UNIVERSITY of HAWAI'I®
SYSTEM

2019 Annual Financial Report, Required Supplementary Information and Other Supplementary Information University of Hawai`i State of Hawai`i

Research *Sustainability* *Hawaiian Place of Learning*

University of Hawai‘i
State of Hawai‘i
(A Component Unit of the State of Hawai‘i)
Index
June 30, 2019 and 2018

CERTIFIED PUBLIC ACCOUNTANTS

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, 2019 and 2018, 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 12.5 percent and 13.8 percent, respectively, of the total assets and deferred outflows of resources and 0.7 percent and 0.8 percent, respectively, of the total operating revenues of the University as of and for the years ended June 30, 2019 and 2018. 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, 2019 and 2018, 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.

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Opinion
In our opinion, based on our audit and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University, as of June 30, 2019 and 2018, 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, in 2019, the University adopted new accounting guidance under Governmental Accounting Standards Board ("GASB") Statement No. 83, *Certain Asset Retirement Obligations*, and GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. As a result of adopting GASB Statement No. 83, the University has restated the beginning net position for year ended June 30, 2018. Our opinion is not modified with respect to this matter.

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

Other Reporting Required by Government Auditing Standards
In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2019, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Accuity LLP

Honolulu, Hawai'i
December 5, 2019

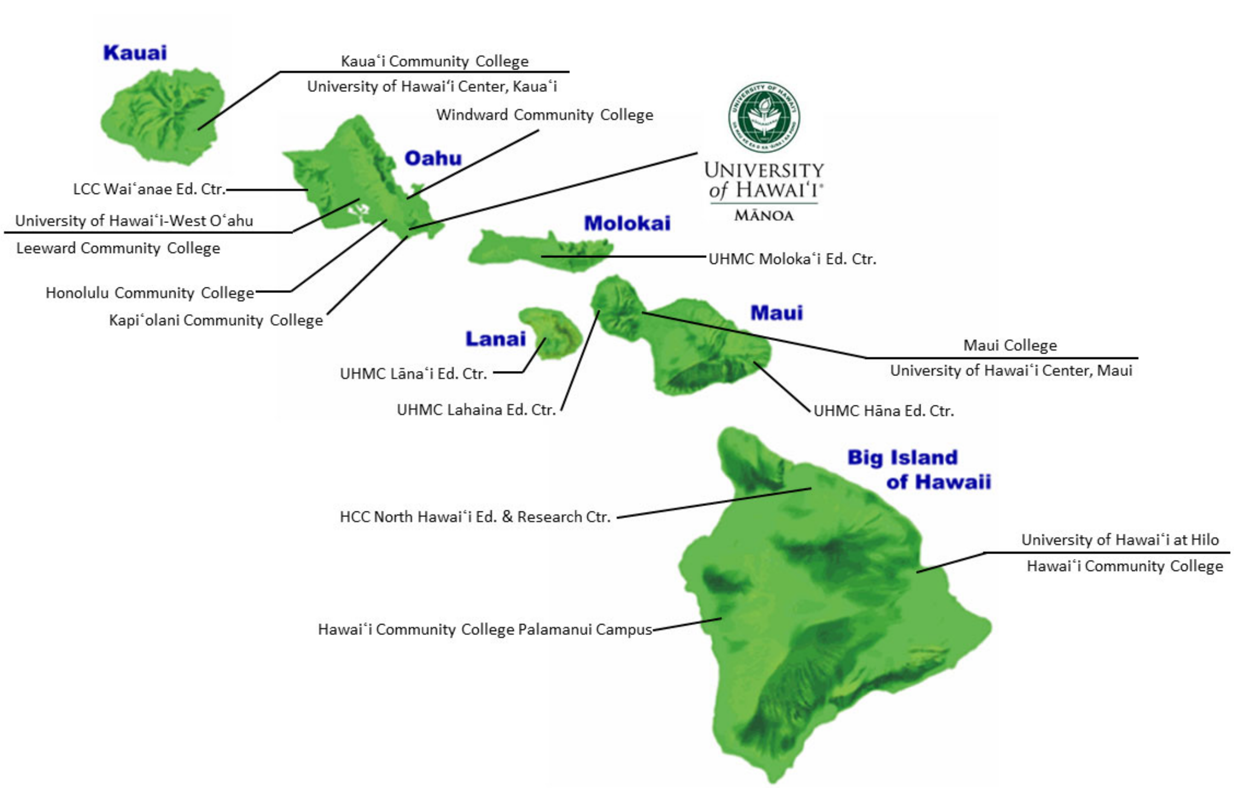
Introduction

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, 2019 and 2018, with selected information for the year ended June 30, 2017. 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 (UH-Mānoa), two baccalaureate campuses (UH-Hilo and UH-West O'ahu), seven community colleges (Hawai'i, Honolulu, Kapi'olani, Kauai, Leeward, Maui and Windward), and nine educational centers distributed across the State.

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

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

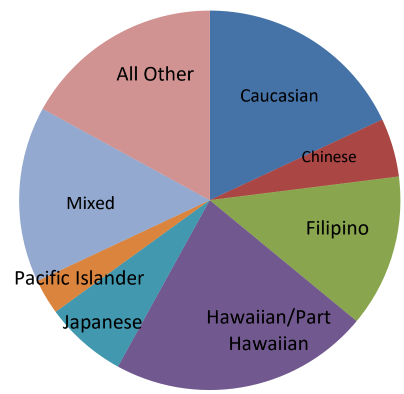


Students	Academic Year 2019	Academic Year 2018	Academic Year 2017
Undergraduate	44,564	46,375	47,903
Graduate	5,413	5,299	5,515
Total	**49,977**	**51,674**	**53,418**

Type of Degrees Awarded	**731**
Certificates: Community Colleges	176
Certificates: University	122
Associate degrees	127
Bachelor’s degrees	147
Master’s degrees	95
Doctoral degrees	60
Professional degrees	4

Residency	
Hawai‘i	83%
Mainland	11%
U.S Affiliated	1%
Foreign	5%

Student Diversity (full time Students)	
Caucasian	18%
Chinese	5%
Filipino	13%
Hawaiian/Part Hawaiian	22%
Japanese	7%
Pacific Islander	3%
Mixed	15%
All Other	17%



Total Revenues ($ in thousands)	Fiscal Year 2019	% of Total	Fiscal Year 2018	Fiscal Year 2017
Net tuition and fees	$ 261,844	14%	$ 258,887	$ 270,123
Contracts and grants (including Pell grants)	443,786	24%	437,586	424,592
State appropriations	506,399	28%	485,153	471,453
Transfer from State for fringe benefits	286,479	16%	255,311	179,715
Sales and services	131,753	7%	130,011	130,867
Capital State appropriations	133,996	7%	184,103	159,094
Others	60,920	4%	120,929	202,376
Total	**$ 1,825,177**	**100%**	**$ 1,871,980**	**$ 1,838,220**

The University’s Revenue Bond Ratings:

Moody's Investors Service - Aa2 with stable outlook

Fitch Ratings - AA with stable outlook

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 presents information on the University’s assets, deferred outflow of resources, liabilities, and deferred inflows of resources 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 and deferred outflows of resources increase without a corresponding increase in liabilities and deferred inflows of resources. This is an indication of improving financial condition. However, when expenses exceed revenues, or when liabilities increase without a corresponding increase in assets, there is an indication of deteriorating financial condition.

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

- **Statements of Cash Flows** – The Consolidated Statements of Cash Flows distinguish between cash inflows and outflows from operating activities, non-capital financing activities, capital and related financing activities, and investing activities.

- **Notes to Consolidated Financial Statements** – The notes provide additional information that is essential to a full understanding of the information presented in the consolidated financial statements.

Related Entities

The University maintains close relationships with two other entities, considered to be component units, whose financial information is blended into the University’s accompanying consolidated financial statements. The University of Hawai‘i Foundation (the “Foundation”) is a not-for-profit organization established to solicit and manage funds for the benefit of the University. The Research Corporation of the University of Hawai‘i (the “Research Corporation”) provides administrative support services for research and training programs of the University. Both of the University’s component units prepare stand-alone financial statements with footnotes, which are audited by independent auditors. Summarized information of the individual components of the University’s consolidated financial position, results of operations, and cash flows for the years ended June 30, 2019 and 2018 is presented in Note 17 to the consolidated financial statements.

Financial Position

The Consolidated Statements of Net Position presents information on all of the University’s assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between the components (assets and deferred outflows of resources, less liabilities and deferred inflows of resources) presented as net position. Net position is reported as one of three categories: net investment in capital assets, restricted, or unrestricted. Restricted net position is further classified as either expendable or nonexpendable. The University’s assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at June 30, 2019, 2018 and 2017 are summarized as follows (in thousands of dollars):

	2019	2018	FY 19 vs 18 Change	2017	FY 18 vs 17 Change
Current assets					
Cash and operating investments	$ 493,215	$ 437,927	$ 55,288	$ 424,276	$ 13,651
Receivables, net	106,820	103,249	3,571	98,041	5,208
Other current assets	24,374	26,011	(1,637)	21,741	4,270
Total current assets	624,409	567,187	57,222	544,058	23,129
Noncurrent assets					
Endowment and other investments	542,497	535,495	7,002	507,613	27,882
Capital assets, net	2,163,325	2,128,415	34,910	2,087,733	40,682
Other noncurrent assets	468,644	555,119	(86,475)	507,535	47,584
Total assets	3,798,875	3,786,216	12,659	3,646,939	139,277
Deferred outflows of resources					
Deferred outflows on net pension and OPEB liability and other	506,467	528,173	(21,706)	567,220	(39,047)
Total deferred outflows of resources	506,467	528,173	(21,706)	567,220	(39,047)
Total assets and deferred outflows of resources	$ 4,305,342	$ 4,314,389	$ (9,047)	$ 4,214,159	$ 100,230
Current liabilities	$ 272,384	$ 266,840	$ 5,544	$ 289,085	$ (22,245)
Noncurrent liabilities					
Long-term debt	487,490	506,655	(19,165)	524,565	(17,910)
Net pension liability and other postemployment benefits	3,496,296	3,432,460	63,836	2,493,243	939,217
Other noncurrent liabilities	149,171	157,129	(7,958)	112,568	44,561
Total liabilities	4,405,341	4,363,084	42,257	3,419,461	943,623
Deferred inflows of resources					
Deferred inflows on net pension and OPEB liability	69,780	53,497	16,283	65,171	(11,674)
Total deferred inflows of resources	69,780	53,497	16,283	65,171	(11,674)
Net position					
Net investment in capital assets	1,625,457	1,598,660	26,797	1,541,725	56,935
Restricted					
Nonexpendable	301,890	360,553	(58,663)	342,071	18,482
Expendable	633,393	606,866	26,527	586,825	20,041
Unrestricted	(2,730,519)	(2,668,271)	(62,248)	(1,741,094)	(927,177)
Total net position	(169,779)	(102,192)	(67,587)	729,527	(831,719)
Total liabilities, deferred inflows of resources and net position	$ 4,305,342	$ 4,314,389	$ (9,047)	$ 4,214,159	$ 100,230

Implementation of GASB Statements No. 83 and 75

During fiscal year 2019, the University implemented GASB Statement No. 83, *Certain Asset Retirement Obligations*. The objective of this Statement is to address accounting and financial reporting for certain asset retirement obligations related to tangible capital assets. This statement requires recognition of a liability for legal obligations to perform asset retirement activities related to tangible capital assets.

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

The adoption of GASB Statement No. 75 and 83 resulted in the restatement of the University’s beginning net position as of July 1, 2017 by $880.6 million and $2.9 million, respectively, from $729.5 million to a net deficit of $153.9 million, which reflected the retrospective effects of Statement No. 75 and 83.

Current Assets and Liabilities

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

The University recorded an increase in working capital the last three fiscal years, which resulted mainly from the implementation of the new financial management policy. In November 2013, the University adopted a financial reserve policy to establish systemwide operating reserves from non-general fund revenue in amounts sufficient to provide continued operations for at least two months with a minimum of five percent unencumbered cash from all tuition and fee funds, special funds, and revolving funds. At June 30, 2019, 2018 and 2017, working capital amounted to $352.0 million, $300.3 million and $255.0 million, respectively. The University is committed to maintaining a prudent level of working capital to fund operations, including pre-funding approximately $381.5 million in extramural grants which were mostly paid on a cost reimbursement basis. Based on the $1.7 billion of operating expenses (excluding depreciation) for the year ended June 30, 2019, the working capital at year end represents approximately 69 days of operating funds, as compared to 61 and 57 days of operating funds in 2018 and 2017, respectively.

