustainable Energy Systems.
- The University at Hilo received two separate awards from the National Science Foundation totaling \$1.9 million for research on tropical ecosystems.
- The Cancer Center's Multi Ethnic Cohort Study received a \$3.9 million award from the National Cancer Institute.
- The University at West O'ahu received a \$2.0 million award from the U.S. Department of Education for its PIKO project.
- The Community Colleges received numerous awards totaling \$14.3 million from the U.S. Department of Education, NSF, and the Hawai'i State Departments of Human Services, Transportation, and Labor & Industrial Relations for its programs.

In early 2017, the University published a research and innovation long-range plan to use as a roadmap for the 10-campus system to help better navigate the evolving research landscape. Included were various thought-provoking strategies and initiatives, including the possible formation of cutting-edge interdisciplinary teams to successfully compete for multi-million dollar research awards.

The University continues the efforts to expand the Hawai'i Innovation Initiative and has created 394 invention disclosures, 67 license/option agreements, 66 patents, and 14 startup companies between 2010 and 2017. In June 2017, the State of Hawai'i Governor David Ige signed into law two key legislative measures that removed restrictive statutes that limited the University's ability to participate in technology transfer and commercialization activities, and will now enable the University to remain competitive with our peer research institutions.

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Facilities and Infrastructure

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

In the past three years, the University completed many major construction projects, which included the newest campus, Hawai'i Community College Pāalamanui campus, as well as the Clarence T.C. Ching Athletics Complex, the new three-story Student Services building at the University at Hilo, the expansion of the two-story Warrior Recreation Center at Mānoa, and other new buildings in Maui College, Leeward and Windward Community Colleges to accommodate anticipated enrollment growth.

To meet the increasing enrollment, provide access to higher education for students in the Leeward side of the island, and create a vibrant campus life experience that inspires students to engage in their campus community, the University of Hawai'i at West O'ahu broke ground for its \$36 million newest addition, the Allied Health/Administration building. The building will house the allied health, community health, health information management, long-term care, and biology programs, in addition to various administrative offices. The University is also in the process of developing a master plan to build an integrated campus and University Village on 500 acres of current vacant lands in West O'ahu. The plan may include leasehold housing options, retail and commercial activities, and other uses that would complement the West O'ahu campus and also serve the area. There will be transit-oriented development options near the transit stations. Two stations will be located directly across Kualaka'i Parkway from the West O'ahu campus.

Meanwhile, the State of Hawai'i Legislature continued its strong financial support to the University's capital improvement program and provided general obligation bond appropriations for the 2015–2017 and 2013–2015 fiscal biennia that were approximately \$365.5 million and \$390 million, respectively. At the conclusion of the 2017 Legislative Session, the State provided a \$159.8 million General Obligation bond appropriation as part of the 2018-2019 Capital Improvement Project biennium budget.

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 2017, the University had raised \$77.6 million as compared to \$66.1 million in fiscal year 2016 and \$129.0 million in fiscal year 2015.

In September 2017, the Shidler College of Business at Mānoa received a significant donation of \$117 million in cash and eleven real estate ground leases in nine major cities from alumnus Jay H. Shidler. This donation was made immediately following the final installment of his previous \$111 million gift made in fiscal year 2015 and brings the total value of his donation to \$228 million. The \$117 million gift will further the school's on-going facility improvements, faculty endowments, and academic program expansions and is also designated to provide a level of steady funding for the college. The donated ground leases have 99-year terms and are expected to generate a minimum of \$2.1 billion in contractual

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cash flow for the college. In addition, at the end of the ground lease terms, the college will receive full ownership of the related commercial office buildings, which together with the land will be worth an estimated \$5.1 billion for a total of \$7.2 billion over the life of the current leases.

State General Fund Appropriations

As the sole provider of higher public education and a key economic development driver, the University helped generate a total estimated impact of \$3.61 billion on Hawai'i's economy. Looking toward the future, Hawai'i's economy is expected to continue a positive growth of 1.5 percent in 2018, according to the State Department of Business, Economic Development & Tourism. The tourism and construction industries are projected to remain strong, while the government and military sectors will continue to stay relatively unchanged. Hawai'i's robust economy has kept the unemployment rate low at 2.7 percent as of July 2017.

The State of Hawai'i continues to provide strong support to the University as the sole provider of public higher education in Hawai'i. When compared to other universities in the nation, the University is well supported by the State and was ranked 11th in the category of higher education operating appropriation per full-time equivalent in 2014. The Hawai'i Governor supported, and the State Legislature appropriated, an increase of \$42.2 million, or 9.7 percent in general funds to the University's fiscal year 2018 operating budget. These funds were allocated throughout the campuses primarily to fund faculty salary increases that were negotiated through collective bargaining agreements and other special programs, including the Hawai'i Promise Program.

Future general fund appropriations are dependent upon the financial health of the State, State Council of Revenues projections and priorities yet to be articulated by the Governor and State legislature. The current outlook shows positive signs. The State ended fiscal year 2017 with a general fund surplus totaling \$893 million, although it was a single point of data. The Council on Revenues had initially forecasted a 5.5 percent growth for fiscal year 2017, which was eventually reduced to 2.5 percent. Ultimately, fiscal year 2017 general fund tax revenue collections showed only a 2.0 percent growth over FY16 totals. The Council's current forecast for FY18 revenues projects 4.3 percent growth compared to FY17. As of September 2017, general fund collections are up 9.3 percent compared to the same period for fiscal year 2017. In addition, ERS (retirement) and OPEB (health fund) unfunded liabilities for the State are roughly \$23 billion. To continue to provide quality and affordable education to the residents of Hawai'i, the University has been working hard with lawmakers to advance the University's needs and priorities.

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Consolidated Statements of Net Position
June 30, 2017 and 2016
(All dollars reported in thousands)

	2017	2016
Assets and Deferred Outflows of Resources		
Current assets		
Cash and cash equivalents	\$ 69,096	\$ 103,179
Operating investments	355,180	298,702
Due from State of Hawai'i	1,355	102
Accounts receivable, net	78,270	86,913
Current portion of notes and contributions receivable, net	17,035	16,972
Accrued interest receivable	1,381	851
Inventories	7,902	10,250
Prepaid expenses and other current assets	13,839	11,462
Total current assets	<u>544,058</u>	<u>528,431</u>
Noncurrent assets		
Due from State of Hawai'i	378,310	329,751
Endowment and other investments	507,613	475,040
Notes and contributions receivable, net	34,619	40,068
Capital assets, net	2,087,733	2,053,385
Other noncurrent assets	94,606	18,890
Total noncurrent assets	<u>3,102,881</u>	<u>2,917,134</u>
Total assets	<u>3,646,939</u>	<u>3,445,565</u>
Deferred outflows of resources		
Deferred loss on refunding	9,995	11,383
Deferred outflows on net pension liability	557,225	134,715
Total deferred outflows of resources	<u>567,220</u>	<u>146,098</u>
Total assets and deferred outflows of resources	<u>\$ 4,214,159</u>	<u>\$ 3,591,663</u>
Liabilities, Deferred Inflows of Resources and Net Position		
Current liabilities		
Accounts payable	\$ 60,696	\$ 51,596
Accrued payroll and fringe benefits	62,119	66,300
Advances from sponsors	31,607	34,002
Unearned revenue	48,657	46,314
Due to State of Hawai'i	6,117	6,294
Current portion of long-term liabilities	72,989	55,216
Other current liabilities	6,900	7,229
Total current liabilities	<u>289,085</u>	<u>266,951</u>
Noncurrent liabilities		
Accrued vacation	45,280	45,251
Accrued workers' compensation	12,186	11,747
Net pension liability	1,704,470	1,144,564
Other postemployment benefits	788,773	722,757
Revenue bonds payable	524,565	543,680
Premium on bonds payable	13,412	14,754
Note payable	8,200	17,000
Other noncurrent liabilities	33,490	17,144
Total noncurrent liabilities	<u>3,130,376</u>	<u>2,516,897</u>
Total liabilities	<u>3,419,461</u>	<u>2,783,848</u>
Deferred inflows of resources		
Deferred inflows on net pension liability	65,171	111,364
Total deferred inflows of resources	<u>65,171</u>	<u>111,364</u>
Commitments and contingencies		
Net position		
Net investment in capital assets	1,541,725	1,504,935
Restricted		
Nonexpendable	342,071	244,396
Expendable	586,825	561,093
Unrestricted	(1,741,094)	(1,613,973)
Total net position	<u>729,527</u>	<u>696,451</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 4,214,159</u>	<u>\$ 3,591,663</u>

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

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Consolidated Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2017 and 2016
(All dollars reported in thousands)

	2017	2016
Operating revenues		
Student tuition and fees	\$ 403,177	\$ 403,411
Less: Scholarship allowances	133,054	131,105
Net student tuition and fees	270,123	272,306
Federal appropriations, grants and contracts	295,344	322,266
State and local grants and contracts	39,174	32,831
Nongovernmental sponsored programs	34,374	35,134
Sales and services of educational departments, other	33,428	35,763
Auxiliary enterprises		
Bookstores	19,598	20,736
Student housing (net of scholarship allowances of \$1,867 and \$1,474)	31,952	32,102
Other auxiliary enterprises revenues	45,889	46,186
Other operating revenues	1,648	2,211
Total operating revenues	<u>771,530</u>	<u>799,535</u>
Operating expenses		
Compensation and benefits	1,235,479	1,114,755
Supplies, services and cost of goods sold	193,411	202,157
Depreciation	122,841	124,937
Telephone and utilities	59,957	64,633
Scholarships and fellowships	41,771	43,440
Travel expenses	32,989	33,962
Repairs and maintenance	30,011	28,571
Rental expenses	11,198	12,877
Other operating expenses	50,588	36,205
Total operating expenses	<u>1,778,245</u>	<u>1,661,537</u>
Operating loss	<u>(1,006,715)</u>	<u>(862,002)</u>
Nonoperating revenues (expenses)		
State appropriations	471,453	441,373
Federal Pell grants	55,701	61,438
Private gifts	31,233	32,382
Net investment income	42,509	679
Interest expense	(26,900)	(25,064)
Net transfers from (to) State of Hawai'i for		
Fringe benefits	179,715	172,248
Hawai'i Barrel Tax	2,536	2,784
School of Nursing	124	1,066
University of Hawai'i Cancer Center	6,546	6,366
Other	-	(86)
Loss on disposal of capital assets	(10,069)	(8,165)
Other, net	99	(284)
Net nonoperating revenues before capital and endowment additions (deductions)	<u>752,947</u>	<u>684,737</u>
Capital – state appropriations	159,094	16,547
Capital – federal grants/subsidies	11,174	4,829
Capital – gifts and grants	1,776	1,095
Net transfers from (to) State of Hawai'i for capital assets	(392)	5,651
Transfers from State of Hawai'i, Tobacco settlement	11,799	9,549
Transfers from State of Hawai'i, University of Hawai'i Cancer Center	7,874	7,876
Transfers from other State agencies	-	413
Net transfers from (to) Federal – capital assets	(505)	4,081
Additions to permanent endowments	96,024	9,254
Total other revenues	<u>286,844</u>	<u>59,295</u>
Net nonoperating revenues	<u>1,039,791</u>	<u>744,032</u>
Change in net position	33,076	(117,970)
Net position		
Beginning of year	696,451	842,421
Adjustment for change in accounting principle (Note 1)	-	(28,000)
Beginning of year, as restated	<u>696,451</u>	<u>814,421</u>
End of year	<u>\$ 729,527</u>	<u>\$ 696,451</u>

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

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Consolidated Statements of Cash Flows
Years Ended June 30, 2017 and 2016
(All dollars reported in thousands)

	2017	2016
Cash flows from operating activities		
Student tuition and fees	\$ 274,315	\$ 267,057
Grants and contracts	382,764	395,583
Other revenues	132,731	136,472
Payments to employees	(899,457)	(870,514)
Payments to suppliers and other	(372,553)	(379,598)
Payments for scholarships and fellowships	(41,771)	(43,440)
Net cash used in operating activities	<u>(523,971)</u>	<u>(494,440)</u>
Cash flows from noncapital financing activities		
State appropriations	470,200	441,459
Gifts and grants for other than capital purposes	99,457	109,406
Transfer from State of Hawai'i for		
Hawai'i Barrel Tax	2,536	2,784
School of Nursing	124	1,066
University of Hawai'i Cancer Center	6,546	6,366
Other	-	(86)
Other receipts (disbursements)	18	(226)
Net cash provided by noncapital financing activities	<u>578,881</u>	<u>560,769</u>
Cash flows from capital and related financing activities		
Capital appropriations	109,255	85,940
Capital gifts and grants	12,558	5,171
Proceeds from issuance of capital debt	8,200	8,575
Purchases of capital assets	(154,106)	(109,459)
Proceeds from sale of capital assets	21	653
Principal paid on capital debt	(19,069)	(19,190)
Interest paid on capital debt	(27,535)	(27,046)
Repayment to State of Hawai'i	-	(6,000)
Transfer from other State agencies	-	413
Transfer from State of Hawai'i for		
Tobacco Settlement	11,799	9,549
University of Hawai'i Cancer Center	7,874	7,876
Net cash used in capital and related financing activities	<u>(51,003)</u>	<u>(43,518)</u>
Cash flows from investing activities		
Interest and dividends on investments, net	7,481	7,163
Proceeds from sales and maturities of investments	793,427	962,297
Purchase of investments	(838,898)	(978,903)
Net cash used in investing activities	<u>(37,990)</u>	<u>(9,443)</u>
Net increase (decrease) in cash and cash equivalents	(34,083)	13,368
Cash and cash equivalents		
Beginning of year	<u>103,179</u>	<u>89,811</u>
End of year	<u>\$ 69,096</u>	<u>\$ 103,179</u>

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

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Consolidated Statements of Cash Flows
Years Ended June 30, 2017 and 2016
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	2017	2016
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (1,006,715)	\$ (862,002)
Adjustments to reconcile operating loss to net cash used in operating activities		
On behalf payments by State for fringe benefits	223,116	195,332
Depreciation expense	122,841	124,937
Pension and other post retirement health care benefit expense	113,818	35,885
Bad debt expense, net	2,436	146
Changes in operating assets and liabilities		
Accounts receivable	6,386	1,542
Notes and contributions receivable	565	9
Inventories	2,348	1,515
Prepaid expenses and other assets	944	810
Accounts payable	(2,700)	(3,403)
Accrued payroll and benefits	(3,437)	10,200
Accrued workers' compensation liability	333	2,588
Advances from sponsors	11,201	23
Other, net	4,893	(2,022)
Net cash used in operating activities	<u>\$ (523,971)</u>	<u>\$ (494,440)</u>
Supplemental information of noncash transactions		
Noncash contributions	\$ 87,634	\$ 1,951
Net transfers from (to) State of Hawai'i for capital assets	(392)	5,651
Net transfers from (to) Federal for capital assets	(505)	4,081
Accounts payable for capital assets	30,674	18,874
Bond proceeds deposited immediately into escrow	-	171,408
Defeasance of outstanding revenue bond principal	-	(163,245)

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

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1. Organization and Summary of Significant Accounting Policies

Financial Reporting Entity

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

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

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

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

Basis of Presentation

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

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

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

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Cash, Cash Equivalents and Investments

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

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

Investments

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

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

Fair Value Measurements

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

- **Level 1** – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2** – Inputs (other than quoted prices) included within Level 1 that are observable for the asset or liability, either directly or indirectly.

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- **Level 3** – Unobservable inputs for an asset or liability reflecting management's assumption. Level 3 inputs are used to measure fair value to the extent that observable Level 1 or 2 inputs are not available.

Due from and Due to State

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

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

Perpetual Trusts

The Foundation is the beneficiary of certain perpetual trusts held and administered by others. The fair value of the estimated future cash receipts from the trusts is recognized as assets and 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 1.2 percent to 8.2 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,

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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 \$27,183 and \$25,562 for the years ended June 30, 2017 and 2016, respectively, of which capitalized interest as a cost of construction amounted to \$283 and \$498, respectively. The University does not capitalize works of art or historical treasures that are held for exhibition, education, research and public service. These collections are neither disposed of for financial gain nor encumbered. Accordingly, such collections are not recognized or capitalized for financial statement purposes. Maintenance and repairs, as well as minor renewals, replacements and betterments, are charged to operations. Major renewals, replacements and betterments are capitalized in the year incurred. Capital assets retired or otherwise disposed of are removed from the appropriate asset and related accumulated depreciation accounts. Gains and losses on disposals and the net book value of transfers of capital assets are reflected in operations.

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

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 experiences 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.

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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.

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

Net Position Restricted by Enabling Legislation

GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34*, requires that limitations on the use of net position imposed by enabling legislation be reported as restricted net position. GASB Statement No. 46 also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Restricted net position at June 30, 2017 and 2016 amounted to \$928,896 and \$805,489, respectively, of which \$348,726 and \$313,262 were restricted by enabling legislation for capital activity.

Operating and Nonoperating Activities

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

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

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

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

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

Scholarships and Fellowships

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

State Appropriations

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

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Management's Estimates

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

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

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*, as amended. The Statement will require governments to report a liability on the face of the financial statements for the other postemployment benefits that they provide. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The University has determined that Statement No. 75 will have a material effect on its consolidated financial statements.

During fiscal year 2017, the University implemented GASB Statement No. 80, *Blending Requirements for Certain Component Units*. This Statement amends the blending requirements in GASB Statement No. 14. The Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. This Statement did not have a material effect on the University's consolidated financial statements.

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The GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this Statement are effective for reporting periods beginning after December 15, 2016. The University is currently evaluating the impact that Statement No. 81 will have on its financial statements.

During fiscal year 2017, the University implemented GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, 68 and 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and 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 adoption of Statement No. 82 has resulted in the restatement of the University's beginning net position to reflect the new calculation of deferred outflows of resources in accordance with the provisions of Statement No. 82. The beginning net position as of July 1, 2015 was restated by \$28,000 from \$842,421 to \$814,421.

The GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. The objective of this Statement is to provide financial statement users with information about asset retirement obligations that were not addressed in GASB standards by establishing uniform accounting and financial reporting requirements for these obligations. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The University has not yet determined the effect this Statement will have on its consolidated financial statements.

The GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The University has not yet determined the effect this Statement will have on its consolidated financial statements.

The GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The University is currently evaluating the impact Statement No. 85 will have on its consolidated financial statements.

The GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources — resources other than the proceeds of refunding debt — are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The University is currently evaluating the impact Statement No. 86 will have on its consolidated financial statements.

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The GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The University has not yet determined the effect this Statement will have on its consolidated financial statements.

Reclassifications

In addition to the restatement of beginning net position as of July 1, 2015 by \$28,000, certain amounts in the 2016 consolidated financial statements have been reclassified due to the adoption of GASB Statement No. 82.

	2016		2016
	As Previously		Revised
	Reported	Reclassifications	
Deferred outflows of resources			
Deferred outflows on pension liability	\$ 163,699	\$ (28,984)	\$ 134,715
Total deferred outflows of resources	175,082	(28,984)	146,098
Total assets and deferred outflows of resources	3,620,647	(28,984)	3,591,663
Operating expenses			
Compensation and benefits	1,113,771	984	1,114,755
Total operating expenses	1,660,553	984	1,661,537
Operating loss	(861,018)	(984)	(862,002)
Change in net position	(116,986)	(984)	(117,970)

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, 2017 and 2016, classified as cash and cash equivalents and operating investments, were \$230,039 and \$271,416, with corresponding bank balances of \$230,511 and \$282,084, respectively. The portion of such bank balances covered by the Federal Deposit Insurance Corporation or by collateral held by the State Director of Budget & Finance in the name of the University totaled \$225,690 at June 30, 2017 and \$276,554 at June 30, 2016. Additional cash equivalent balances of \$4,119 at June 30, 2017 and \$7,341 at June 30, 2016 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.