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 $624.4 million, $567.2 million and $544.0 million at June 30, 2019, 2018 and 2017, respectively. Total current assets increased by $57.2 million, or 10.1 percent, at June 30, 2019, primarily due to a $9.0 million increase in cash and cash equivalents and $46.3 million increase in operating investments. The cash increase was attributable to the University implementing various cost control initiatives, including personnel cost reductions, which started in 2018. The operating investments increase was due to the University investing excess cash into government obligations. Total current assets increased by $23.1 million, or 4.3 percent, at June 30, 2018, primarily due to a $13.7 million increase in cash and operating investments and a $4.7 million increase in accounts receivable. The cash increase was attributable to the operating surplus from tuition and fees.

- 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 $272.4 million, $266.8 million and $289.1 million at June 30, 2019, 2018 and 2017, respectively. Total current liabilities increased by $5.5 million, or 2.1 percent, at June 30, 2019, primarily due to increases in operating expenses. In fiscal year 2018, total current liabilities decreased by $22.2 million, or 7.7 percent, at June 30, 2018, primarily due to the final payment of the $17.0 million note payable (“EB-5 loan”) with Hawai‘i Regional Center LP III in fiscal year 2018.

Endowment and Other Investments

The University’s endowment and other investments, including endowments held with the Foundation, increased by $7.0 million, or 1.3 percent, to $542.5 million at June 30, 2019 primarily as a result of an increase in investment income due to favorable market conditions. The fiscal year 2018 increase of $27.9 million, or 5.5 percent, was primarily due to additional gifts received and favorable market conditions.

Realized and unrealized net gains in fiscal years 2019 and 2018 totaled $23.0 million and $21.6 million, respectively. A summarized comparison of the University’s investments as of June 30, 2019, 2018 and 2017 is as follows (in millions of dollars):

	2019	2018	2017
University of Hawai‘i	$ 102.8	$ 102.2	$ 100.1
Foundation	439.7	433.3	407.5
Total	$ 542.5	$ 535.5	$ 507.6

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 2019, 2018 and 2017, 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 $2.8 million, $2.7 million and $2.6 million in fiscal years 2019, 2018 and 2017, 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, 2019, 2018 and 2017, total capital assets, net of accumulated depreciation, remained relatively constant at $2.2 billion, which represented approximately 57 percent of the University’s total assets. Capital asset additions totaled $180.9 million, $179.2 million and $173.1 million in fiscal years 2019, 2018 and 2017, respectively, while depreciable capital asset disposals, net of accumulated depreciation, amounted to $5.6 million, $10.9 million and $15.9 million, respectively.

Capital asset additions remained consistent in the past three fiscal years due to the number of ongoing strategic capital projects.

Capital Projects

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

Significant capital projects completed during fiscal years 2019 and 2018 or in progress as of June 30, 2019 and 2018 include:

- **Coconut Island Marine Laboratory 1 & 2** – The new estimated completion date for the $21.5 million Coconut Island Marine Laboratory Buildings 1 & 2 renovation project is December 2020. The Hawai‘i Institute of Marine Biology at the University of Hawai‘i at Mānoa is a world-renowned research institute situated on Coconut Island in the Kāne‘ohe Bay. Coconut Island provides excellent opportunities for research as it covers approximately twenty-nine acres with six acres enclosed in lagoons that are used for keeping organisms in captivity for study. The ongoing research projects on the island cover many disciplines of tropical marine science conducted by researchers from all over the world.

- **Coconut Island Utility Rehabilitation/Replacement** – The $10 million new sewer and telecommunications infrastructure lines are scheduled to be completed in December 2019. The new infrastructure lines are built roughly forty feet below Kāne‘ohe Bay. New additions to the project scope were to upsize the waterline between Coconut Island and O‘ahu and to replace the existing sewer pump station.

- **Daniel K. Inouye College of Pharmacy** – The $33.7 million Daniel K. Inouye College of Pharmacy building is scheduled to be completed in December 2019. This new construction project will provide a two-story 45,000 square-foot building that will consolidate student laboratories, faculty offices, and Student Affairs under a single roof. It will also provide faculty and student lounges, private study rooms, and a lecture hall. In addition, the new building will include a simulated mannequin lab which features two highly realistic mannequins that, with the aid of computers, can physically respond to stimuli and upon which students can learn and practice medical procedures before treating real-life patients.

- **William S. Richardson School of Law Clinical Building** – The $9 million Community Legal Outreach Center at the William S. Richardson School of Law on the University of Hawai‘i at Mānoa campus will serve as a space for the growing clinical services offered by law school students and faculty and is estimated to be completed in November 2019. Currently, students provide thousands of hours of free legal help to some of Hawai‘i’s most vulnerable people, including the elderly, troubled and incarcerated youth, veterans, and families living at or near poverty levels. The new building will provide much needed space for these invaluable service offerings.

- **University of Hawai‘i at Mānoa Life Sciences Building** – The $57.7 million University of Hawai‘i at Mānoa Life Sciences Building is estimated to be completed in February 2020. This new Life Sciences Building will play a critical role in expanding inter-disciplinary educational and research opportunities for our students and faculty and will provide multi-disciplinary shared spaces that inspire learning and advancement. The building will include teaching and research laboratories, laboratory support spaces, and office spaces for the College of Natural Sciences, biology, microbiology and botany departments along with the Pacific Biosciences Research Center, which operates the state’s only transmission electron microscope.

- **University of Hawai‘i West O‘ahu Creative Media Building** – The $33.7 million Creative Media Building at the University of Hawai‘i at West O‘ahu is estimated to be completed in August 2020. This new design-build project will house the existing Academy of Creative Media (“ACM”) program in a 33,000 square foot facility. The building will combine teaching facilities, production facilities, faculty offices, creative workspaces, and an incubator for emerging companies. The building expands the current UH-West O‘ahu ACM program from approximately 110 student majors to an anticipated 500 majors.

- **University of Hawai‘i at Mānoa Athletic Gymnasium 1 & 2** – The $9.5 million renovation of Athletic Gymnasiums 1 & 2 was completed in July 2019. The project consisted of net zero photovoltaic and roof system and additional thermal insulation for occupants’ comfort and to reduce the noise level. The floors, fixed equipment, and electrical equipment were also upgraded.

- **University of Hawai‘i West O‘ahu Allied Health and Administration Building** – The grand opening for the University of Hawai‘i West O‘ahu Allied Health and Administration building took place on December 12, 2018. The $32 million two-story 43,000 square foot building houses 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 structure is expected to receive at least a Silver LEED certification because of the motion sensor lighting, solar hot water, and water conservation systems. A one hundred-kilowatt rooftop photovoltaic system design was developed for the building.

- **Leeward Community College Product Development Center Renovation** – The $9 million renovation is a cooperative project between the University of Hawai‘i and the Department of Agriculture’s Agribusiness Development Corporation (“ADC”). The 16,000 square foot facility will include a commercial grade kitchen, flexible classroom space, processing and manufacturing rooms, laboratories, and a public loft space. The product development center will take agricultural items that would normally be wasted and turn it into value-added food products that they can market and sell.

- **Leeward Community College “DA Native Hawaiian Center for Excellence”** – The $6.9 million project is scheduled to be completed in February 2020. Leeward Community College is leading the way in the University of Hawai‘i’s commitment to “support vigorous programs of study and support for the Hawaiian language, history, and culture” with the renovation of the building. Leeward Community College currently has the most Native Hawaiian students enrolled. The renovation will add a new ethnobotany/fiber arts lab and classroom and a dance studio.

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 2019, 2018 and 2017, 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 2019, 2018 and 2017, $116.3 million, $108.0 million and $111.3 million, respectively, were appropriated.

- **Revenue bonds** – The University also issued revenue bonds to finance capital projects. These bonds are carried as liabilities of the University. Total revenue bond liabilities were $506.7 million, $525.4 million and $543.7 million for fiscal years 2019, 2018 and 2017, respectively. The University revenue bonds were assigned municipal bond ratings of “Aa2” and “AA” by Moody’s Investors Service and Fitch Ratings, respectively. The University has appropriated funds, by statute, from the State of Hawai‘i Tobacco Settlement Special Fund for the payment of principal and interest on revenue bonds to finance the cost of construction of the medical school facility and received funds for debt service in the amount of $9.4 million, $9.4 million and $11.8 million in fiscal years 2019, 2018 and 2017, respectively. The University also receives a portion of the State of Hawai‘i’s cigarette tax revenues, by statute, for the University of Hawai‘i Cancer Center to be used for research and operating expenses and capital expenditures. In each of the fiscal years 2019, 2018 and 2017, $7.9 million from cigarette tax revenues was used to cover debt service for the bonds that financed the University of Hawai‘i Cancer Center. Refer to Note 10 for more information regarding the University revenue bonds.

- **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, 2019, the outstanding balance on the Loan was $8.2 million.

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

Net Position

Net position represents the residual interest in the University’s assets after liabilities are deducted. At June 30, 2019, 2018 and 2017, total net position amounted to $(169.8) million, $(102.2) million and $729.5 million, respectively. Net position is reported in four major categories: net investment in capital assets, restricted nonexpendable, restricted expendable, and unrestricted. The University’s net position at June 30, 2019, 2018 and 2017 is summarized as follows (in thousands of dollars):

	2019	2018	2017
Net investment in capital assets	$ 1,625,457	$ 1,598,660	$ 1,541,725
Restricted – Nonexpendable	301,890	360,553	342,071
Restricted – Expendable	633,393	606,866	586,825
Unrestricted	(2,730,519)	(2,668,271)	(1,741,094)
Total net position	$ (169,779)	$ (102,192)	$ 729,527

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 $26.8 million in fiscal year 2019, primarily due to a net increase in capital assets of $8.1 million and $19.2 million in related debt retirement. The net investment in capital assets increased by $56.9 million in fiscal year 2018, primarily due to a net increase in capital assets of $40.7 million and $17.9 million in capital related debt retirement.

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 $301.9 million, $360.6 million and $342.1 million at June 30, 2019, 2018 and 2017, respectively. The decrease of $58.7 million in fiscal year 2019 was primarily due to unrealized losses on interests in perpetual trusts held by others. The increase of $18.5 million in fiscal year 2018 was primarily attributable to new permanent endowment gifts received.

Restricted expendable net position is subject to externally imposed restrictions governing their use. Net position was restricted for the following purposes at June 30, 2019, 2018 and 2017 (in thousands of dollars):

	2019	2018	2017
Plant facilities	$ 386,844	$ 362,584	$ 354,780
Donor-restricted activities	231,214	227,102	215,608
Loan activities	18,400	21,228	24,131
External sponsor activities	(3,065)	(4,048)	(7,694)
	$ 633,393	$ 606,866	$ 586,825

In fiscal year 2019, the overall increase of $26.5 million in restricted expendable net position was due to $24.3 million in net capital asset related activity. The fiscal year 2019 capital asset activity was mainly comprised of State capital appropriations offset by capital asset disposals and operating expenses associated with capital assets. In fiscal year 2018, the overall increase of $20.0 million in restricted expendable net position was due to $7.8 million and $11.5 million in capital asset related activity and donor-restricted activity, respectively.

Net position that is not subject to externally imposed restrictions governing their use is classified as unrestricted for financial reporting purposes. At June 30, 2019, 2018 and 2017, unrestricted net positions amounted to deficits of $2.73 billion, $2.67 billion and $1.74 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 $52.6 million, $45.9 million and $44.8 million were designated for endowment activities at June 30, 2019, 2018 and 2017, respectively.

The reduction in unrestricted net positions for the years ended June 30, 2019 and 2018 was caused by the University’s required accounting and recognition of the University’s allocated share of the State’s actuarially determined net pension and OPEB liabilities.

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

	2019	2018	2017
Unrestricted net position	$ (2,730,519)	$ (2,668,271)	$ (1,741,094)
Pension	1,399,792	1,308,560	1,212,416
OPEB	1,674,987	1,666,481	788,773
Adjusted net unrestricted position	$ 344,260	$ 306,770	$ 260,095

Results of Operations

The Consolidated Statements of Revenues, Expenses and Changes in Net Position represent the University’s results of operations for the year. It indicates whether the financial condition of the University improved or deteriorated. For financial reporting purposes, certain significant revenues, including state appropriations, private gifts, and investment income, which are relied upon and budgeted to support the University’s core operations, are required to be reported as nonoperating revenues. The University’s results of operations for the years ended June 30, 2019, 2018 and 2017 summarized to match revenues supporting core activities with expenses associated with core activities, are as follows (in thousands of dollars):

	2019	2018	FY 19 vs 18 Change	2017	FY 18 vs 17 Change
Revenues					
Operating					
Tuition and fees	$ 394,952	$ 393,452	$ 1,500	$ 403,177	$ (9,725)
Less: Scholarship allowances	(133,108)	(134,565)	1,457	(133,054)	(1,511)
Grants and contracts	390,264	381,530	8,734	368,892	12,638
Sales and services	131,753	130,011	1,742	130,867	(856)
Other revenue	1,703	1,628	75	1,648	(20)
Total operating revenues	785,564	772,056	13,508	771,530	526
Nonoperating					
State appropriations and transfers for fringe benefits	792,878	740,464	52,414	651,168	89,296
Federal Pell grant	53,522	56,056	(2,534)	55,701	355
Net investment income (loss)	(31,513)	37,129	(68,642)	42,509	(5,380)
Private gifts	37,956	39,895	(1,939)	31,233	8,662
Total nonoperating revenues	852,843	873,544	(20,701)	780,611	92,933
Total revenues supporting core activities	1,638,407	1,645,600	(7,193)	1,552,141	93,459
Expenses					
Operating					
Compensation and benefits	1,320,016	1,258,712	61,304	1,235,479	23,233
Supplies, services and cost of goods sold	185,999	188,572	(2,573)	193,411	(4,839)
Telecom and utilities	69,455	65,726	3,729	59,957	5,769
Scholarships and fellowships	42,639	42,746	(107)	41,771	975
Other expense	112,533	106,419	6,114	124,786	(18,367)
Total operating expenses	1,730,642	1,662,175	68,467	1,655,404	6,771
Nonoperating (revenues) expenses					
Transfers from State, net	(25,489)	(26,810)	1,321	(28,879)	2,069
Transfers (from) to Federal – capital assets	(87)	84	(171)	505	(421)
Transfers (from) to other State agencies	(269)	5,924	(6,193)	-	5,924
Interest expense	25,208	25,585	(377)	26,900	(1,315)
Total nonoperating revenues	(637)	4,783	(5,420)	(1,474)	6,257
Expenses associated with core activities before depreciation	1,730,005	1,666,958	63,047	1,653,930	13,028
Loss from core activities before depreciation	(91,598)	(21,358)	(70,240)	(101,789)	80,431
Depreciation	131,034	127,842	3,192	122,841	5,001
Expenses associated with core activities including depreciation	1,861,039	1,794,800	66,239	1,776,771	18,029
Loss from core activities	(222,632)	(149,200)	(73,432)	(224,630)	75,430
Other nonoperating activity					
Capital gifts and grants	147,950	190,415	(42,465)	171,652	18,763
Permanent endowment	11,850	14,354	(2,504)	96,024	(81,670)
Other expenses, net	(4,755)	(3,836)	(919)	(9,970)	6,134
Other nonoperating income, net	155,045	200,933	(45,888)	257,706	(56,773)
Increase (decrease) in net position	(67,587)	51,733	$ (119,320)	33,076	$ 18,657
Net position					
Beginning of year	(102,192)	729,527		696,451	
Adjustment for change in accounting principle	-	(883,452)		-	
Beginning of year, as restated	(102,192)	(153,925)		696,451	
End of year	$ (169,779)	$ (102,192)		$ 729,527	

Revenues Supporting Core Activities

The University has a diversified stream of revenues to support its operations. No single source generated more than 30 percent of the total 2019 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, remained relatively consistent in fiscal year 2019 as a result of tuition rate increases exceeding enrollment declines. The decrease in fiscal year 2018 was primarily attributable to the continued decline in enrollment. Scholarship allowances amounted to $133.1 million, $134.6 million and $133.1 million in fiscal years 2019, 2018 and 2017, respectively.

One of the largest sources of revenue (26 percent) continues to be grants and contracts. Total grants and contracts revenue increased by $8.7 million, or 2.3 percent in fiscal year 2019. The increase was primarily due to a net increase of federal awards of approximately $4.0 million. The University received a new Federal award from the U.S. Army Corps of Engineers Fort Worth District in fiscal year 2019 for approximately $3.6 million. There was also an increase in nongovernmental sponsored programs of $2.8 million. In fiscal year 2018, the increase was mainly from a net increase of federal awards of approximately $11.3 million.

Sales and services revenues, which are mainly comprised of bookstores, student and faculty housing, food services, parking, and athletics remained relatively consistent in fiscal years 2019 and 2018.

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 $21.2 million, or 4.4 percent, to $506.4 million in fiscal year 2019 and increased by $13.7 million, or 2.9 percent, to $485.2 million in fiscal year 2018. The increase in fiscal year 2019 was primarily attributable to an increased allotment of $19.5 million for salary increases of 2.82 percent as negotiated by the collective bargaining agreements. The increase in fiscal year 2018 was primarily attributable to a $10.1 million allotment for salary increases of 2.13 percent as negotiated by collective bargaining agreements, which is a $20.8 million increase from the fiscal year 2017 allotment of $38.4 million.

The State also pays for fringe expense for the University’s general and federal employees. The transfers for fringe expense amounted to $286.5 million, $255.3 million and $179.7 million in fiscal years 2019, 2018 and 2017, respectively. The year-over-year increases were due to rising fringe benefit rates.

The University’s net investment income for fiscal year 2019, as compared to fiscal year 2018, decreased by $68.6 million. The fiscal year 2019 decrease was mainly due to a decrease in the Foundation’s investment income of $78.5 million. The University’s net investment income for fiscal year 2018, as compared to fiscal year 2017, decreased by $5.4 million mainly due to smaller market growth.

The components of net investment income for the years ended June 30, 2019, 2018 and 2017 are as follows (in thousands of dollars):

	2019	2018	FY 19 vs 18 Change	2017	FY 18 vs 17 Change
Interest and dividend income	$ 17,271	$ 13,014	$ 4,257	$ 9,330	$ 3,684
Net realized gains	3,292	6,768	(3,476)	10,733	(3,965)
Net unrealized gains	14,622	14,811	(189)	23,974	(9,163)
Split-interest agreements	(64,624)	3,659	(68,283)	(521)	4,180
Other, net	(2,074)	(1,123)	(951)	(1,007)	(116)
	$ (31,513)	$ 37,129	$ (68,642)	$ 42,509	$ (5,380)

Private gifts, most of which are restricted as to use, remained relatively consistent in fiscal year 2019. Private gifts increased to $39.9 million in fiscal year 2018 compared to $31.2 million in fiscal year 2017. The fiscal year 2018 change was primarily due to an increase in the Research Corporation’s cash contributions of $3.4 million and pledge contributions of $7.6 million.

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 80.3 percent, 81.8 percent and 77.3 percent were related to compensation and benefits during fiscal years 2019, 2018 and 2017, respectively.

Compensation and benefits went up by $61.3 million, or 4.9 percent, to $1,320 million in fiscal year 2019 as compared to fiscal year 2018, and increased by $23.2 million, or 1.9 percent, to $1,259 million in fiscal year 2017. The fiscal year 2019 increase was attributable to increases in payroll and OPEB expense of $23.0 million and $30.5 million, respectively. The fiscal year 2019 increase in payroll expense was due to a 2.82 percent salary increase to all University faculty, effective July 1, 2018, and an increase in OPEB expense. The fiscal year 2018 increase was attributable to increases in pension and OPEB expense of $19.3 million and $2.2 million, respectively. The fiscal year 2018 increase in pension expense was due to the University’s recording of the actuarially determined expense, and the increase in OPEB expense was due to the implementation of GASB Statement No. 75.

Supplies, services and cost of goods sold expense includes service fees, printing and binding, advertising, dues and subscriptions, controlled property acquisitions, cost of goods sold for resale items, and other miscellaneous operating costs. In fiscal year 2019, such expenses remained relatively consistent compared to fiscal year 2018. In fiscal year 2018, such expenses decreased by $4.8 million, or 2.5 percent, to $188.6 million as compared to fiscal year 2017. The fiscal year 2018 decrease was primarily attributable to the non-recurring federally funded equipment expense of $5.7 million in fiscal year 2017.

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 $175.7 million in fiscal year 2019 stayed relatively consistent as compared to fiscal year 2018. Total aid to students increased by $2.5 million, or 1.4 percent, to $177.3 million in fiscal year 2018 as compared to 2017. The increase was primarily attributable to an increase in scholarship allowance from the additional state funding for the Hawai‘i Promise scholarship.

Other operating expenses increased by $6.1 million, or 5.7 percent, to $112.4 million in fiscal year 2019 and decreased by $18.4 million, or 14.7 percent, to $106.4 million in fiscal year 2018. The increase in fiscal year 2019 is primarily due to an increase in repairs and maintenance for the University of $5.8 million. The decrease in fiscal year 2018 is primarily a result of the University's recording of a one-time expense in fiscal year 2017 of $13.6 million. Due to the expiration of the Federal Perkins Loan program in September 2017, the University is required to return the Federal Capital Contribution ("FCC") from the Perkins Loan Revolving Funds on a regular basis until such time as all of the University's outstanding Perkins Loans have been paid in full, or otherwise fully retired, or assigned to the federal government. The return of the FCC was recorded in accordance with GASB Statement No. 33.

The University depreciates its capital assets over their estimated useful lives using the straight-line method. Depreciation expense increased by $3.2 million, or 2.5 percent, to $131.0 million during fiscal year 2019 as compared to fiscal year 2018. Depreciation expense increased by $5.0 million, or 4.1 percent, to $127.8 million during fiscal year 2018 as compared to fiscal year 2017. The increases in fiscal years 2019 and 2018 were primarily attributable to increases in depreciable assets relating to buildings and infrastructure.

Transfers from State, net amounted to $25.5 million, $26.8 million and $28.9 million in fiscal years 2019, 2018 and 2017, respectively. Transfers from State were primarily for the tobacco settlement funds paying for John A. Burns School of Medicine revenue bond debt service and the University of Hawai‘i Cancer Center cigarette stamp tax collections.

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 2019, capital gifts and grants, including state capital appropriations and transfers, decreased by $42.5 million, or 22.3 percent, to $148.0 million as compared to $190.4 million in fiscal year 2018. The decrease in fiscal year 2019 was primarily attributable to a decrease in capital appropriations from the State and an increase in capital gifts and grants. Capital appropriations decreased by $50.1 million, or 27.2 percent, to $134.0 million as compared to the capital appropriations in fiscal year 2018 of $184.1 million. This decrease is primarily due to decreased allotments for maintenance and renewal of capital assets. Capital gifts and grants increased by $4.2 million, or 134.3 percent, to $7.3 million. This increase is primarily due to a $3.9 million increase in capital gifts received by the Foundation. The increase in fiscal year 2018 of $18.8 million was primarily attributable to the increase of capital appropriations from the State by $25.0 million, or 15.7 percent, to $184.1 million. This increase was primarily due to increased allotments for maintenance and renewal of capital assets.

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 2019, additions to the permanent endowment remained relatively consistent as compared to the prior year. In fiscal year 2018, additions to the permanent endowment decreased by $81.7 million to $14.4 million, when compared to $96.0 million in fiscal year 2017. The decrease in additions to the permanent endowment was due to a fiscal year 2017 gift from alumnus Jay H. Shidler, who provided $80.2 million in endowed gifts.

Cash Flows

The Consolidated Statements of Cash Flows present the University’s significant sources and uses of cash and cash equivalents, including restricted cash balances. The University’s cash is comprised primarily of 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, 2019, 2018 and 2017 is as follows (in thousands of dollars):

	2019	2018	FY 19 vs 18 Change	2017	FY 18 vs 17 Change
Cash received from operations	$ 780,413	$ 761,920	$ 18,493	$ 789,810	$ (27,890)
Cash payments for operations	(1,326,177)	(1,311,164)	(15,013)	(1,313,781)	2,617
Net cash used in operating activities	(545,764)	(549,244)	3,480	(523,971)	(25,273)
Net cash provided by noncapital financing activities	621,312	602,337	18,975	578,881	23,456
Net cash used in capital and related financing activities	(46,397)	(46,026)	(371)	(51,003)	4,977
Net cash provided by (used in) investing activities	(20,189)	46,714	(66,903)	(37,990)	84,704
Net increase (decrease) in cash	8,962	53,781	(44,819)	(34,083)	87,864
Cash					
Beginning of year	122,877	69,096	53,781	103,179	(34,083)
End of year	$ 131,839	$ 122,877	$ 8,962	$ 69,096	$ 53,781

The University’s cash and cash equivalents increased by $9.0 million, or 7.3 percent, to $131.8 million at June 30, 2019 from $122.9 million at June 30, 2018. The University’s cash and cash equivalents increased by $53.8 million, or 77.8 percent, to $122.9 million at June 30, 2018 from $69.1 million at June 30, 2017. During fiscal year 2019, $545.8 million in cash was used for operating activities, offset by $621.3 million in cash provided by noncapital financing activities. Net cash used in capital and related financing activities and net cash provided by investing activities amounted to $46.4 million and $20.2 million in fiscal year 2019.

The net cash used in operating activities decreased by $3.5 million in fiscal year 2019 and increased by $25.3 million in fiscal year 2018. The decrease in fiscal year 2019 was primarily due to payments to employees, which increased by $21.2 million as a result of higher compensation and fringe expense, and offset by increases in cash received from student tuition and fees, and grants and contracts by $17.9 million. The increase in fiscal year 2018 was largely due to an increase in payments to employees caused by an increase in personnel costs coupled with a decrease in student tuition and fees caused by a decrease in enrollment.