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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 \$4,855 and \$10,428 at June 30, 2017 and 2016, respectively. These unrealized losses have been recorded as reductions in unrestricted net position. Future market gains will be used to restore this deficiency in unrestricted net position before any net appreciation above the historical cost value of such funds increases restricted expendable net position.

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

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

The remaining portion of the donor-restricted endowment fund that is not classified in restricted nonexpendable net position is classified as restricted expendable net position until those amounts are expended and distributed by the University in accordance with its Board-approved spending rate policy and in a manner consistent with the standard of prudence prescribed by HUPMIFA. In fiscal years 2017 and 2016, 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.

At June 30, 2017 and 2016, the University's investments were comprised of the following:

	2017		2016	
	Fair Value	Cost	Fair Value	Cost
Money market funds	\$ 4,716	\$ 4,716	\$ 11,679	\$ 11,679
Fixed income securities	283,541	284,620	210,172	207,952
Equity securities	6,328	5,122	5,866	5,143
Mutual funds	183,210	173,137	179,089	178,440
Time certificates of deposit	161,022	161,022	192,518	192,518
Limited partnerships	121,954	74,267	74,376	43,289
Absolute return	16,322	11,741	19,612	14,779
Real estate	23,161	28,721	17,105	21,084
Other investments	62,539	52,927	63,325	56,312
Total investments	862,793	796,273	773,742	731,196
Less: Current portion	355,180	355,686	298,702	297,425
Total noncurrent investments	<u>\$ 507,613</u>	<u>\$ 440,587</u>	<u>\$ 475,040</u>	<u>\$ 433,771</u>

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

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

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Changes in the University's investments for the year ended June 30, 2016 were as follows:

	Fair Value	Cost Basis	Net Unrealized Gain (Loss)	Net Realized Gain (Loss)
University Endowment Pool				
End of year	\$ 63,479	\$ 63,094	\$ 385	
Beginning of year	<u>65,557</u>	<u>63,930</u>	<u>1,627</u>	
Net change	<u>(2,078)</u>	<u>(836)</u>	<u>(1,242)</u>	\$ (532)
Foundation Endowment Pool				
End of year	255,979	215,551	40,428	
Beginning of year	<u>265,685</u>	<u>217,861</u>	<u>47,824</u>	
Net change	<u>(9,706)</u>	<u>(2,310)</u>	<u>(7,396)</u>	921
Associated Students of the University of Hawai'i				
End of year	8,350	7,590	760	
Beginning of year	<u>8,099</u>	<u>7,613</u>	<u>486</u>	
Net change	<u>251</u>	<u>(23)</u>	<u>274</u>	75
School of Medicine				
End of year	5,519	5,519	-	
Beginning of year	<u>5,516</u>	<u>5,516</u>	<u>-</u>	
Net change	<u>3</u>	<u>3</u>	<u>-</u>	1
University Bond System				
End of year	26,492	26,492	-	
Beginning of year	<u>24,830</u>	<u>24,830</u>	<u>-</u>	
Net change	<u>1,662</u>	<u>1,662</u>	<u>-</u>	2
Operating investments				
End of year	298,702	297,425	1,277	
Beginning of year	<u>285,241</u>	<u>284,871</u>	<u>370</u>	
Net change	<u>13,461</u>	<u>12,554</u>	<u>907</u>	47
Other				
End of year	115,221	115,525	(304)	
Beginning of year	<u>107,556</u>	<u>108,614</u>	<u>(1,058)</u>	
Net change	<u>7,665</u>	<u>6,911</u>	<u>754</u>	58
Total investments				
End of year	773,742	731,196	42,546	
Beginning of year	<u>762,484</u>	<u>713,235</u>	<u>49,249</u>	
Net change	<u>\$ 11,258</u>	<u>\$ 17,961</u>	<u>\$ (6,703)</u>	<u>\$ 572</u>

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	2017	2016
Summary of net investment income		
Change in unrealized net gain (loss)	\$ 23,974	\$ (6,703)
Net realized gain	10,733	572
	<u>34,707</u>	<u>(6,131)</u>
Interest and dividend income	9,329	8,640
Other	<u>(212)</u>	<u>(593)</u>
Investment income before management fees	43,824	1,916
Less: Management fees	<u>1,315</u>	<u>1,237</u>
Net investment income	<u>\$ 42,509</u>	<u>\$ 679</u>

The University's investments reported at fair value on a recurring basis have been categorized based on the fair value hierarchy in Note 1 at June 30, 2017 and 2016 as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Not Categorized Within the Fair Value Hierarchy
2017					
Money market funds	\$ 4,716	\$ 4,716	\$ -	\$ -	\$ -
Fixed income securities	283,541	123,220	140,504	-	19,817
Equity securities	6,328	6,328	-	-	-
Mutual funds	183,210	177,658	-	-	5,552
Time certificates of deposit	161,022	-	-	-	161,022
Limited partnerships	121,954	-	-	-	121,954
Absolute return	16,322	-	-	-	16,322
Real estate	23,161	-	-	15,050	8,111
Other investments	<u>62,539</u>	<u>-</u>	<u>-</u>	<u>1,956</u>	<u>60,583</u>
Total investments	<u>\$ 862,793</u>	<u>\$ 311,922</u>	<u>\$ 140,504</u>	<u>\$ 17,006</u>	<u>\$ 393,361</u>
2016					
Money market funds	\$ 11,679	\$ 11,679	\$ -	\$ -	\$ -
Fixed income securities	210,172	88,576	90,247	-	31,349
Equity securities	5,866	5,866	-	-	-
Mutual funds	179,089	169,292	-	-	9,797
Time certificates of deposit	192,518	-	-	-	192,518
Limited partnerships	74,376	-	-	-	74,376
Absolute return	19,612	-	-	-	19,612
Real estate	17,105	-	-	6,440	10,665
Other investments	<u>63,325</u>	<u>-</u>	<u>-</u>	<u>2,375</u>	<u>60,950</u>
Total investments	<u>\$ 773,742</u>	<u>\$ 275,413</u>	<u>\$ 90,247</u>	<u>\$ 8,815</u>	<u>\$ 399,267</u>

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

- **Mutual funds** – Domestic mutual funds can be redeemed on a quarterly basis, with notification provided between 30 and 60 days prior to redemption. Investments in foreign mutual funds can be redeemed on a monthly basis with notification provided between 10 and 30 days prior to redemption.
- **Limited partnerships and other investments** – Redemption frequency for investments in this class range from monthly to annually, with notification provided between 2 and 90 days prior to redemption. Additionally, certain investments can be redeemed at the discretion of the investment managers.
- **Absolute return and real estate and other investments** – These investments can be redeemed at the discretion of the investment managers. Through the Foundation, the University has commitments to contribute additional amounts to this class of investments of approximately \$34,168 at June 30, 2017.

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

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

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

Investment Risk Factors

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

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Concentration Risk

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

Credit Risk

Credit risk for fixed income securities is the risk that the issuer will not fulfill its obligations. Nationally recognized statistical rating organizations, such as Moody's and Standard and Poor's ("S&P"), assign credit ratings to security issuers and issues that indicate a measure of potential credit risk to investors. 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, 2017 and 2016, along with credit quality ratings, is summarized below:

		Credit Quality Rating					
		U.S. Govt-Exempt	AAA	AA	A	BBB	Not Rated
2017							
U.S. Treasury	\$ 126,823	\$ 126,823	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. government agencies	156,234	-	-	156,234	-	-	-
Corporate bonds	484	-	28	61	233	162	-
Mutual bond funds	99,766	-	4,079	-	4,350	-	91,337
Total fixed income securities	<u>\$ 383,307</u>	<u>\$ 126,823</u>	<u>\$ 4,107</u>	<u>\$ 156,295</u>	<u>\$ 4,583</u>	<u>\$ 162</u>	<u>\$ 91,337</u>
2016							
U.S. Treasury	\$ 88,076	\$ 88,076	\$ -	\$ -	\$ -	\$ -	\$ -
U.S. government agencies	121,536	-	-	121,536	-	-	-
Corporate bonds	560	-	29	117	232	182	-
Mutual bond funds	99,517	-	10,810	-	-	-	88,707
Total fixed income securities	<u>\$ 309,689</u>	<u>\$ 88,076</u>	<u>\$ 10,839</u>	<u>\$ 121,653</u>	<u>\$ 232</u>	<u>\$ 182</u>	<u>\$ 88,707</u>

Interest Rate Risk

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

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At June 30, 2017, the composition of the University's fixed income investments and maturities are summarized below:

	Fair Value	Investment Maturities (in Years)			
		Less than 1	1 to 5	6 to 10	More than 10
U.S. Treasury	\$ 126,823	\$ 33,819	\$ 79,677	\$ 13,310	\$ 17
U.S. government agencies	156,234	32,879	122,307	989	59
Corporate bonds	484	185	111	188	-
Mutual bond funds	99,766	10,980	65,657	23,129	-
Total fixed income securities	<u>\$ 383,307</u>	<u>\$ 77,863</u>	<u>\$ 267,752</u>	<u>\$ 37,616</u>	<u>\$ 76</u>

Foreign Currency Risk

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

At June 30, 2017 and 2016, the University's exposure to foreign currency risk expressed in U.S. dollars was not significant.

3. Accounts Receivable

The composition of accounts receivable, net of allowance for uncollectable receivables, of \$30,457 and \$28,278 at June 30, 2017 and 2016, respectively, is summarized as follows:

	2017	2016
U.S. government	\$ 44,448	\$ 49,258
State and local government	9,405	8,217
Private agencies	9,333	8,019
Student tuition and fees	7,350	10,147
Other	7,734	11,272
	<u>\$ 78,270</u>	<u>\$ 86,913</u>

4. U.S. Government Funding

The federal government reimburses the University for certain overhead costs (e.g., facilities and administrative costs) incurred in support of federally-sponsored programs based on cost reimbursement rates negotiated with the University's cognizant agency, the U.S. Department of Health and Human Services. These reimbursements amounted to approximately \$42,464 in 2017 and \$43,579 in 2016 and are reported in federal appropriations, grants and contracts revenue.