In fiscal year 2019, net cash used in capital and related financing activities remained relatively consistent as compared to the prior year. The $5.0 million decrease in net cash used in capital and related financing activities in fiscal year 2018 as compared to fiscal year 2017 were attributable to the change in cash inflows : $48.3 million increase in capital appropriations, $7.3 million decrease in proceeds from capital debt, $3.7 million decrease in capital gifts and grants, offset by the change in cash outflows: $18.7 million increase in purchases of capital assets and $12.7 million increase in principal paid on capital debt and leases (cash outflow).

The net cash used in investing activities increased $66.9 million from $46.7 million in fiscal year 2019. The increase in fiscal year 2019 was primarily due to a $6.8 million increase in investment purchases and a $57.2 million decrease in sales and maturities of investments.

There was a net difference of $84.7 million in investing activity cash flows as there was $46.7 million in net cash provided by investing activities in fiscal year 2018 compared to $38.0 million in net cash used in investing activities in fiscal year 2017. The increase was primarily due to a $162 million decrease in investment purchases, offset by a $81 million decrease in proceeds from investment sales and/or maturities.

Looking Forward

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

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

- *U.S. News and World Report* released its 2020 Best Graduate Schools list that includes:
    - The University of Hawai‘i at Mānoa School of Nursing in the top tier, 50 out of 179 schools, for Best Online Graduate Nursing Programs in 2019.
    - The John A. Burns School of Medicine ranked 56th nationally in medical research and 55th in medical primary care among 185 medical schools in America.
    - The William S. Richardson School of Law's evening part-time program ranks in the top 30 in the annual national rankings.
    - The Myron B. Thompson School of Social Work ranked 51st of 262, placing it in the top 25 percent of programs nationally for the past six years.
    - The part-time Master of Business Administration program (Global MBA, 36-month plan) at the Shidler College of Business ranked 117th among 287 part-time MBA programs that qualified for the ranking.
    - The College of Education is ranked 66th of 392 schools.
- The Community College System was ranked in the top 20 of WalletHub's 2018 list, placing 15th from a sample of 715 schools. WalletHub ranked community colleges based on cost, education and career outcomes.

- The University of Hawaiʻi at Mānoa ranked 326 on the 2020 Quacquarelli Symonds World University Ranking ("QSWUR"). The QSWUR is the ranking most used and referenced by international students.

The University's strength is further demonstrated through its credit ratings. The University maintained its Aa2 with stable outlook by Moody's Investors Service in March 2019 and AA with stable outlook was affirmed by Fitch Ratings in September 2019. 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 Hawaiʻi.
- Strong operating support from the State of Hawaiʻi.
- Unique academic programming and research, and well-diversified revenue.
- Low debt burden which reflects strong and growing capital support from the State of Hawaiʻi.
- Improved cash and investment cushion and reserve.

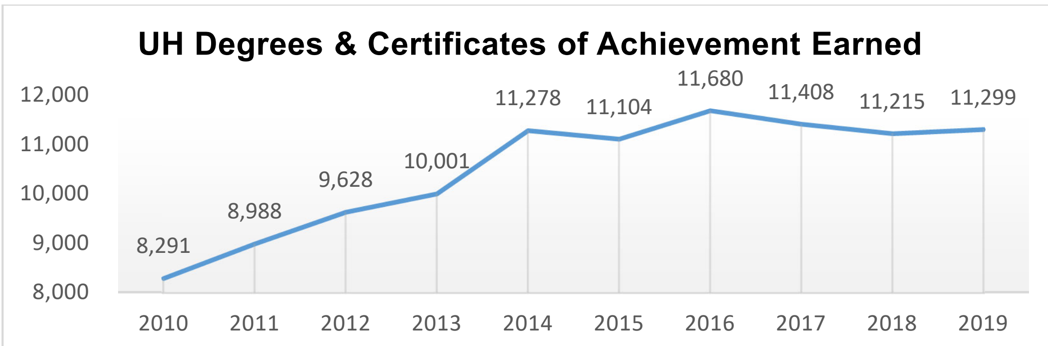
The University is committed to improving the social, economic and environmental well-being of current and future generations. To that end, the University developed and implemented the University of Hawaiʻi Strategic Directions, 2015–2021, built upon previous work outlined in the Strategic Outcomes and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

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

- Hawaiʻi Graduation Initiative.
- Hawaiʻi Innovation Initiative.
- 21st Century Facilities.
- Mission Focused System.
- High Performing System.

Hawaiʻi Graduation Initiative

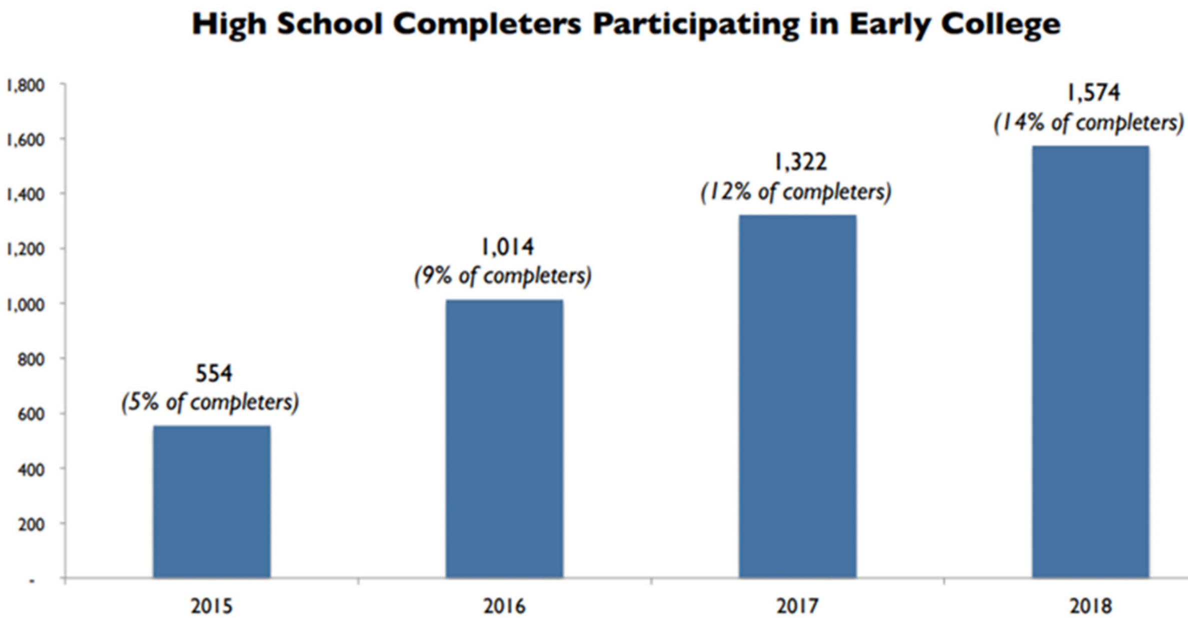
An educated labor force and engaged citizenry are essential in today's global, knowledge-based economy. The State of Hawaiʻi has set goals to increase the percentage of working age adults with two- or four-year degrees to 55 percent by 2025 (*55 by '25 Campaign*). As the sole provider of public higher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



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

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

Another part of HGI's tactical plan is the Early College program, which is a collaboration between the University and the Hawaiʻi State Department of Education ("DOE"), offering students the opportunity to take college courses at their high schools while simultaneously earning credit toward both high school and college diplomas. Over 3,200 high school students are participating in a variety of dual credit programs, including Early College, Early Admit, and Jump Start to earn both college and high school credits.



Enrollment and Tuition

Enrollment at the University of Hawaiʻi's ten campuses decreased by about two percent in the fall 2019 semester compared to fall 2018, from 51,063 students to 49,977 students. Nine of the 10 UH campuses saw reductions in enrollment, reflecting the national trend of declining enrollment since peak highs following the 2008 recession. Windward Community College is the only UH campus to see an enrollment increase with 2.4 percent growth. As of August 2019, the State unemployment rate was at 2.7 percent. The overall enrollment decline was no surprise, but in spite of that challenge, UH performed well in many key areas including first-time freshmen, rising four-year graduation rates, and continued early college success.

The 2017–2020 Enrollment Management Plan was developed to steadily grow enrollment over the next five years. This framework will continue to guide the University's overall enrollment, retention and degree efforts in a time of a tight local labor market experiencing extraordinarily low unemployment.

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 system wide for the next four years.

Fall census headcount comparisons are as follows:

	Fall 2019	Fall 2018	% Change	Fall 2017	% Change
Mānoa	17,490	17,710	-1.2	17,612	0.6
Hilo	3,372	3,406	-1.0	3,539	-3.8
West O‘ahu	3,049	3,128	-2.5	3,082	1.5
Community Colleges	26,066	26,819	-2.8	27,441	-2.3
Total	49,977	51,063	-2.1	51,674	-1.2

With the goal to reverse the enrollment decline and address the higher education gaps for the underserved regions and populations, the Community Colleges, working with the State legislators, secured $2.5 million to establish the *Hawai‘i Promise* scholarship program that provides free in-state tuition for qualified community college students with financial needs in fiscal year 2018 and 2019. UH is asking the state legislature to consider funding an expansion of this program to include the three four-year universities. The Hawai‘i Promise Program supported 1,378 UH community college students this past academic year. The program is currently structured as a “last dollar” scholarship that would provide financial assistance towards unmet financial need not satisfied by other forms of financial aid, such as federal grants, University scholarships, and other private sources.

The University awarded 11,299 degrees and certificates last academic year, 0.7 percent higher than the previous academic year. Overall, the University is graduating more students than it is bringing in, which accounts for some of the reductions in campus enrollment. Graduation rates within four years have also doubled in eight years at the four-year campuses. UH-Mānoa welcomed its second straight class of more than 2,000 first-time freshmen, including an eight percent increase in first-time freshman from out of state and a two percent increase in graduate students.

After several years of moderate tuition increases, in May 2019 the Board of Regents approved a three-year freeze of undergraduate tuition rates at all ten campuses beginning with the 2020–2021 academic year. The new tuition schedule also decreases general graduate student tuition rates at UH-Mānoa. The intent of the freeze is to ensure affordable higher education for the people of Hawai‘i while providing stability that will aid student recruitment and retention. It will also increase the competitiveness in the broader higher education landscape.

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 80th among 1,050 public and private universities for research and development expenditures in fiscal year 2017.

The extramural awards totaled $422 million in fiscal year 2019, an increase from the previous year’s tally. As we continue to endure the fluctuations in federal funding and work to make adjustments in strategy, we have managed to keep extramural funding relatively stable in the neighborhood of $400 million over the last few years. Despite the significant reductions in federal support that have put a strain on research institutions across the county, the University is doing its best to weather the storm through the dedicated efforts of our talented research faculty and support staff. Here are some highlights of fiscal year 2019:

- The National Cancer Institute (“NCI”) has increased support to the University of Hawai‘i Cancer Center under the Cancer Center Support Grant from $5.7 million to $8.4 million and has extended the term of the current NCI designation by an additional year to July 2022.

- The Applied Research laboratory (“ARL”) at the University of Hawai‘i at Mānoa has been awarded a $77.2 million, five-year contract from the U.S. Department of Defense (“DoD”). ARL will conduct research, development, engineering and evaluation of programs in core competency areas of ocean science, astronomy, sensor development, remote sensing, renewable energy, and mission-related research and development.

The Hawai‘i Institute of Geophysics and Planetology (“HIGP”) in the School of Ocean and Earth Science and Technology (“SOEST”) received $3.9 million from NASA in support of a two-year project to develop the Hyperspectral Thermal Imager (“HyTI”) CubeSat (also known as nanosatellites intended for low Earth orbit that can explore a variety of scientific and technological questions).

Facilities and Infrastructure

Improvement and modernization of the University’s physical assets are vital 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 plan for fiscal years 2020–2025 (the “6-Year CIP Plan”) that sets forth a vision of a physical environment that supports and augments the high-quality education and research that takes place at our University. It also presents a coordinated, long-term strategy that (1) prioritizes classrooms, laboratories and student spaces with a focus on improving the learning and research environment, (2) targets those facilities with the highest utility and poorest conditions through upgrades to the interior/exterior structures, building roofs, mechanical and electrical systems, pedestrian pathways, and roadways, and (3) changes the paradigm on how the University manages its space.

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 2019–2021 and 2017–2019 fiscal biennia that were approximately $282.2 million and $269.7 million, respectively. The University currently has bond issuance authorization through June 30, 2021 for $100 million for strategic capital projects, $9.6 million for land acquisition, and $38 million for parking structure improvements at UH-Mānoa.

Fundraising

The University and the Foundation exceeded its $500 million goal 15 months ahead of schedule. Additionally, Tim Dolan was hired in July 2019 as the UH Foundation CEO. He will be working closely with UH research, faculty and the Hawai‘i community to develop fundraising plans.