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

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5. Notes and Contributions Receivable

The composition of notes and contributions receivable at June 30, 2017 and 2016 is summarized as follows:

	2017	2016
Student notes		
Federal loan programs	\$ 16,653	\$ 17,036
State loan programs	7,528	7,901
University loan funds	67	68
Other notes receivable	43	52
Total student and other notes outstanding	<u>24,291</u>	<u>25,057</u>
Less: Allowance for uncollectible receivables	<u>7,393</u>	<u>7,410</u>
Total student and other notes receivable, net	<u>16,898</u>	<u>17,647</u>
Contributions receivable	36,965	45,211
Less: Allowance for uncollectible pledges	1,801	1,557
Less: Discount to present value	408	4,261
Total contributions receivable, net	<u>34,756</u>	<u>39,393</u>
Total student notes and contributions receivable, net	51,654	57,040
Less: Current portion, net	<u>17,035</u>	<u>16,972</u>
	<u>\$ 34,619</u>	<u>\$ 40,068</u>

The allowance for uncollectible receivables at June 30, 2017 and 2016 is comprised of:

	2017	2016
Federal Perkins loan program	\$ 3,806	\$ 4,035
State of Hawai'i Higher Education loans	3,545	3,333
Nursing/Health Profession loans	10	10
Short-term loans	32	32
	<u>\$ 7,393</u>	<u>\$ 7,410</u>

Payments on contributions receivable at June 30, 2017 are expected to be collected in:

Less than one year	\$ 15,137
One year to five years	<u>21,828</u>
	<u>\$ 36,965</u>

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

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

During the years ended June 30, 2017 and 2016, the University distributed \$2,359 and \$2,484 in student loans through the U.S. Department of Education Federal Perkins Loan Program, respectively, and \$150,389 and \$156,333 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 \$5,866 and \$39,020 at June 30, 2017 and 2016, 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, 2017 and 2016 are summarized below:

		2017	2016
University of Hawai'i Bookstore merchandise inventory	Lower of cost or market using the first-in, first-out retail inventory method.	\$ 5,051	\$ 7,121
University of Hawai'i Chemistry Stockroom	Cost applied on the first-in, first-out basis.	888	885
University of Hawai'i Facilities Management Warehouse	Cost applied on the first-in, first-out basis.	695	927
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.	944	699
University of Hawai'i other inventory	Lower of cost or market using the weighted average cost method.	324	618
		<u>\$ 7,902</u>	<u>\$ 10,250</u>

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7. Capital Assets

A summary of capital assets at June 30, 2017 and 2016 is as follows:

	Beginning Balance	Additions	Deductions	Transfers	Ending Balance
2017					
Nondepreciable capital assets					
Land	\$ 45,354	\$ 5,900	\$ -	\$ 3,941	\$ 55,195
Construction in progress	182,872	132,013	5,007	(139,851)	170,027
Total capital assets not being depreciated	228,226	137,913	5,007	(135,910)	225,222
Depreciable capital assets					
Land improvements	128,969	224	-	2,552	131,745
Infrastructure	218,284	594	-	24,152	243,030
Buildings	2,340,153	12,969	28,282	97,041	2,421,881
Equipment	382,445	18,627	15,766	12,165	397,471
Library materials	168,836	2,769	-	-	171,605
Total capital assets being depreciated	3,238,687	35,183	44,048	135,910	3,365,732
Less: Accumulated depreciation	1,413,528	122,841	33,148	-	1,503,221
Capital assets, net	\$ 2,053,385	\$ 50,255	\$ 15,907	\$ -	\$ 2,087,733
2016					
Nondepreciable capital assets					
Land	\$ 37,596	\$ 3,783	\$ -	\$ 3,975	\$ 45,354
Construction in progress	249,788	78,079	3,915	(141,080)	182,872
Total capital assets not being depreciated	287,384	81,862	3,915	(137,105)	228,226
Depreciable capital assets					
Land improvements	129,013	82	126	-	128,969
Infrastructure	174,376	1,034	-	42,874	218,284
Buildings	2,248,626	17,851	14,545	88,221	2,340,153
Equipment	377,355	13,194	14,114	6,010	382,445
Library materials	164,410	4,426	-	-	168,836
Total capital assets being depreciated	3,093,780	36,587	28,785	137,105	3,238,687
Less: Accumulated depreciation	1,312,473	124,937	23,882	-	1,413,528
Capital assets, net	\$ 2,068,691	\$ (6,488)	\$ 8,818	\$ -	\$ 2,053,385

Capital assets consist of land, land improvements, infrastructure, buildings, equipment, library materials, and construction in progress. Construction in progress ("CIP") additions represent costs for new projects, net of the amount of capital assets placed in service. CIP is not depreciated until the asset is placed in service. Assets acquired are recorded at cost, or if donated, at appraised value at the date of the gift. Land parcels comprising 1,206 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.

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8. Other Noncurrent Assets

Other noncurrent assets at June 30, 2017 and 2016 were comprised of:

	2017	2016
Interest in beneficial trusts held by others	\$ 94,081	\$ 16,343
Prepaid bond insurance	275	295
Other	250	2,252
	<u>\$ 94,606</u>	<u>\$ 18,890</u>

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

Amounts due from and due to the State of Hawai'i at June 30, 2017 and 2016 were as follows:

	2017		2016	
	Due from	Due to	Due from	Due to
State appropriations for current operations	\$ 1,355		\$ 102	
State capital appropriations – noncurrent	378,310		329,751	
Total due from State of Hawai'i	<u>\$ 379,665</u>		<u>\$ 329,853</u>	
Imprest/petty cash advances		\$ 80		\$ 80
Advance		6,000		6,000
General obligation bonds – current		-		195
Employee fringe adjustments		37		19
Due to State of Hawai'i – current		<u>6,117</u>		<u>6,294</u>
General obligation bonds – noncurrent		-		-
Total due to State of Hawai'i		<u>\$ 6,117</u>		<u>\$ 6,294</u>

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

Activity related to amounts due to the State for general obligation bonds for the years ended June 30, 2017 is as follows:

	Original Amount	Beginning Balance	Principal Repayment	Ending Balance
Series DB (interest rate, 2.80% to 5.25%)				
Student Housing				
Mānoa	\$ 731	\$ 99	\$ 99	\$ -
Hilo	143	20	20	-
Parking Structure Phase I	425	58	58	-
	<u>1,299</u>	<u>177</u>	<u>177</u>	<u>-</u>
Series DG (interest rate, 5.00%)				
Student Housing				
Mānoa	82	11	11	-
Hilo	16	1	1	-
Parking Structure Phase I	47	6	6	-
	<u>145</u>	<u>18</u>	<u>18</u>	<u>-</u>
	<u>\$ 1,444</u>	<u>\$ 195</u>	<u>\$ 195</u>	<u>\$ -</u>

Activity related to amounts due to the State for general obligation bonds for the year ended June 30, 2016 is as follows:

	Original Amount	Beginning Balance	Principal Repayment	Ending Balance
Series DB (interest rate, 2.80% to 5.25%)				
Student Housing				
Mānoa	\$ 731	\$ 193	\$ 94	\$ 99
Hilo	143	38	18	20
Parking Structure Phase I	425	112	54	58
	<u>1,299</u>	<u>343</u>	<u>166</u>	<u>177</u>
Series DG (interest rate, 5.00%)				
Student Housing				
Mānoa	82	22	11	11
Hilo	16	3	2	1
Parking Structure Phase I	47	12	6	6
	<u>145</u>	<u>37</u>	<u>19</u>	<u>18</u>
	<u>\$ 1,444</u>	<u>\$ 380</u>	<u>\$ 185</u>	<u>\$ 195</u>

General obligation bonds are payable in annual installments, including semi-annual interest payments. The University made the final principal and interest payment to the State for general obligation bonds in June 2017.

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11. Long-Term Liabilities

Long-term liability activity for the years ended June 30, 2017 and 2016 is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
2017					
Bonds payable					
Revenue bonds payable	\$ 562,620	\$ -	\$ 18,940	\$ 543,680	\$ 19,115
Other liabilities					
Workers' compensation	18,100	2,106	1,773	18,433	6,247
Accrued vacation	75,174	28,552	27,819	75,907	30,627
Net pension liability (Note 14)	1,144,564	657,300	97,394	1,704,470	-
Postemployment health care/life insurance benefits (Note 15)	722,757	115,716	49,700	788,773	-
Long-term debt	17,000	8,200	-	25,200	17,000
Total other liabilities	<u>1,977,595</u>	<u>811,874</u>	<u>176,686</u>	<u>2,612,783</u>	<u>53,874</u>
Total long-term liabilities	<u>\$ 2,540,215</u>	<u>\$ 811,874</u>	<u>\$ 195,626</u>	<u>\$ 3,156,463</u>	<u>\$ 72,989</u>
2016					
Bonds payable					
Revenue bonds payable	\$ 578,585	\$ 166,285	\$ 182,250	\$ 562,620	\$ 18,940
Other liabilities					
Workers' compensation	15,512	4,636	2,048	18,100	6,353
Accrued vacation	73,840	28,219	26,885	75,174	29,923
Net pension liability (Note 14)	1,089,882	148,576	93,894	1,144,564	-
Postemployment health care/life insurance benefits (Note 15)	650,805	117,052	45,100	722,757	-
Long-term debt	17,000	-	-	17,000	-
Total other liabilities	<u>1,847,039</u>	<u>298,483</u>	<u>167,927</u>	<u>1,977,595</u>	<u>36,276</u>
Total long-term liabilities	<u>\$ 2,425,624</u>	<u>\$ 464,768</u>	<u>\$ 350,177</u>	<u>\$ 2,540,215</u>	<u>\$ 55,216</u>

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Revenue Bonds Payable

The University's revenue bonds payable at June 30, 2017 and 2016 is as follows:

	Series	Date Issued	Authorized	2017	2016
Frear Hall Construction, Student Housing System at Mānoa, Food Service System and Student Housing System at Hilo (interest rate, 3.25% to 5.0%)	2006A	December 13, 2006	\$ 100,000	\$ 17,490	\$ 19,970
University Health & Wellness Center (interest rate, 3.5% to 5.0%)	Ref 2006A	October 25, 2006	133,810	16,045	20,590
Various acquisition and construction projects (interest rate, 2.5% to 6.0%)	2009A	April 15, 2009	100,000	84,765	87,340
University's Cancer Center (interest rate, 2.5% to 6.0%)	2010A-1, 2010A-2	October 7, 2010	138,640	121,455	124,590
Various construction projects (interest rate, 2.5% to 6.0%)	2010B-1, 2010B-2	October 7, 2010	154,090	138,995	142,490
Student Housing System at Mānoa and Telecommunications System (interest rate, 2.0% to 5.0%)	2012A(R)	February 22, 2012	8,575	1,775	3,245
Hilo College of Pharmacy and Law School Expansion and Modernization (interest rate, 1.0% to 4.7%)	2015A	September 24, 2015	8,575	8,400	8,575
Frear Hall Construction, Student Housing System at Mānoa, Food Service System and Student Housing System at Hilo (interest rate, 3.0% to 5.0%)	2015B(R)	September 24, 2015	47,010	47,010	47,010
Frear Hall Construction, Student Housing System at Mānoa, Food Service System and Student Housing System at Hilo (interest rate, 0.8% to 3.0%)	2015C(R)	September 24, 2015	17,585	15,510	15,945
University Health & Wellness Center (interest rate, 0.8% to 2.8%)	2015D(R)	September 24, 2015	25,715	24,835	25,465
University Health & Wellness Center (interest rate, 5.0%)	2015E(R)	April 20, 2016	67,400	67,400	67,400
			<u>\$ 801,400</u>	<u>\$ 543,680</u>	<u>\$ 562,620</u>

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

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

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

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

The University receives funds from the State of Hawai'i Tobacco Settlement Special Fund for the payment of principal and interest on the Refunding Series 2006A, Series 2015D(R) and 2015E(R) 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 \$11,799 and \$9,549 in 2017 and 2016, respectively.

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The revenue bonds are paid from certain unrestricted revenues in annual installments, including semi-annual interest payments ranging from \$12 to \$13,512 with the final payment due in October 2044. Series 2006A, 2009A, 2010, 2012A(R) and Series 2015 bonds interest is payable semi-annually on April 1 and October 1, and the principal is payable on October 1 of each year. The Refunding Series 2006A interest is payable semi-annually on January 15 and July 15, and the principal is payable on July 15 of each year. The Bond Resolution adopted on May 17, 2002 and supplemented, stipulates that all available moneys on deposit in any special fund or revolving fund of the University, excluding moneys on deposit in the University Revenue – Undertakings Fund derived from the University Bond System, are pledged to the payment of the Refunding Series 2006A bonds, interest and premiums (if any). All available moneys on deposit in any special fund or revolving fund of the University, including moneys on deposit in the University Bond System, are pledged to the payment of the Series 2006A, 2009A, 2010, 2012A(R) and Series 2015 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.

At June 30, 2017, future maturities of revenue bonds are as follows:

	Principal	Interest
Year ending June 30,		
2018	\$ 19,115	\$ 26,739
2019	18,360	26,155
2020	18,745	25,533
2021	19,375	24,864
2022	20,000	24,120
2023–2027	112,075	105,388
2028–2032	135,480	75,043
2033–2037	124,310	39,744
2038–2042	74,755	8,864
2043–2045	1,465	105
	<u>\$ 543,680</u>	<u>\$ 356,555</u>

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Bond Premiums

Activity related to the premiums on general obligation and revenue bonds for the years ended June 30, 2017 and 2016 is as follows:

	Series	Beginning Balance	Additions	Reductions	Ending Balance
2017					
John A. Burns School of Medicine	Ref 2006A	\$ 191	\$ -	\$ 13	\$ 178
University's Cancer Center	2010A	452	-	203	249
Various construction projects	2010B	708	-	303	405
Student Housing	2015B(R)	5,443	-	273	5,170
John A. Burns School of Medicine	2015E(R)	7,960	-	550	7,410
Total bond premiums		<u>\$ 14,754</u>	<u>\$ -</u>	<u>\$ 1,342</u>	<u>\$ 13,412</u>
2016					
John A. Burns School of Medicine	Ref 2006A	\$ 1,183	\$ -	\$ 992	\$ 191
University's Cancer Center	2010A	715	-	263	452
Various construction projects	2010B	1,074	-	366	708
Student Housing	2015B(R)	-	5,639	196	5,443
John A. Burns School of Medicine	2015E(R)	-	8,059	99	7,960
Total bond premiums		<u>\$ 2,972</u>	<u>\$ 13,698</u>	<u>\$ 1,916</u>	<u>\$ 14,754</u>

Note Payable

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

The Note 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 April 22, 2018, at which time the unpaid principal will be due. As of June 30, 2017 and 2016, \$17,000 remained outstanding.

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12. Line of Credit

The Research Corporation has a revolving line of credit with First Hawaiian Bank in the amount of \$5,000 for short-term working capital, expiring on February 1, 2018. 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, 2017 and 2016. At June 30, 2017 and 2016, there were no borrowings under this line.

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

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,	
2018	\$ 1,944
2019	785
2020	346
2021	81
2022	76
2023–2027	334
2028–2032	334
Thereafter	1,734
	<u>\$ 5,634</u>

Rent expense for outside space for the years ended June 30, 2017 and 2016 approximated \$6,420 and \$7,904, respectively.

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14. Employee Benefits

Employees' Retirement System
General Information on the Pension Plan

Plan Description

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

Benefits Provided

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

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

Noncontributory Class

- **Retirement Benefits** – General employees' retirement benefits are determined as 1.25 percent of average final compensation multiplied by the years of credited service. Employees with 10 years of credited service are eligible to retire at age 62. Employees with 30 years of credited service are eligible to retire at age 55.
- **Disability Benefits** – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35 percent of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 12.5 percent of average final compensation.

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

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

Contributory Class for Members Hired Prior to July 1, 2012

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

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Contributory Class for Members Hired After June 30, 2012

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

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

Hybrid Class for Members Hired Prior to July 1, 2012

- Retirement Benefits – General employees' retirement benefits are determined as two percent of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 62. General employees with 30 years of credited service are eligible to retire at age 55.
- Disability Benefits – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35 percent of their average final compensation plus refund of their contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25 percent of average final compensation.
- Death Benefits – For service-connected deaths, the designated surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50 percent of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

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

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Hybrid Class for Members Hired After June 30, 2012

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

Contributions

Contributions are governed by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rate was 17 percent for fiscal years 2017 and 2016. Contributions to the pension plan from the University for the years ended June 30, 2017 and 2016 were \$98,865 and \$96,977, respectively.

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

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

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

At June 30, 2017 and 2016, the University reported a liability of \$1,704,470 and \$1,144,564, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and 2015, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The University's proportion of the net pension liability was based on a projection of the University's long-term share of contributions to the pension plan relative to projected contributions of all participants, actuarially determined. At June 30, 2016 and 2015, the University's proportion was 12.75 percent and 13.11 percent, respectively, which was a decrease of 0.36 percent and 0.48 percent from its proportion measured as of June 30, 2015 and 2014, respectively.

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

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

For the years ended June 30, 2017 and 2016, the University recognized pension expense of \$190,485 and \$84,899, respectively. At June 30, 2017 and 2016, 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
2017		
Difference between expected and actual experience	\$ 33,943	\$ 24,671
Net difference between projected and actual investment earnings on pension plan investments	104,272	-
Change in assumptions	320,145	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	40,500
Contributions subsequent to the measurement date	<u>98,865</u>	<u>-</u>
Total deferred inflows and outflows of resources	<u>\$ 557,225</u>	<u>\$ 65,171</u>
2016		
Difference between expected and actual experience	\$ 10,720	\$ 32,030
Net difference between projected and actual investment earnings on pension plan investments	-	39,056
Change in assumptions	27,018	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	40,278
Contributions subsequent to the measurement date	<u>96,977</u>	<u>-</u>
Total deferred inflows and outflows of resources	<u>\$ 134,715</u>	<u>\$ 111,364</u>

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The \$98,865 reported as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. The \$96,977 reported as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date was recognized as a reduction of the net pension liability during the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30,	
2018	\$ (72,251)
2019	(72,251)
2020	(103,439)
2021	(94,733)
2022	(50,515)
	<u>\$ (393,189)</u>

Actuarial Assumptions

The total pension liability in the June 30, 2016 and 2015 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

	2017	2016
Inflation	2.50 %	3.00 %
Payroll growth rate	3.50 %	3.50 %
Investment rate of return	7.00 %	7.65 %

The June 30, 2016 valuation was determined using actuarial assumptions adopted by the Board of Trustees of the ERS on December 12, 2016, based on the most recent experience study dated July 5, 2016. The actuarial assumptions used in the June 30, 2015 valuation were based on the experience study dated December 20, 2010.

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

For the June 30, 2016 actuarial valuation, post-retirement mortality rates are based on the 2016 Public Retirees of Hawai'i mortality table with adjustments based on generational projections of the BB projection table for 2016 and full generational projection in future years. Pre-retirement mortality rates are based on multiples of RP-2014 mortality table based on the occupation of the member. For the June 30, 2015 actuarial valuation, post-retirement mortality rates are based on Client Specific Tables and the 1994 U.S. Group Annuity Mortality Static Tables. Pre-retirement mortality rates are based on custom tables with RP-2000 rates.