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 1.1 percent in 2019 and 1.2 percent in 2020, 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 August 2019.

The State of Hawai‘i continues to provide strong support to the University as the sole provider of public higher education in Hawai‘i. When compared to other universities in the nation, the University is well supported by the State and was ranked 6th in the category of higher education operating appropriation per full-time equivalent in 2017 according to State Higher Education Finance fiscal year 2017 report. The Hawai‘i Governor supported, and the State Legislature appropriated, an increase of $35 million in general funds to the University’s fiscal year 2020 operating budget. These funds were allocated throughout the campuses primarily to fund collective bargaining agreements as well as student mentors and tutors at the Community Colleges, Teacher Education program at Leeward Community College, and Ornamental Breeding and Clean Export Practices at the College of Tropical Agriculture and Human Resources.

Future general fund appropriations are subject to legislative appropriations and dependent upon the financial health of the State, future State Council of Revenues (“COR”) projections, and priorities yet to be articulated by the Governor and State legislature. The current economy continues to be strong, but the COR has cautiously cited uncertainty about the future. Fiscal year 2019 base tax revenues finished 5.1 percent over fiscal year 2018, which was above the May 23, 2019 projection from COR of 4.7 percent. The COR current forecast for fiscal year 2020 revenues projects 4.1 percent growth compared to fiscal year 2019, an increase of 0.1 percent from May. The COR also decreased its growth forecast for fiscal 2021 and fiscal year 2022 to 3.0 percent (from 4.0 percent) but maintained the 4.0 percent growth rate for fiscal year 2023-2026. To continue to provide quality and affordable education to the residents of Hawai‘i, the University has been diligently working with lawmakers to promote the University’s needs and priorities.

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Consolidated Statements of Net Position
Years Ended June 30, 2019 and 2018
(All dollars reported in thousands)

	2019	2018
Assets and Deferred Outflows of Resources		
Current assets		
Cash and cash equivalents	$ 131,839	$ 122,877
Operating investments	361,376	315,050
Due from State of Hawai'i	944	1,269
Accounts receivable, net	86,981	82,938
Current portion of notes and contributions receivable, net	18,895	19,042
Other current assets	24,374	26,011
Total current assets	624,409	567,187
Noncurrent assets		
Due from State of Hawai'i	414,016	403,164
Endowment and other investments	542,497	535,495
Notes and contributions receivable, net	20,607	32,113
Capital assets, net	2,163,325	2,128,415
Other noncurrent assets	34,021	119,842
Total noncurrent assets	3,174,466	3,219,029
Total assets	3,798,875	3,786,216
Deferred outflows of resources		
Deferred outflows on net pension liability, OPEB liability, and other	506,467	528,173
Total deferred outflows of resources	506,467	528,173
Total assets and deferred outflows of resources	$ 4,305,342	$ 4,314,389
Liabilities, Deferred Inflows of Resources and Net Position		
Current liabilities		
Accounts payable	$ 66,398	$ 63,458
Accrued payroll and fringe benefits	64,764	63,076
Advances from sponsors	26,071	25,532
Unearned revenue	43,416	43,256
Due to State of Hawai'i	6,129	6,140
Current portion of long-term liabilities	58,982	58,645
Other current liabilities	6,624	6,733
Total current liabilities	272,384	266,840
Noncurrent liabilities		
Accrued vacation	44,803	44,837
Accrued workers' compensation	11,666	11,096
Revenue bonds payable	487,490	506,655
Premium on bonds payable	20,272	22,185
Equipment lease obligations	27,003	28,428
Note payable	8,184	8,200
Net pension liability	1,695,800	1,648,600
Other postemployment benefits	1,800,496	1,783,860
Other noncurrent liabilities	37,243	42,383
Total noncurrent liabilities	4,132,957	4,096,244
Total liabilities	4,405,341	4,363,084
Deferred inflows of resources		
Deferred inflows on net pension and OPEB liability	69,780	53,497
Total deferred inflows of resources	69,780	53,497
Commitments and contingencies		
Net position		
Net investment in capital assets	1,625,457	1,598,660
Restricted		
Nonexpendable	301,890	360,553
Expendable	633,393	606,866
Unrestricted	(2,730,519)	(2,668,271)
Total net position	(169,779)	(102,192)
Total liabilities, deferred inflows of resources and net position	$ 4,305,342	$ 4,314,389

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

University of Hawai‘i
State of Hawai‘i
(A Component Unit of the State of Hawai‘i)
Consolidated Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2019 and 2018
(All dollars reported in thousands)

	2019	2018
Operating revenues		
Student tuition and fees	$ 394,952	$ 393,452
Less: Scholarship allowances	133,108	134,565
Net student tuition and fees	261,844	258,887
Federal appropriations, grants and contracts	310,644	306,679
State and local grants and contracts	43,044	41,086
Nongovernmental sponsored programs	36,576	33,765
Sales and services of educational departments, other	39,307	35,279
Auxiliary enterprises		
Bookstores	15,886	18,213
Student housing (net of scholarship allowances of $1,432 and $1,863)	30,322	31,310
Other auxiliary enterprises revenues	46,238	45,209
Other operating revenues	1,703	1,628
Total operating revenues	785,564	772,056
Operating expenses		
Compensation and benefits	1,320,016	1,258,712
Supplies, services and cost of goods sold	185,999	188,572
Depreciation and amortization	131,034	127,842
Telephone and utilities	69,455	65,726
Scholarships and fellowships	42,639	42,746
Travel expenses	32,694	33,412
Repairs and maintenance	29,815	24,117
Rental expenses	10,591	11,306
Other operating expenses	39,433	37,584
Total operating expenses	1,861,676	1,790,017
Operating loss	(1,076,112)	(1,017,961)
Nonoperating revenues (expenses)		
State appropriations	506,399	485,153
Federal Pell grants	53,522	56,056
Private gifts	37,956	39,895
Net investment income (loss)	(31,513)	37,129
Interest expense	(25,208)	(25,585)
Net transfers from State of Hawai‘i	294,705	264,855
Loss on disposal of capital assets	(4,860)	(4,645)
Other, net	105	809
Net nonoperating revenues before capital and endowment additions	831,106	853,667
Capital – state appropriations	133,996	184,103
Capital – federal grants/subsidies	5,955	5,021
Capital – gifts and grants	7,325	3,127
Net transfers from (to) State of Hawai‘i for capital assets	674	(1,836)
Transfers from State of Hawai‘i, Tobacco settlement	9,400	9,397
Transfers from State of Hawai‘i, University of Hawai‘i Cancer Center	7,863	7,869
Net transfers from (to) other State agencies	269	(5,924)
Net transfers from (to) Federal – capital assets	87	(84)
Additions to permanent endowments	11,850	14,354
Total other revenues	177,419	216,027
Net nonoperating revenues	1,008,525	1,069,694
Change in net position	(67,587)	51,733
Net position		
Beginning of year	(102,192)	729,527
Adjustment for change in accounting principle (Note 1)	-	(883,452)
Beginning of year, as restated	(102,192)	(153,925)
End of year	$ (169,779)	$ (102,192)

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

University of Hawai‘i
State of Hawai‘i
(A Component Unit of the State of Hawai‘i)
Consolidated Statements of Cash Flows
Years Ended June 30, 2019 and 2018
(All dollars reported in thousands)

	2019	2018
Cash flows from operating activities		
Student tuition and fees	$ 261,217	$ 253,385
Grants and contracts	387,124	377,067
Other revenues	132,072	131,468
Payments to employees	(930,790)	(909,639)
Payments to suppliers and other	(352,748)	(358,779)
Payments for scholarships and fellowships	(42,639)	(42,746)
Net cash used in operating activities	(545,764)	(549,244)
Cash flows from noncapital financing activities		
State appropriations	506,724	485,240
Gifts and grants for other than capital purposes	106,373	107,530
Net transfers from State of Hawai‘i	8,226	9,544
Other receipts (disbursements)	(11)	23
Net cash provided by noncapital financing activities	621,312	602,337
Cash flows from capital and related financing activities		
Capital appropriations	122,124	157,581
Capital gifts and grants	12,954	8,883
Proceeds from other note payable	-	4,526
Purchases of capital assets	(152,953)	(172,815)
Proceeds from sale of capital assets	720	59
Principal paid on capital debt and leases	(20,873)	(36,100)
Interest paid on capital debt and leases (net of amounts capitalized)	(25,632)	(25,426)
Transfer from State of Hawai‘i for		
Tobacco Settlement	9,400	9,397
University of Hawai‘i Cancer Center	7,863	7,869
Net cash used in capital and related financing activities	(46,397)	(46,026)
Cash flows from investing activities		
Interest and dividends on investments, net	14,085	11,202
Proceeds from sales and maturities of investments	684,997	749,429
Purchase of investments	(719,271)	(713,917)
Net cash provided by (used in) investing activities	(20,189)	46,714
Net increase in cash and cash equivalents	8,962	53,781
Cash and cash equivalents		
Beginning of year	122,877	69,096
End of year	$ 131,839	$ 122,877

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

University of Hawai‘i
State of Hawai‘i
(A Component Unit of the State of Hawai‘i)
Consolidated Statements of Cash Flows
Years Ended June 30, 2019 and 2018
(All dollars reported in thousands)

	2019	2018
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	$ (1,076,112)	$ (1,017,961)
Adjustments to reconcile operating loss to net cash used in operating activities		
On behalf payments by State for fringe benefits	286,479	255,311
Depreciation and amortization expense	131,034	127,842
Pension and other postretirement health care benefit expense	100,184	93,261
Bad debt expense, net	2,138	(591)
Escrow funds used for expenses	-	7,621
Changes in operating assets and liabilities		
Accounts receivable	(6,195)	(3,165)
Notes and contributions receivable	969	382
Inventories	1,147	(526)
Prepaid expenses and other assets	2,738	(373)
Accounts payable	7,967	(3,414)
Accrued payroll and benefits	2,389	1,502
Accrued workers' compensation liability	439	(1,234)
Advances from sponsors	539	(1,075)
Other, net	520	(6,824)
Net cash used in operating activities	$ (545,764)	$ (549,244)
Supplemental information of noncash transactions		
Noncash contributions	$ 2,689	$ 2,377
Net transfers to (from) State of Hawai‘i for capital assets	674	(1,836)
Net transfers to (from) Federal for capital assets	87	(84)
Net transfers to (from) other State agencies	269	(5,924)
Accounts payable for capital assets	31,820	36,848
Bond proceeds deposited immediately into escrow	-	116,876
Refunding and defeasance of outstanding revenue bond principal	-	(109,935)
Proceeds from equipment lease liability	-	30,486
Escrow funds used to fund capital asset additions	20,891	-

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

1. Organization and Summary of Significant Accounting Policies

Financial Reporting Entity

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

Complete financial statements of the Research Corporation can be obtained at the Research Corporation of the University of Hawaiʻi, 2800 Woodlawn Drive, Honolulu, HI 96822. The Foundation's federal Form 990 is available for inspection as required by Internal Revenue Code ("IRC") Section 6104 at the University of Hawaiʻi Foundation, 1314 South King Street, Suite B, Honolulu, HI 96814.

Similarly, the University is fiscally dependent upon the State of Hawaiʻi (the "State") and therefore, the State is financially accountable for the University as defined by GASB Statement No. 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 Financial Accounting Standards Board ("FASB"). The Foundation's financial information has been converted to conform to the University's presentation.

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

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

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

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

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

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

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

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

Amounts due to the State of Hawai‘i are primarily due to operating or capital advances.

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

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

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

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

Capital Assets
Capital assets are recorded at cost, or if donated, at an appraised value at the date of the gift. Depreciation of capital assets is provided for on a straight-line basis over the estimated useful lives (3 to 100 years) of the respective assets. The University’s policy is to capitalize tangible, nonexpendable personal property having an estimated useful life of more than one year. Interest incurred on tax-exempt construction financing, net of investment income on any unspent financing proceeds, is capitalized as a cost of construction. When taxable debt is incurred specifically for a project, interest is capitalized on amounts expended on the project using the weighted-average cost of outstanding borrowings. The University incurred interest cost of $25,208 and $25,715 for the years ended June 30, 2019 and 2018, respectively, of which $130 was capitalized during the year ended June 30, 2018. No interest costs were capitalized during the year ended June 30, 2019. 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 the net pension and other postemployment benefits (“OPEB”) liabilities resulted from differences between expected and actual experiences, changes in assumptions, the net difference between projected and actual earnings on pension plan investments, and changes in proportion which are amortized over five years, and the University’s contributions to the pension and OPEB plans subsequent to the measurement date of the actuarial valuations for the pension and OPEB plans will be recognized as a reduction of the net pension liabilities and net OPEB liability in the subsequent fiscal year. The deferred outflow of resources related to asset retirement obligations (“AROs”) represents the difference between the AROs and the cash received to assume the related AROs, and are amortized over the remaining useful life of the related capital assets.