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

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the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Strategic Allocation (risk-based classes)	Target Allocation	Long-Term Expected Real Rate of Return
Broad growth	63.0%	8.35%
Principal protection	7.0%	2.20%
Real return	10.0%	6.15%
Crisis risk offset	<u>20.0%</u>	5.50%
Total	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the net pension liability was 7.00 percent, a decrease from the 7.65 percent rate used at the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the University will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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 7.00 percent and 7.65 percent, for the measurement date June 30, 2016 and 2015, respectively, 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 (6.00 percent and 6.65 percent, respectively) or one percentage point higher (8.00 percent and 8.65 percent, respectively) than the current rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
2017			
The University's proportionate share of the net pension liability	<u>\$ 2,179,604</u>	<u>\$ 1,704,470</u>	<u>\$ 1,311,313</u>
	1% Decrease (6.65%)	Discount Rate (7.65%)	1% Increase (8.65%)
2016			
The University's proportionate share of the net pension liability	<u>\$ 1,440,967</u>	<u>\$ 1,144,564</u>	<u>\$ 848,162</u>

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Pension Plan Fiduciary Net Position

The pension plan's fiduciary net position is determined on the same basis used by the pension plan. The ERS 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, 2017 and 2016, the amount payable to the ERS was \$768 and \$1,184, respectively.

Other Benefits

The State absorbs the fringe benefit cost for employees paid from State and federal appropriations. In fiscal years 2016 and 2015, 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 \$223,116 and \$195,332 for fiscal years 2017 and 2016, 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, 2017 and 2016, accumulated sick leave approximated \$463,682 and \$454,343, 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 2017 and 2016 were \$3,556 and \$2,480, respectively. Temporary wage loss payments for fiscal years 2017 and 2016 amounted to \$1,156 and \$1,073, respectively.

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15. Postemployment Health Care and Life Insurance Benefits

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

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

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

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

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

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Funding Policy and Annual OPEB Cost

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

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

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

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

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Employer contributions are financed on a pay-as-you-go basis. The University's contributions are calculated as part of the State's total contribution requirements and are reimbursed to the State's General Fund as part of the fringe benefit rate on the University employees' actual salaries. The University's annual OPEB cost is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters in Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table presents the annual OPEB cost, contributions made, the net OPEB liability, and the funding status for the University for the fiscal year ended June 30, 2017:

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

The University remitted \$93,101 and \$68,184 in State-assessed OPEB contributions for the years ended June 30, 2017 and 2016, respectively. The University's actuarially determined minimum OPEB contribution was \$49,700 and \$45,100 for the years ended June 30, 2017 and 2016, respectively. The difference between the State assessed and University actuarially determined OPEB contribution is reported net with Transfers from State for Fringe Benefits in the accompanying Consolidated Statements of Revenues, Expenses and Changes in Net Position.

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

OPEB Summary

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

Funded Status

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the healthcare cost trend. Actuarially determined amounts are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the consolidated financial statements, is designed to present multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce 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 were as follows:

Actuarial valuation date	July 1, 2015	July 1, 2013
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level percent, closed	Level percent, closed
Remaining amortization period	28 years	30 years
Asset valuation method	Market	Market
Actuarial assumptions		
Investment rate of return	7.0%	7.0%
Projected salary increases	3.5%	3.5%
Healthcare inflation rates		
PPO	9.0% initial, 5.0% after 8 years	9.0% initial, 5.0% after 10 years
HMO	7.0% initial, 5.0% after 8 years	7.5% initial, 5.0% after 10 years
Dental	4.0%	4.0%
Vision	3.0%	3.0%
Medicare Part B	3.0% initial, 5.0% after 2 years	5.0%

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The July 1, 2015 actuarial valuation was used to determine the amounts reported in the University's consolidated financial statements for the year ended June 30, 2017. The July 1, 2013 actuarial valuation was used to determine the amounts reported in the University's consolidated financial statements for the year ended June 30, 2016.

Effective July 1, 2017, the active employee health benefit contracts were extended through June 30, 2018.

16. Other Noncurrent Liabilities

Other noncurrent liabilities at June 30, 2017 and 2016 are comprised of:

	2017	2016
Liabilities under split interest agreements	\$ 12,608	\$ 10,565
Amounts held for others	3,882	3,369
Refundable advance from the Federal Perkins loan program	13,596	-
Other	3,404	3,210
	<u>\$ 33,490</u>	<u>\$ 17,144</u>

17. State Appropriations

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

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

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

Act 124, SLH 2016 Section 39, provided \$106,789 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, 2016.

The net amount of the University's State general and capital appropriations for the years ended June 30, 2017 and 2016 were \$471,453 and \$159,094 and \$441,373 and \$16,547, respectively.

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

General appropriations	
Act 119, SLH 2015, Appropriation Warrant No. 10	\$ 433,581
Act 51, SLH 2016, Appropriation Warrant No. 74	2,560
Act 150, SLH 2016, Appropriation Warrant No. 91-A	750
Act 208, SLH 2016, Appropriation Warrant No. 105	560
Act 262, SLH 2016, Appropriation Warrant No. 118	450
Total funds lapsed	(3)
Executive restriction	(2,297)
Collective bargaining adjustment	<u>35,852</u>
Total general appropriations	<u>\$ 471,453</u>
Capital appropriations	
Sections 47 & 83 of Act 119, SLH 2015, Amended by Act 124 SHL 2016	\$ 150,600
Section 47 of Act 119, SLH 2015, Amended by Act 124 SLH 2016	9,000
Total funds lapsed	<u>(506)</u>
Total capital appropriations	<u>\$ 159,094</u>

Net general and capital appropriations for the year ended June 30, 2016 were as follows:

General appropriations	
Act 119, SLH 2015, Appropriation Warrant No. 10	\$ 427,575
Act 104, SLH 2015, Appropriation Warrant No. 69	500
Act 105, SLH 2015, Appropriation Warrant No. 70	350
Total funds lapsed	(2)
Executive restriction	(4,612)
Collective bargaining adjustment	<u>17,562</u>
Total general appropriations	<u>\$ 441,373</u>
Capital appropriations	
Sections 39 & 71 of Act 134, SLH 2013, Amended by Act 122 SLH 2014	\$ 10,405
Sections 47 & 83 of Act 119, SLH 2015	51,930
Total funds lapsed	<u>(45,788)</u>
Total capital appropriations	<u>\$ 16,547</u>

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18. Blended Component Information

The following condensed combining information summarizes the individual components of the University's consolidated financial position, results of operations and cash flows as of and for the years ended June 30, 2017 and 2016:

Condensed Consolidating Statements of Net Position

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

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	2016				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Assets and Deferred Outflows of Resources					
Current assets	\$ 468,113	\$ 34,760	\$ 25,558	\$ -	\$ 528,431
Interdepartmental receivables	24,967	10,342	39,020	(74,329)	-
Capital assets, net	2,049,087	2,021	2,277	-	2,053,385
Other assets	450,764	-	412,985	-	863,749
Total assets	<u>2,992,931</u>	<u>47,123</u>	<u>479,840</u>	<u>(74,329)</u>	<u>3,445,565</u>
Deferred outflows of resources	146,098	-	-	-	146,098
Total deferred outflows of resources	<u>146,098</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>146,098</u>
Total assets and deferred outflows of resources	<u>\$ 3,139,029</u>	<u>\$ 47,123</u>	<u>\$ 479,840</u>	<u>\$ (74,329)</u>	<u>\$ 3,591,663</u>
Liabilities, Deferred Inflows of Resources and Net Position					
Current liabilities	\$ 237,548	\$ 28,057	\$ 1,346	\$ -	\$ 266,951
Interdepartmental payables	26,637	3,790	2,711	(33,138)	-
Noncurrent liabilities	2,498,297	4,665	13,935	-	2,516,897
Total liabilities	<u>2,762,482</u>	<u>36,512</u>	<u>17,992</u>	<u>(33,138)</u>	<u>2,783,848</u>
Deferred inflows of resources	111,364	-	-	-	111,364
Total deferred inflows of resources	<u>111,364</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>111,364</u>
Net position					
Net investment in capital assets	1,500,637	2,021	2,277	-	1,504,935
Restricted					
Nonexpendable	10,493	-	272,923	(39,020)	244,396
Expendable	370,406	-	190,687	-	561,093
Unrestricted	<u>(1,616,353)</u>	<u>8,590</u>	<u>(4,039)</u>	<u>(2,171)</u>	<u>(1,613,973)</u>
Total net position	<u>265,183</u>	<u>10,611</u>	<u>461,848</u>	<u>(41,191)</u>	<u>696,451</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 3,139,029</u>	<u>\$ 47,123</u>	<u>\$ 479,840</u>	<u>\$ (74,329)</u>	<u>\$ 3,591,663</u>

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

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

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	2016				Total
	University	Research Corporation	Foundation	Consolidation Adjustments	
Operating revenues					
Student tuition and fees, net	\$ 273,043	\$ -	\$ -	\$ (737)	\$ 272,306
Federal appropriations, grants and contracts	322,266	-	-	-	322,266
State and local grants and contracts	31,957	2,129	-	(1,255)	32,831
Nongovernmental sponsored programs	47,070	-	-	(11,936)	35,134
Sales and services of educational departments, other	33,809	4,609	4,954	(7,609)	35,763
Auxiliary enterprises	99,024	-	-	-	99,024
Other operating revenues	727	-	1,484	-	2,211
Total operating revenues	<u>807,896</u>	<u>6,738</u>	<u>6,438</u>	<u>(21,537)</u>	<u>799,535</u>
Operating expenses					
Depreciation	124,553	319	65	-	124,937
Other operating expenses	1,496,300	6,310	57,960	(23,970)	1,536,600
Total operating expenses	<u>1,620,853</u>	<u>6,629</u>	<u>58,025</u>	<u>(23,970)</u>	<u>1,661,537</u>
Operating income (loss)	(812,957)	109	(51,587)	2,433	(862,002)
Nonoperating activity					
Nonoperating revenues	483,129	107	30,779	(3,491)	510,524
Capital contributions and additions to permanent and term endowments	21,003	-	8,316	(108)	29,211
Transfers	204,297	-	-	-	204,297
Total nonoperating activity	<u>708,429</u>	<u>107</u>	<u>39,095</u>	<u>(3,599)</u>	<u>744,032</u>
Increase (decrease) in net position	(104,528)	216	(12,492)	(1,166)	(117,970)
Net position					
Beginning of year	397,711	10,395	474,340	(40,025)	842,421
Adjustment for change in accounting principle	(28,000)	-	-	-	(28,000)
Beginning of year, as restated	<u>369,711</u>	<u>10,395</u>	<u>474,340</u>	<u>(40,025)</u>	<u>814,421</u>
End of year	<u>\$ 265,183</u>	<u>\$ 10,611</u>	<u>\$ 461,848</u>	<u>\$ (41,191)</u>	<u>\$ 696,451</u>