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

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

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

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

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

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

Asset Retirement Obligations
AROs represent the liabilities where both an external obligating event and internal obligating event have occurred and the liability is reasonably estimable and recorded based on the University's best estimates of the current value of outlays expected to be incurred. The AROs are reevaluated annually for the effects of general inflation or deflation and any events that would cause a significant change in the estimated outlays. AROs are included in other noncurrent liabilities. Refer to Note 15 for more information.

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

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

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

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

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

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

Net Position Restricted by Enabling Legislation
GASB Statement No. 46*, Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34*, requires that limitations on the use of net position imposed by enabling legislation be reported as restricted net position. GASB Statement No. 46 also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Restricted net position at June 30, 2019 and 2018 amounted to $935,283 and $967,419, respectively, of which $386,075 and $373,164 were restricted by enabling legislation for capital activity.

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

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

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

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

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

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

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

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

With respect to workers' compensation insurance, the University is self-insured for the first $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 10).

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

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

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

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

New Accounting Pronouncements
During fiscal year 2019, the University implemented GASB Statement No. 83, *Certain Asset Retirement Obligations*. The objective of this Statement is to address accounting and financial reporting for certain AROs related to tangible capital assets. This statement requires recognition of a liability for legal obligations to perform asset retirement activities related to tangible capital assets. The adoption of Statement No. 83 resulted in the restatement of the University's beginning net position as of July 1, 2017 by $2,861, which reflected the retrospective effect of Statement No. 83. Refer to Note 15 for more information.

During fiscal year 2019, the University implemented GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The applicable disclosures related to this Statement are included in the respective notes for debt.

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

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

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

The adoption of Statement No. 75 resulted in the restatement of the University’s beginning net position as of July 1, 2017 by $880,591, which reflected the retrospective effect of Statement No. 75. The restatement of the University’s beginning net position as of July 1, 2017 was the combined impact from the University’s employees covered under both the EUTF and Research Corporation’s defined benefit postemployment benefit of $879,485 and $1,106, respectively. The Research Corporation’s net OPEB liability is reported separately as a component of other noncurrent liabilities on the Consolidated Statements of Net Position as it is immaterial to the University’s consolidated financial statements as a whole. Refer to Note 14 for more information regarding the University’s OPEB with EUTF.

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 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.

The GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with commitments extended by issuers, arrangements associated with conduit debt obligations, and related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. The University has not yet determined the effect this Statement will have on its consolidated financial statements.

(All dollars reported in thousands)

Revisions and Reclassifications

In addition to the restatement of beginning net position as of July 1, 2017, certain amounts in the 2018 consolidated financial statements have been revised due to the adoption of GASB Statement No. 83 or reclassified to conform to the 2019 presentation.

	2018 As Previously Reported	Statement No. 83 Revisions	Reclassifications	2018 Revised
Current assets				
Accrued interest receivable	$ 1,998	$ -	$ (1,998)	$ -
Inventories	8,428	-	(8,428)	-
Prepaid expenses and other current assets	15,585	-	(15,585)	-
Other current assets	-	-	26,011	26,011
Total current assets	567,187	-	-	567,187
Deferred outflows of resources				
Deferred loss on refunding	14,737	-	(14,737)	-
Deferred outflows on net pension and OPEB liability	510,916	-	(510,916)	-
Deferred outflows on net pension liability, OPEB liability, and other	-	2,520	525,653	528,173
Total deferred outflows of resources	525,653	2,520	-	528,173
Total assets and deferred outflows of resources	4,311,869	2,520	-	4,314,389
Current liabilities				
Advances from sponsors	30,532	(5,000)	-	25,532
Total current liabilities	271,840	(5,000)	-	266,840
Noncurrent liabilities				
Other noncurrent liabilities	31,789	10,594	-	42,383
Total noncurrent liabilities	4,085,650	10,594	-	4,096,244
Total liabilities	4,357,490	5,594	-	4,363,084
Net position				
Unrestricted	(2,665,197)	(3,074)	-	(2,668,271)
Total net position	(99,118)	(3,074)	-	(102,192)
Nonoperating revenues (expenses)				
Net transfers from State of Hawai‘i for				
Fringe benefits	255,311	-	(255,311)	-
Hawai‘i Barrel Tax	2,578	-	(2,578)	-
School of Nursing	1,053	-	(1,053)	-
University of Hawai‘i Cancer Center	5,913	-	(5,913)	-
Net transfers from State of Hawai‘i	-	-	264,855	264,855
Net nonoperating revenues before capital and endowment additions	853,667	-	-	853,667
Operating expenses				
Depreciation and amortization	127,629	213	-	127,842
Total operating expenses	1,789,804	213	-	1,790,017
Operating loss	(1,017,748)	(213)	-	(1,017,961)
Change in net position	51,946	(213)	-	51,733
Adjustment for change in accounting principle (Note 1)	(880,591)	(2,861)	-	(883,452)
Beginning of year, as restated	(151,064)	(2,861)	-	(153,925)
End of year	(99,118)	(3,074)	-	(102,192)

(All dollars reported in thousands)

	2018 As Previously Reported	Statement No. 83 Revisions	Reclassifications	2018 Revised
Cash flows from operating activities				
Grants and contracts	$ 389,080	$ -	$ (12,013)	$ 377,067
Payments to suppliers and other	(378,413)	-	19,634	(358,779)
Net cash used in operating activities	(556,865)	-	7,621	(549,244)
Cash flows from noncapital financing activities				
Transfer from State of Hawai‘i for				
Hawai'i Barrel Tax	2,578	-	(2,578)	-
School of Nursing	1,053	-	(1,053)	-
University of Hawai‘i Cancer Center	5,913	-	(5,913)	-
Net transfers from State of Hawai‘i	-	-	9,544	9,544
Other receipts	7,644	-	(7,621)	23
Net cash provided by noncapital financing activities	609,958	-	(7,621)	602,337
Cash flows from capital and related financing activities				
Proceeds from other note payable	861	-	3,665	4,526
Principal paid on capital debt and leases	(31,794)	-	(4,306)	(36,100)
Interest paid on capital debt and leases (net of amounts capitalized)	(26,067)	-	641	(25,426)
Net cash used in capital and related financing activities	(46,026)	-	-	(46,026)
Reconciliation of operating loss to net cash used in operating activities				
Operating loss	(1,017,748)	(213)	-	(1,017,961)
Adjustments to reconcile operating loss to net cash used in operating activities				
Depreciation and amortization expense	127,629	213	-	127,842
Escrow funds used for expenses	-	-	7,621	7,621
Changes in operating assets and liabilities				
Advances from sponsors	10,938	-	(12,013)	(1,075)
Other, net	(18,837)	-	12,013	(6,824)
Net cash used in operating activities	(556,865)	-	7,621	(549,244)

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, 2019 and 2018, classified as cash and cash equivalents and operating investments, were $270,567 and $232,594, with corresponding bank balances of $271,968 and $223,179, 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 $228,969 at June 30, 2019 and $193,560 at June 30, 2018. Additional cash equivalent balances of $31,418 at June 30, 2019 and $19,549 at June 30, 2018 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.

(All dollars reported in thousands)

As a result of market fluctuations, the fair market value of certain donor-restricted endowments was less than the historical cost of such funds by $3,764 and $3,901 at June 30, 2019 and 2018, 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 (“HRS”) §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 2019 and 2018, the University’s spending rate policy provided for annual distributions at four and a half percent of the trailing five-year moving average of the endowment fair value.

At June 30, 2019 and 2018, the University’s investments were comprised of the following:

	2019		2018	
	Fair Value	Cost	Fair Value	Cost
Money market funds	$ 4,281	$ 4,280	$ 8,190	$ 8,190
Fixed income securities	348,643	344,922	308,656	313,500
Equity securities	45,297	41,510	1,234	1,267
Mutual funds	111,658	106,594	202,369	170,499
Time certificates of deposit	138,802	138,802	109,933	109,933
Limited partnerships	128,890	60,899	120,596	61,584
Absolute return	19,537	13,430	17,798	11,601
Real estate	29,303	33,867	31,710	37,267
Other investments	77,462	63,618	50,059	55,375
Total investments	903,873	807,922	850,545	769,216
Less: Current portion	361,376	359,736	315,050	317,844
Total noncurrent investments	$ 542,497	$ 448,186	$ 535,495	$ 451,372

(All dollars reported in thousands)

Changes in the University's investments for the year ended June 30, 2019 were as follows:

	Fair Value	Cost Basis	Net Unrealized Gain (Loss)	Net Realized Gain (Loss)
University Endowment Pool				
End of year	$ 74,853	$ 69,622	$ 5,231	
Beginning of year	72,692	65,825	6,867	
Net change	2,161	3,797	(1,636)	$ 4,667
Foundation Endowment Pool				
End of year	321,929	233,532	88,397	
Beginning of year	306,353	227,804	78,549	
Net change	15,576	5,728	9,848	(1,641)
Associated Students of the University of Hawai‘i				
End of year	9,074	8,682	392	
Beginning of year	8,896	8,880	16	
Net change	178	(198)	376	(124)
School of Medicine				
End of year	2,577	2,575	2	
Beginning of year	2,733	2,731	2	
Net change	(156)	(156)	-	6
University Bond System				
End of year	15,398	15,357	41	
Beginning of year	17,588	17,565	23	
Net change	(2,190)	(2,208)	18	91
Operating investments				
End of year	361,376	359,736	1,640	
Beginning of year	315,050	317,844	(2,794)	
Net change	46,326	41,892	4,434	108
Other				
End of year	118,666	118,418	248	
Beginning of year	127,233	128,567	(1,334)	
Net change	(8,567)	(10,149)	1,582	185
Total investments				
End of year	903,873	807,922	95,951	
Beginning of year	850,545	769,216	81,329	
Net change	$ 53,328	$ 38,706	$ 14,622	$ 3,292

(All dollars reported in thousands)

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

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

(All dollars reported in thousands)

	2019	2018
Summary of net investment income (loss)		
Change in unrealized net gain	$ 14,622	$ 14,809
Net realized gain	3,292	6,768
	17,914	21,577
Interest and dividend income	17,271	13,195
Split-interest agreements	(64,624)	3,659
Other	(573)	80
Investment income (loss) before management fees	(30,012)	38,511
Less: Management fees	1,501	1,382
Net investment income (loss)	$ (31,513)	$ 37,129

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, 2019 and 2018 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
2019					
Money market funds	$ 4,281	$ 4,281	$ -	$ -	$ -
Fixed income securities	348,643	208,844	133,665	-	6,134
Equity securities	45,297	45,297	-	-	-
Mutual funds	111,658	105,373	-	-	6,285
Time certificates of deposit	138,802	-	-	-	138,802
Limited partnerships	128,890	-	-	-	128,890
Absolute return	19,537	-	-	-	19,537
Real estate	29,303	-	-	10,258	19,045
Other investments	77,462	-	-	1,906	75,556
Total investments	$ 903,873	$ 363,795	$ 133,665	$ 12,164	$ 394,249
2018					
Money market funds	$ 8,190	$ 8,190	$ -	$ -	$ -
Fixed income securities	308,656	164,146	136,900	-	7,610
Equity securities	1,234	1,234	-	-	-
Mutual funds	202,369	196,249	-	-	6,120
Time certificates of deposit	109,933	-	-	-	109,933
Limited partnerships	120,596	-	-	-	120,596
Absolute return	17,798	-	-	-	17,798
Real estate	31,710	-	-	15,348	16,362
Other investments	50,059	-	-	1,681	48,378
Total investments	$ 850,545	$ 369,819	$ 136,900	$ 17,029	$ 326,797

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 monthly or quarterly basis, with notification provided between 15 and 30 days prior to redemption. Investments in foreign mutual funds can be redeemed on a monthly basis with notification provided between 5 and 30 days prior to redemption.

- **Absolute return, 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.

- **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 $37,317 at June 30, 2019.

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.