Condensed Consolidating Statements of Cash Flows

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

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	2016			Total
	University	Research Corporation	Foundation	
Net cash provided by (used in)				
Operating activities	\$ (482,355)	\$ (4,338)	\$ (7,747)	\$ (494,440)
Noncapital financing activities	553,040	-	7,729	560,769
Capital and related financing activities	(42,935)	(583)	-	(43,518)
Investing activities	(3,693)	(2,896)	(2,854)	(9,443)
Total change in cash	24,057	(7,817)	(2,872)	13,368
Cash and cash equivalent balances				
Beginning of year	47,428	30,974	11,409	89,811
End of year	\$ 71,485	\$ 23,157	\$ 8,537	\$ 103,179

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 is not precluded from requesting and securing legislative appropriations to fund the settlement of any such claim or judgment against the University.

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

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

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

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

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

Risk Management

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

Construction and Other Contracts

The University is committed under contracts awarded for construction and other services. These commitments amounted to approximately \$294,017 and \$217,163 as of June 30, 2017 and 2016.

Collective Bargaining Agreements

The Hawaii State Constitution under Article XIII, Section 2, grants public employees in the State the right to organize for the purpose of collective bargaining as provided by law. Chapter 89, Hawai'i Revised Statutes ("HRS"), provides for 15 recognized bargaining units for all public employees throughout the State, including State, county and municipal employees. Each bargaining unit is represented by an employee organization otherwise known as the exclusive bargaining representative of all employees within each unit which negotiates with the public employer.

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

- Unit 1 (nonsupervisory employees in blue collar positions).
- Unit 2 (supervisory employees in blue collar positions).
- Unit 3 (nonsupervisory employees in white collar positions).
- Unit 4 (supervisory employees in white collar positions).
- Unit 7 (faculty of the University and the community college system).
- Unit 8 (personnel of the University and the community college system, other than faculty).
- Unit 9 (registered professional nurses) or Unit 10 (institutional. health and correctional workers).
- Civil service personnel working at the University are included in BUs 1, 2, 3, 4, 9 and 10. Non-civil service personnel such as faculty members and administrative, professional and technical ("APT") staff are Board appointees and are included in BUs 7 and 8, respectively. Employees in executive/managerial positions, as well as certain other personnel designated as excluded from collective bargaining pursuant to HRS, §89-6(f) and whose responsibilities concern confidential matters affecting employee-employer relations, are not represented by any union. Wages, hours and other terms and conditions of employment for these personnel are provided by law or action of the Board, as applicable. Some employees (e.g., certain contractual hires) are not parties to any recognized bargaining unit.

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In 2017, the relevant Employer Groups and the Hawai'i Government Employees Association ("HGEA") engaged in interest arbitration over salaries and other cost items for Units 2, 3, 4, 8, and 9. In each case, the parties entered into two year contracts for the period of July 1, 2017 to June 30, 2019 and covering both cost and non-cost items, including the adoption of uniform coverage and options for the Employer-Union Health Benefits Trust Fund. All of these contracts have subsequently been ratified by the respective union membership and approved by the relevant legislative bodies. The salary increases for each Unit are as follows:

Major Salary Adjustments	Unit 1	Unit 2	Unit 3	Unit 4	Unit 7	Unit 8	Unit 9	Unit 10
July 2017	no increase	2.00%	2% and \$150 one-time bonus	2% and \$150 one-time bonus	2.13% and \$500 to base pay	2.00%	2.00%	no increase
October 2017	—	—	—	—	—	—	—	2.00%
November 2017	\$1,000 one-time lump sum	—	—	—	—	—	—	—
January 2018	—	1.20%	1.50%	1.50%	—	1.20%	2.25%	—
June 2018	3.20%	—	—	—	—	—	—	—
July 2018	—	2.25%	2.25% and \$150 one-time bonus	2.25% and \$150 one-time bonus	2.82% and \$500 to base pay	2.25%	1.20%	—
November 2018	\$1,000 one-time lump sum	—	—	—	—	—	—	—
January 2019	—	1.20%	1.25%	1.25%	—	1.20%	1.25%	—
April 2019	—	—	—	—	—	—	—	1.35%
May 2019	3.45%	—	—	—	—	—	—	—
June 2019	—	—	—	—	6.89%	—	—	—
July 2019	2.00%	—	—	—	2.00%	—	—	2.00%
July 2020	2.00%	—	—	—	2.00%	—	—	2.00%

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

University of Hawai'i

State of Hawai'i

(A Component Unit of the State of Hawai'i)

Schedule of Proportionate Share of the Net Pension Liability (Unaudited)

Schedule of Contributions (Unaudited)

Year Ended June 30, 2017

(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, 2017	12.75%	\$1,704,470	\$587,203	290%	51.28%
June 30, 2016	13.11%	\$1,144,564	\$572,907	200%	63.42%
June 30, 2015	13.60%	\$1,089,882	\$564,736	193%	63.92%
June 30, 2014	13.75%	\$1,227,787	\$550,758	223%	57.96%

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, 2017	\$98,865	\$98,865	\$0	\$587,203	16.84%
June 30, 2016	\$97,394	\$97,394	\$0	\$572,907	17.00%
June 30, 2015	\$93,949	\$93,949	\$0	\$564,736	16.64%
June 30, 2014	\$88,381	\$88,381	\$0	\$550,758	16.05%

1. Changes of Benefit Terms

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

2. Changes of Assumptions

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

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

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Schedule of Funding Progress (Unaudited)
Year Ended June 30, 2017
(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, 2015	\$30,076	\$1,262,765	\$1,232,689	2%	\$572,907	215.2%
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

Report of Independent Auditors on Supplemental Information

To the Board of Regents
University of Hawai'i

We have audited the consolidated financial statements of the University of Hawai'i as of and for the years ended June 30, 2017 and 2016, and our report thereon dated December 7, 2017, which expressed an unmodified opinion, appears on pages 1 and 2. Our 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, IX and X) included hereinafter is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Acuity LLP

Honolulu, Hawai'i
December 7, 2017

University of Hawai'i

State of Hawai'i

(A Component Unit of the 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, 2017 and 2016

(All dollars reported in thousands)

Schedule I

	2017	2016
Condensed statements of net position		
Assets		
Current assets	\$ 290,653	\$ 277,045
Noncurrent assets	251	2,252
Total assets	<u>\$ 290,904</u>	<u>\$ 279,297</u>
Liabilities		
Current liabilities	\$ 83,366	\$ 85,267
Noncurrent liabilities	11,496	14,340
Total liabilities	<u>94,862</u>	<u>99,607</u>
Net position		
Unrestricted	<u>196,042</u>	<u>179,690</u>
Total net position	<u>196,042</u>	<u>179,690</u>
Total liabilities and net position	<u>\$ 290,904</u>	<u>\$ 279,297</u>
Condensed statements of revenues, expenses and changes in net position		
Operating revenues	\$ 367,945	\$ 374,434
Operating expenses	<u>354,884</u>	<u>346,624</u>
Operating income	13,061	27,810
Nonoperating revenues and transfers	49,040	49,118
Nonoperating expenses and transfers	<u>45,749</u>	<u>53,320</u>
Change in net position	16,352	23,608
Net position		
Beginning of year	<u>179,690</u>	<u>156,082</u>
End of year	<u>\$ 196,042</u>	<u>\$ 179,690</u>

1. Basis of Presentation

The accompanying condensed statements of net position and related condensed statements of revenues, expenses and changes in net position present the financial position and results of operations of certain of the University's Special and Revolving Funds, which are pledged as collateral on the 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.

University of Hawai'i

State of Hawai'i

(A Component Unit of the 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, 2017 and 2016

(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.

University of Hawai'i
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Schedules of Series 2002A University Bond Proceeds Activity
Years Ended June 30, 2017 and 2016
(All dollars reported in thousands)

Schedule II

	2017	2016
Beginning balance	\$ 5,519	\$ 5,516
Additions		
Interest and investment income	<u>27</u>	<u>7</u>
Total additions	<u>27</u>	<u>7</u>
Deductions		
Payments – building, construction in progress, other	1	-
Management fees	<u>5</u>	<u>4</u>
Total deductions	<u>6</u>	<u>4</u>
Ending balance	<u>\$ 5,540</u>	<u>\$ 5,519</u>

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, sold Series 2015D(R) and 2015E(R) revenue bonds to refinance a portion of the outstanding Refunding Series 2006A University Bonds. The Series 2015D(R) revenue bonds were delivered on September 24, 2015 and the forward delivery Series 2015E revenue bonds were delivered on April 20, 2016. Proceeds from the State's settlement agreement with tobacco companies are expected to be utilized to service the debt.