(All dollars reported in thousands)

Concentration Risk

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

Credit Risk

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

The composition of fixed income securities at June 30, 2019 and 2018, along with credit quality ratings, is summarized below:

		Credit Quality Rating						
		U.S. Govt-Exempt	AAA	AA	A	BBB	BB or Lower	Not Rated
2019								
U.S. Treasury	$ 208,771	$ 208,771	$ -	$ -	$ -	$ -	$ -	$ -
U.S. government agencies	114,064	-	-	114,064	-	-	-	-
Municipal bonds	2,623	-	809	1,473	341	-	-	-
Corporate bonds	23,185	-	576	4,808	10,097	7,379	325	-
Mutual bond funds	60,871	-	1,522	-	-	-	-	59,349
Total fixed income securities	$ 409,514	$ 208,771	$ 2,907	$ 120,345	$ 10,438	$ 7,379	$ 325	$ 59,349
2018								
U.S. Treasury	$ 164,135	$ 164,135	$ -	$ -	$ -	$ -	$ -	$ -
U.S. government agencies	131,474	-	-	131,474	-	-	-	-
Municipal bonds	3,547	-	762	2,166	619	-	-	-
Corporate bonds	9,500	-	-	2,308	4,158	2,666	368	-
Mutual bond funds	93,184	-	6,726	-	4,326	-	-	82,132
Total fixed income securities	$ 401,840	$ 164,135	$ 7,488	$ 135,948	$ 9,103	$ 2,666	$ 368	$ 82,132

Interest Rate Risk

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

(All dollars reported in thousands)

At June 30, 2019, 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	$ 208,771	$ 47,700	$ 151,272	$ 7,264	$ 2,535
U.S. government agencies	114,064	74,836	30,557	-	8,671
Municipal bonds	2,623	-	1,443	1,180	-
Corporate bonds	23,185	1,620	13,884	5,990	1,691
Mutual bond funds	60,871	3,790	49,348	7,733	-
Total fixed income securities	$ 409,514	$ 127,946	$ 246,504	$ 22,167	$ 12,897

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, 2019 and 2018, 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 $30,519 and $28,686 at June 30, 2019 and 2018, respectively, is summarized as follows:

	2019	2018
U.S. government	$ 53,289	$ 49,803
State and local government	9,653	9,186
Private agencies	7,475	7,749
Student tuition and fees	8,503	8,456
Other	8,061	7,744
	$ 86,981	$ 82,938

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 $45,387 in 2019 and $44,021 in 2018 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.

(All dollars reported in thousands)

5. Notes and Contributions Receivable

The composition of notes and contributions receivable at June 30, 2019 and 2018 is summarized as follows:

	2019	2018
Student notes		
Federal loan programs	$ 5,286	$ 15,085
State loan programs	7,988	7,868
University loan funds	67	67
Other notes receivable	164	77
Total student and other notes outstanding	13,505	23,097
Less: Allowance for uncollectible receivables	4,561	7,488
Total student and other notes receivable, net	8,944	15,609
Contributions receivable	33,649	38,127
Less: Allowance for uncollectible pledges	2,111	1,967
Less: Discount to present value	980	614
Total contributions receivable, net	30,558	35,546
Total student notes and contributions receivable, net	39,502	51,155
Less: Current portion, net	18,895	19,042
	$ 20,607	$ 32,113

The allowance for uncollectible receivables at June 30, 2019 and 2018 is comprised of:

	2019	2018
Federal Perkins loan program	$ 1,664	$ 3,712
State of Hawai‘i Higher Education loans	2,859	3,739
Nursing/Health Profession loans	6	6
Short-term loans	32	31
	$ 4,561	$ 7,488

Payments on contributions receivable at June 30, 2019 are expected to be collected in:

Less than one year	$ 19,535
One year to five years	14,114
	$ 33,649

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

(All dollars reported in thousands)

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

During the year ended June 30, 2019, the University distributed $137,147 in Direct Loan programs and did not distribute any student loans through the U.S. Department of Education Federal Perkins Loan Program. During the year ended June 30, 2018, the University distributed $1,740 in student loans through the U.S. Department of Education Federal Perkins Loan Program, and $143,204 in Direct Loan programs. 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 $5,253 and $6,323 at June 30, 2019 and 2018, 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. Other Current Assets

Other current assets at June 30, 2019 and 2018 were comprised of:

	2019	2018
Accrued interest receivable	$ 2,615	$ 1,998
Inventories	7,281	8,428
Prepaid expenses	9,605	8,379
Other	4,873	7,206
	$ 24,374	$ 26,011

(All dollars reported in thousands)

The inventories and the methods of valuation at June 30, 2019 and 2018 are summarized below:

		2019	2018
University of Hawai‘i Bookstore merchandise inventory	Lower of cost or market using the first-in, first-out retail inventory method.	$ 4,328	$ 5,146
University of Hawai‘i Chemistry Stockroom	Cost applied on the first-in, first-out basis.	1,112	1,066
University of Hawai‘i Facilities Management Warehouse	Cost applied on the first-in, first-out basis.	917	891
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.	703	890
University of Hawai‘i other inventory	Lower of cost or market using the weighted average cost method.	221	435
		$ 7,281	$ 8,428

7. Capital Assets

A summary of capital assets at June 30, 2019 and 2018 is as follows:

	Beginning Balance	Additions	Deductions	Transfers	Ending Balance
2019					
Nondepreciable capital assets					
Land	$ 55,222	$ -	$ -	$ 1,750	$ 56,972
Construction in progress	221,921	138,442	164	(119,944)	240,255
Total capital assets not being depreciated	277,143	138,442	164	(118,194)	297,227
Depreciable capital assets					
Land improvements	139,520	1,302	-	12,274	153,096
Infrastructure	253,346	528	-	7,025	260,899
Buildings	2,490,824	24,047	15,253	95,656	2,595,274
Equipment	402,707	13,878	10,313	3,239	409,511
Library materials	174,303	2,693	-	-	176,996
Total capital assets being depreciated	3,460,700	42,448	25,566	118,194	3,595,776
Less: Accumulated depreciation	1,609,428	140,401	20,151	-	1,729,678
Capital assets, net	$ 2,128,415	$ 40,489	$ 5,579	$ -	$ 2,163,325

(All dollars reported in thousands)

	Beginning Balance	Additions	Deductions	Transfers	Ending Balance
2018					
Nondepreciable capital assets					
Land	$ 55,195	$ -	$ -	$ 27	$ 55,222
Construction in progress	170,027	151,322	6,283	(93,145)	221,921
Total capital assets not being depreciated	225,222	151,322	6,283	(93,118)	277,143
Depreciable capital assets					
Land improvements	131,745	151	-	7,624	139,520
Infrastructure	243,030	662	-	9,654	253,346
Buildings	2,421,881	10,244	15,316	74,015	2,490,824
Equipment	397,471	14,144	10,733	1,825	402,707
Library materials	171,605	2,698	-	-	174,303
Total capital assets being depreciated	3,365,732	27,899	26,049	93,118	3,460,700
Less: Accumulated depreciation	1,503,221	127,629	21,422	-	1,609,428
Capital assets, net	$ 2,087,733	$ 51,592	$ 10,910	$ -	$ 2,128,415

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.

8. Other Noncurrent Assets

Other noncurrent assets at June 30, 2019 and 2018 were comprised of:

	2019	2018
Interest in beneficial trusts held by others	$ 31,917	$ 96,782
Funds on deposit with custodian	1,621	22,598
Other	483	462
	$ 34,021	$ 119,842

In November 2017, the University entered into two tax-exempt lease purchase (“TELP”) agreements with a Company to purchase energy conservation equipment for Honolulu, Kapi‘olani, Leeward and Windward Community Colleges (collectively “Oahu Campuses”) and Maui College for $24,183 and $6,302, respectively. The purchases were financed with a bank, and proceeds of $24,183 and $6,302 were deposited to an acquisition fund held in trust by an acquisition fund custodian (“Custodian”) to provide for future payments as requested by the University. At June 30, 2019 and 2018, funds on deposit with the Custodian were reported as $1,621 and $22,598, respectively. See Note 10 for terms of the lease obligations.

(All dollars reported in thousands)

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, 2019 and 2018 were as follows:

	2019		2018	
	Due from	**Due to**	**Due from**	**Due to**
State appropriations for current operations	$ 944		$ 1,269	
State capital appropriations – noncurrent	414,016		403,164	
Total due from State of Hawai‘i	$ 414,960		$ 404,433	
Imprest/petty cash advances		$ 74		$ 77
Advance		6,000		6,000
Employee fringe adjustments		55		63
Total due to State of Hawai‘i		$ 6,129		$ 6,140

10. Long-Term Liabilities

Long-term liability activity for the years ended June 30, 2019 and 2018 is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
2019					
Bonds payable					
Revenue bonds payable	$ 525,425	$ -	$ 18,770	$ 506,655	$ 19,165
Other liabilities					
Workers' compensation	17,199	4,713	4,274	17,638	5,972
Accrued vacation	76,506	30,884	30,183	77,207	32,404
Net pension liability (Note 13)	1,648,600	267,866	220,666	1,695,800	-
Postemployment health care/life insurance benefits (Note 14)	1,783,860	167,067	150,431	1,800,496	-
Equipment lease obligations	30,531	-	2,103	28,428	1,425
Long-term debt	8,200	-	-	8,200	16
Total other liabilities	3,564,896	470,530	407,657	3,627,769	39,817
Total long-term liabilities	$ 4,090,321	$ 470,530	$ 426,427	$ 4,134,424	$ 58,982
2018					
Bonds payable					
Revenue bonds payable	$ 543,680	$ 110,795	$ 129,050	$ 525,425	$ 18,770
Other liabilities					
Workers' compensation	18,433	4,556	5,790	17,199	6,103
Accrued vacation	75,907	29,956	29,357	76,506	31,669
Net pension liability (Note 13)	1,704,470	229,360	285,230	1,648,600	-
Postemployment health care/life insurance benefits (Note 14)	788,773	1,090,340	95,253	1,783,860	-
Equipment lease obligations	-	30,531	-	30,531	2,103
Long-term debt	25,200	-	17,000	8,200	-
Total other liabilities	2,612,783	1,384,743	432,630	3,564,896	39,875
Total long-term liabilities	$ 3,156,463	$ 1,495,538	$ 561,680	$ 4,090,321	$ 58,645

(All dollars reported in thousands)

Revenue Bonds Payable

The University's revenue bonds payable at June 30, 2019 and 2018 is as follows:

	Series	Date Issued	Authorized	2019	2018
Various acquisition and construction projects (interest rate, 2.5% to 6.0%)	2009A	April 15, 2009	$ 100,000	$ 2,905	$ 5,690
University of Hawai'i Cancer Center (interest rate, 2.5% to 6.0%)	2010A-1, 2010A-2	October 7, 2010	138,640	114,800	118,195
Various construction projects (interest rate, 2.5% to 6.0%)	2010B-1, 2010B-2	October 7, 2010	154,090	131,545	135,355
Student Housing System at Mānoa and Telecommunications System (interest rate, 2.0% to 5.0%)	2012A(R)	February 22, 2012	8,575	-	240
Hilo College of Pharmacy and Law School Expansion and Modernization (interest rate, 1.0% to 4.7%)	2015A	September 24, 2015	8,575	8,040	8,220
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	9,895	12,725
University Health & Wellness Center (interest rate, 0.8% to 2.8%)	2015D(R)	September 24, 2015	25,715	14,675	19,795
University Health & Wellness Center (interest rate, 5.0%)	2015E(R)	April 20, 2016	67,400	67,400	67,400
Sinclair Library Basement Renovation (interest rate, 2.0% to 5.0%)	2017A	December 28, 2017	3,990	3,790	3,990
University Health & Wellness Center (interest rate, 3.0%)	2017B	December 28, 2017	12,040	12,040	12,040
University Health & Wellness Center (interest rate, 3.28% to 3.38%)	2017C	December 28, 2017	4,110	4,110	4,110
Frear Hall Construction, Student Housing System at Mānoa, Student Housing System at Hilo (interest rate, 3.0%)	2017D	December 28, 2017	13,185	13,185	13,185
Frear Hall Construction, Student Housing System at Mānoa, Food Service System and Student Housing System at Hilo (interest rate, 3.28% to 3.65%)	2017E	December 28, 2017	4,450	4,450	4,450
Various acquisition and construction projects (interest rate, 5.0%)	2017F	December 28, 2017	52,275	52,275	52,275
Various acquisition and construction projects (interest rate, 2.10% to 3.85%)	2017G	December 28, 2017	20,745	20,535	20,745
			$ 678,385	$ 506,655	$ 525,425

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

The proceeds of the Series 2017B, 2017C, 2017D, 2017E, 2017F and 2017G Bonds were deposited into an irrevocable trust with an escrow agent to provide for the redemption of the outstanding principal of the Series 2006A University Revenue Bonds and Refunding Series 2006A University Bonds, and to provide for the defeasance and redemption of a portion of the Series 2009A University Revenue Bonds. Accordingly, the trust account assets and liabilities relating to the defeased bonds are not recorded in the consolidated financial statements of the University. During the year ended June 30, 2018, $33,535 of bonds outstanding from the Series 2006A University Revenue Bonds and Refunding Series 2006A University Bonds were refunded on a current basis, and $76,400 of bonds outstanding from the Series 2009A University Revenue Bonds were considered defeased. The refunding and defeasance resulted in an accounting gain of $17,502 and an economic gain (difference between the present values of the debt service payment on the old and new debt) of $15,550. Deferred loss on refunding for Series 2017 Bonds amounted to $6,125 and $6,731 at June 30, 2019 and 2018, respectively. The coupon interest rates for the Series 2017 Bonds range from two percent to five percent (the first interest payment was paid on April 1, 2018) with the last maturity on October 1, 2038.