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Condensed Statements of Net Position
Condensed Statements of Revenues, Expenses and Changes in Net Position
Current Unrestricted Funds Excluding General Fund
As of and for the Years Ended June 30, 2017 and 2016
(All dollars reported in thousands)

Schedule III

	2017	2016
Condensed statements of net position		
Assets		
Current assets	\$ 328,460	\$ 312,210
Noncurrent assets	251	2,252
Total assets	<u>\$ 328,711</u>	<u>\$ 314,462</u>
Liabilities		
Current liabilities	\$ 97,681	\$ 100,843
Noncurrent liabilities	12,439	15,364
Total liabilities	<u>110,120</u>	<u>116,207</u>
Net position		
Unrestricted	<u>218,591</u>	<u>198,255</u>
Total net position	<u>218,591</u>	<u>198,255</u>
Total liabilities and net position	<u>\$ 328,711</u>	<u>\$ 314,462</u>
Condensed statements of revenues, expenses and changes in net position		
Operating revenues	\$ 443,227	\$ 450,135
Operating expenses	<u>407,023</u>	<u>401,007</u>
Operating income	36,204	49,128
Nonoperating revenues and transfers	49,330	49,488
Nonoperating expenses and transfers	<u>65,198</u>	<u>72,723</u>
Change in net position	20,336	25,893
Net position		
Beginning of year	<u>198,255</u>	<u>172,362</u>
End of year	<u>\$ 218,591</u>	<u>\$ 198,255</u>

1. Basis of Presentation

The accompanying condensed statements of net position and related condensed statements of revenues, expenses and changes in net position present the financial position and results of operations of certain of the University's Special and Revolving Funds, which are pledged as collateral on the University's Series 2006A, 2009A, 2010A, 2010B, 2012A(R), 2015A, 2015B(R), 2015C(R), 2015D(R) and 2015E(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.

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Condensed Statements of Net Position
Condensed Statements of Revenues, Expenses and Changes in Net Position
Current Unrestricted Funds Excluding General Fund
As of and for the Years Ended June 30, 2017 and 2016
(All dollars reported in thousands)

Schedule III

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.

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Schedules of Series 2006A Revenue Bond Proceeds Activity
Years Ended June 30, 2017 and 2016
(All dollars reported in thousands)

Schedule IV

	2017	2016
Beginning balance	\$ 4,018	\$ 4,074
Additions		
Interest and investment income	16	7
Total additions	<u>16</u>	<u>7</u>
Deductions		
Payments – building, construction in progress, other	37	60
Management fees	<u>3</u>	<u>3</u>
Total deductions	<u>40</u>	<u>63</u>
Ending balance	<u>\$ 3,994</u>	<u>\$ 4,018</u>

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 on the Mānoa and Hilo campuses. 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(R) and 2015C(R) revenue bonds.

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Schedules of Series 2009A Revenue Bond Proceeds Activity
Years Ended June 30, 2017 and 2016
(All dollars reported in thousands)

Schedule V

	2017	2016
Beginning balance	\$ 1,553	\$ 2,247
Additions		
Interest and investment income	<u>7</u>	<u>2</u>
Total additions	<u>7</u>	<u>2</u>
Deductions		
Payments – building, construction in progress, other	10	695
Management fees	<u>1</u>	<u>1</u>
Total deductions	<u>11</u>	<u>696</u>
Ending balance	<u>\$ 1,549</u>	<u>\$ 1,553</u>

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.

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Schedules of Series 2010A Revenue Bond Proceeds Activity
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Schedule VI

	2010A-1	2010A-2
Balance at June 30, 2015	\$ 111	\$ 4,332
Additions		
Interest and investment income	-	6
Total additions	-	6
Deductions		
Payments – building, construction in progress, other	-	1,031
Management fees	-	3
Total deductions	-	1,034
Balance at June 30, 2016	111	3,304
Additions		
Interest and investment income	1	14
Total additions	1	14
Deductions		
Payments – building, construction in progress, other	-	2,197
Management fees	-	2
Total deductions	-	2,199
Balance at June 30, 2017	\$ 112	\$ 1,119

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.

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Schedules of Series 2010B Revenue Bond Proceeds Activity
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Schedule VII

	2010B-1	2010B-2
Balance at June 30, 2015	\$ 10,020	\$ 4,047
Additions		
Interest and investment income	15	6
Total additions	<u>15</u>	<u>6</u>
Deductions		
Payments – building, construction in progress, other	3,853	1,224
Management fees	8	3
Total deductions	<u>3,861</u>	<u>1,227</u>
Balance at June 30, 2016	6,174	2,826
Additions		
Interest and investment income	14	7
Total additions	<u>14</u>	<u>7</u>
Deductions		
Payments – building, construction in progress, other	5,603	1,980
Management fees	1	1
Total deductions	<u>5,604</u>	<u>1,981</u>
Balance at June 30, 2017	<u>\$ 584</u>	<u>\$ 852</u>

1. Basis of Presentation

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

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Schedules of Series 2015A Revenue Bond Proceeds Activity
Years Ended June 30, 2017 and 2016
(All dollars reported in thousands)

Schedule VIII

	2017	2016
Beginning balance	\$ 8,507	\$ -
Additions		
Bond proceeds	-	8,575
Interest and investment income	30	9
Total additions	<u>30</u>	<u>8,584</u>
Deductions		
Payments – building, construction in progress, other	2	73
Management fees	7	4
Total deductions	<u>9</u>	<u>77</u>
Ending balance	<u>\$ 8,528</u>	<u>\$ 8,507</u>

1. Basis of Presentation

The accompanying schedules of Series 2015A revenue bond proceeds activity present the sources and uses of bond proceeds associated with the UH Mānoa Law School Expansion and Modernization Project and the UH Hilo College of Pharmacy Project. The financial information of the Research Corporation of the University of Hawai'i and the University of Hawai'i Foundation is not reflected in this schedule.

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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, 2017 and 2016
(All dollars reported in thousands)

Schedule IX

	2017	2016
Condensed statements of net position		
Assets and deferred outflows of resources		
Current assets	\$ 105,095	\$ 97,701
Capital assets, net	521,300	541,344
Other assets	16,738	26,492
Total assets	<u>643,133</u>	<u>665,537</u>
Deferred outflows of resources	9,206	10,534
Total deferred outflows of resources	<u>9,206</u>	<u>10,534</u>
Total assets and deferred outflows of resources	<u>\$ 652,339</u>	<u>\$ 676,071</u>
Liabilities		
Current liabilities	\$ 35,839	\$ 34,124
Noncurrent liabilities	522,974	543,515
Total liabilities	<u>558,813</u>	<u>577,639</u>
Net position		
Net investment in capital assets	9,603	23,234
Restricted expendable	1,037	1,037
Unrestricted	82,886	74,161
Total net position	<u>93,526</u>	<u>98,432</u>
Total liabilities and net position	<u>\$ 652,339</u>	<u>\$ 676,071</u>
Condensed statements of revenues, expenses and changes in net position		
Operating revenues		
Bookstores	\$ 22,479	\$ 22,936
Room and other rentals	33,715	33,487
Parking	5,955	6,305
Telecommunications	3,657	3,312
Other operating revenues	9,721	9,661
Total operating revenues	<u>75,527</u>	<u>75,701</u>
Operating expenses (including \$29,362 and \$30,602 in depreciation expense in 2017 and 2016, respectively)	<u>(85,909)</u>	<u>(88,941)</u>
Operating loss	(10,382)	(13,240)
Nonoperating revenues	31,509	32,474
Nonoperating expenses	<u>(26,033)</u>	<u>(53,273)</u>
Change in net position	(4,906)	(34,039)
Net position		
Beginning of year	<u>98,432</u>	<u>132,471</u>
End of year	<u>\$ 93,526</u>	<u>\$ 98,432</u>

University of Hawai'i
State of Hawai'i
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Condensed Statements of Cash Flows
University Bond System
As of and for the Years Ended June 30, 2017 and 2016
(All dollars reported in thousands)

Schedule X

	2017	2016
Condensed statements of cash flows		
Net cash flows provided by operating activities	\$ 16,027	\$ 18,056
Net cash flows provided by non-capital financing activities	2,013	3,738
Net cash flows used in capital and related financing activities	(19,747)	(13,276)
Net cash flows used in investing activities	<u>(2,675)</u>	<u>(2,170)</u>
Net increase (decrease) in cash and cash equivalents	(4,382)	6,348
Cash and cash equivalents		
Beginning of year (revised)	<u>15,779</u>	<u>9,431</u>
End of year	<u>\$ 11,397</u>	<u>\$ 15,779</u>

1. Reporting Entity

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

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

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, sold \$166,285 in Series 2015A (\$8,575, taxable new money), 2015B(R) (\$47,010, tax-exempt refunding), 2015C(R) (\$17,585, taxable refunding), 2015D(R) (\$25,715, taxable refunding), and 2015E(R) (\$67,400, tax-exempt forward delivery refunding) bonds (collectively, the "Series 2015 Bonds") for the purpose of financing the costs of University projects and refunding previously issued bonds. The Series 2015 Bonds were delivered on September 24, 2015 with the exception of the forward delivery Series 2015E(R) bonds which were delivered on April 20, 2016. The Series 2015B(R) and 2015C(R) bonds were issued to refund a portion of the Series 2006A University Revenue Bonds and the Series 2015D(R) and 2015E(R) bonds to refund a portion of the Refunding Series 2006A University Bonds issued under a different bond resolution.

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Condensed Statements of Cash Flows
University Bond System
As of and for the Years Ended June 30, 2017 and 2016
(All dollars reported in thousands)

Schedule X

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.

4. Revisions

Certain amounts in the 2016 supplemental schedules have been revised to conform to the 2017 presentation. Such revisions had no impact on the 2016 net position as previously reported.

	2016		2016
	As Previously	Revisions	Revised
	Reported		
Cash flows from operating activities			
Net cash provided by operating activities	\$ 18,074	\$ (18)	\$ 18,056
Cash flows from investing activities			
Net cash provided by (used in) investing activities	203	(2,373)	(2,170)
Net increase in cash and cash equivalents	8,739	(2,391)	6,348
Cash and cash equivalents			
Beginning of year (revised)	99,089	(89,658)	9,431
End of year	107,828	(92,049)	15,779