In September 2015, the University issued $166,285 in Series 2015A ($8,575, taxable new money), 2015B(R) ($47,010, tax-exempt refunding), 2015C(R) ($17,585, taxable refunding), 2015D(R) ($25,715, taxable refunding), and 2015E(R) ($67,400, tax-exempt forward delivery refunding) Bonds (collectively, the “Series 2015 Bonds”) for the purpose of financing the costs of University projects and refunding previously issued bonds. All Series 2015 Bonds were delivered on September 24, 2015 with the exception of the forward delivery Series 2015E(R) Bonds which were delivered on April 20, 2016. Total premium for the Series 2015 Bonds approximated $13,698. Deferred loss on refunding for Series 2015 Bonds amounted to $6,972 and $8,006 at June 30, 2019 and 2018, respectively. The University projects include the UH Mānoa Law School Expansion and Modernization Project and the UH Hilo College of Pharmacy Project.

The proceeds of the Series 2015B(R), 2015C(R), 2015D(R) and 2015E(R) Bonds were deposited into an irrevocable trust with an escrow agent to provide for a portion of the future debt service payments on the Series 2006A University Revenue Bonds and the Refunding Series 2006A University Bonds. Accordingly, the trust account assets and liabilities relating to the defeased bonds are not recorded in the consolidated financial statements of the University. During the year ended June 30, 2016, $163,245 of bonds outstanding from the Series 2006A University Revenue Bonds and the Refunding Series 2006A University Bonds were considered defeased. The defeasance resulted in an accounting gain of $15,080 and an economic gain (difference between the present values of the debt service payment on the old and new debt) of $9,573. The coupon interest rates for the Series 2015 Bonds range from 0.811 percent to five 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) Bonds to retire (current refund) $8,955 of the outstanding Series 2001B 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 of Hawai‘i Cancer Center, renovations and additions to the Mānoa Campus Center, construction and equipment for an Information Technology Building, renovations to the Sinclair Library basement on the Mānoa campus, further development of the University of Hawai‘i at West O‘ahu (“UH-West O‘ahu”) Kapolei campus, various energy conservation/efficiency projects on the community college campuses on O‘ahu and Maui, land acquisition for the Leeward Community College Wai‘anae Education Center, construction of the Kapi‘olani Community College Culinary Institute of the Pacific, and renovation of the observatory for the Panoramic Survey Telescope & Rapid Response System 2 telescope. The coupon interest rates for the Series 2010 Bonds range from 2.50 percent to 6.03 percent (first interest payment due on April 1, 2011) and mature on October 1, 2030 and 2040.

The University receives funds from the State of Hawai‘i Tobacco Settlement Special Fund for the payment of principal and interest on the Refunding Series 2006A, Series 2015D(R), 2015E(R), 2017B and 2017C Bonds to finance the cost of construction of the medical school facility. The funds received from the State of Hawai‘i Tobacco Settlement Special Fund for debt service amounted to $9,400 and $9,397 in 2019 and 2018, respectively.

The revenue bonds are paid from certain unrestricted revenues in annual installments, including semi-annual interest payments ranging from $12 to $12,539 with the final payment due in October 2044. Series 2009A, 2010, 2012A(R), 2015 and 2017 Bonds interest is payable semi-annually on April 1 and October 1, and the principal is payable on October 1 of each year. The Bond Resolution adopted on November 16, 2001 and supplemented (“Bond Resolution”), stipulates that revenues of the University Bond System, including legislative appropriations and moneys in any special or revolving fund of the University, are pledged to the payment of the Series 2009A, 2010, 2012A(R), 2015 and 2017 Bonds, interest and premiums (if any).

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

The Bond Resolution permits the holders of not less than 25 percent of the aggregate principal amount of outstanding revenue bonds to declare the principal of all revenue bonds then outstanding, together with all accrued and unpaid interest thereon, to be due and payable immediately upon the occurrence and during the continuation of an Event of Default by the University under the Bond Resolution. Events of Default include, but are not limited to, the failure to pay principal when due or interest within 30 days of the date due, a breach of the terms of the Bond Resolution by the University which goes uncured for the applicable cure period, if any, or the dissolution, bankruptcy or receivership of the University.

(All dollars reported in thousands)

At June 30, 2019, future maturities of revenue bonds are as follows:

	Principal	Interest
Year ending June 30,		
2020	$ 19,165	$ 24,751
2021	19,695	24,082
2022	20,305	23,352
2023	21,050	22,479
2024	21,900	21,489
2025–2029	122,575	90,729
2030–2034	136,190	58,519
2035–2039	111,150	25,318
2040–2044	34,115	2,334
2045	510	12
	$ 506,655	$ 293,065

Bond Premiums
Activity related to the premiums on revenue bonds for the years ended June 30, 2019 and 2018 is as follows:

	Series	Beginning Balance	Additions	Reductions	Ending Balance
2019					
University of Hawai‘i Cancer Center	2010A	$ 102	$ -	$ 85	$ 17
Various construction projects	2010B	169	-	140	29
Student Housing	2015B(R)	4,885	-	297	4,588
John A. Burns School of Medicine	2015E(R)	6,828	-	609	6,219
Sinclair Library basement renovation	2017A	511	-	51	460
John A. Burns School of Medicine	2017B	264	-	23	241
Student Housing	2017D	109	-	9	100
Student Housing	2017F	9,317	-	699	8,618
Total bond premiums		$ 22,185	$ -	$ 1,913	$ 20,272
2018					
John A. Burns School of Medicine	Ref 2006A	$ 178	$ -	$ 178	$ -
University of Hawai‘i Cancer Center	2010A	249	-	147	102
Various construction projects	2010B	405	-	236	169
Student Housing	2015B(R)	5,170	-	285	4,885
John A. Burns School of Medicine	2015E(R)	7,410	-	582	6,828
Sinclair Library basement renovation	2017A	-	536	25	511
John A. Burns School of Medicine	2017B	-	275	11	264
Student Housing	2017D	-	128	19	109
Student Housing	2017F	-	9,668	351	9,317
Total bond premiums		$ 13,412	$ 10,607	$ 1,834	$ 22,185

(All dollars reported in thousands)

Equipment Lease Obligations

As discussed in Note 8, in November 2017, the University entered into TELP agreements to acquire energy conservation equipment for its Oahu Campuses and Maui College. For the Oahu Campuses, payments commenced on August 1, 2018 and will continue through August 1, 2031 at a tax-exempt interest rate of 2.55 percent. For Maui College, payments commenced on December 1, 2018 and will continue through December 1, 2031 at a tax-exempt interest rate of 2.55 percent. Upon failure to pay any rental payment within the 15 days following the due date, the lessor may demand full payment and/or retake possession of the equipment.

	Principal	Interest
Year ending June 30,		
2020	$ 1,425	$ 724
2021	1,539	688
2022	1,565	649
2023	1,709	609
2024	1,838	566
2025–2029	11,691	2,039
2030–2032	8,661	439
	$ 28,428	$ 5,714

11. Line of Credit

The Research Corporation has a revolving line of credit with First Hawaiian Bank in the amount of $5,000 for short-term working capital, expiring on February 1, 2020. The terms of the revolving line of credit require repayment as specified in the credit agreement. All borrowings are collateralized by a security agreement over the Research Corporation’s accounts receivable. The rate of interest on borrowings was 4.4 percent and four percent at June 30, 2019 and 2018, respectively. At June 30, 2019 and 2018, 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 credit facility also includes terms that if the Foundation is more than 10 days late on any sum payable to the lender, the full amount of the Loan becomes due immediately. The Loan matures on April 1, 2027. As of June 30, 2019 and 2018, the outstanding balance on the Loan was $8,200.

(All dollars reported in thousands)

The aggregate maturities of the Loan subsequent to June 30, 2019 are as follow.

Year ending June 30,	
2020	$ 16
2021	196
2022	203
2023	212
2024	7,573
	$ 8,200

12. Property Leases

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

	Lease Amount
Year ending June 30,	
2020	$ 1,701
2021	1,428
2022	1,372
2023	1,069
2024	229
2025–2029	624
2030–2034	392
Thereafter	1,468
	$ 8,283

Rent expense for outside space for the years ended June 30, 2019 and 2018 approximated $5,754 and $7,129, respectively.

13. Employee Benefits

Employees’ Retirement System
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 to 2.25 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.

- 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 surviving 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 surviving 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 surviving 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 dependent children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or surviving dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

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

Contributory Class for Members Hired After June 30, 2012

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

- Disability and Death Benefits – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 50 percent of their average final compensation plus refund of contributions and accrued interest. Ten years of credited service is required for ordinary disability.

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

Hybrid Class for Members Hired Prior to July 1, 2012

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

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

- 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 surviving dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

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

Hybrid Class for Members Hired After June 30, 2012

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

- Disability and Death Benefits – Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least 10 years of service. Ordinary death benefits consist of a lump sum payment of the member’s contributions and accrued interest, or 50 percent joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten 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 19 percent and 18 percent for fiscal years 2019 and 2018, respectively. Contributions to the pension plan for the University for the years ended June 30, 2019 and 2018 were $117,600 and $111,436, respectively.

Per Act 17 (SLH 2017), employer contributions from the State and counties are expected to increase over four years beginning July 1, 2017. The rate for general employees increased to 19 percent on July 1, 2018; and increases to 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 six percent of their salary. Hybrid members hired after June 30, 2012 are required to contribute eight percent of their salary.

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

At June 30, 2019 and 2018, the University reported a liability of $1,695,800 and $1,648,600, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 and 2017, 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, 2018 and 2017, the University’s proportion was 12.73 percent. The University’s proportion of 12.73 percent at June 30, 2017 was a decrease of 0.02 percent from its proportion measured as of June 30, 2016.

There was no change in actuarial assumptions as of June 30, 2017 to June 30, 2018. There were no changes between the measurement date, June 30, 2018, and the reporting date, June 30, 2019, that are expected to have a significant effect on the proportionate share of the net pension liability.

(All dollars reported in thousands)

For the years ended June 30, 2019 and 2018, the University recognized pension expense of $203,974 and $208,927, respectively. At June 30, 2019 and 2018, 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
2019		
Difference between expected and actual experience	$ 30,588	$ 10,626
Net difference between projected and actual investment earnings on pension plan investments	-	8,761
Change in assumptions	182,835	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,212	16,840
Contributions subsequent to the measurement date	117,600	-
Total deferred inflows and outflows of resources	$ 332,235	$ 36,227
2018		
Difference between expected and actual experience	$ 26,420	$ 17,667
Net difference between projected and actual investment earnings on pension plan investments	-	4,881
Change in assumptions	251,735	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,543	28,614
Contributions subsequent to the measurement date	111,436	-
Total deferred inflows and outflows of resources	$ 391,134	$ 51,162

At June 30, 2019, the approximate $117,600 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 ending June 30, 2020. The $111,436 reported as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date at June 30, 2018 was recognized as a reduction of the net pension liability in the year ended June 30, 2019.

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,	
2020	$ 79,749
2021	71,023
2022	26,739
2023	(212)
2024	1,109
	$ 178,408

(All dollars reported in thousands)

Actuarial Assumptions

The total pension liability in the June 30, 2018 and 2017 actuarial valuations were determined using the following actuarial assumptions adopted by the ERS's Board of Trustees on December 12, 2016, based on the 2015 Experience Study for the five-year period from July 1, 2010 through June 30, 2015:

Inflation	2.50%
Payroll growth rate	3.50%
Investment rate of return	7.00% per year, compounded annual including inflation

The same rates were applied to all periods. There were no changes to ad hoc postemployment benefits including cost-of-living allowances.

For the June 30, 2018 and 2017 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 projections in future years. Pre-retirement mortality rates are based on multiples of RP-2014 mortality table based on the occupation of the member.

The long-term expected rate of return on pension plan investments was determined using a "top down approach" of the 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's Board of Trustees) 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 nominal rates of return (real returns and inflation) by the target asset allocation percentage. The target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

	Target Allocation	Long-Term Expected Real Rate of Return
Strategic Allocation (risk-based classes)		
Broad growth	63.0%	7.1%
Principal protection	7.0%	2.5%
Real return	10.0%	4.1%
Crisis risk offset	20.0%	4.6%
Total	100.0%	

(All dollars reported in thousands)

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

Sensitivity of the University’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate
The following presents the University’s proportionate share of the net pension liability, calculated using the discount rate of seven percent, for the measurement dates June 30, 2018 and 2017, as well as what the University’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (six percent) or one percentage point higher (eight percent) than the current rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
2019			
The University’s proportionate share of the net pension liability	$ 2,205,113	$ 1,695,800	$ 1,275,949
2018			
The University’s proportionate share of the net pension liability	$ 2,136,421	$ 1,648,600	$ 1,246,368

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

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

Payable to the Pension Plan
The University's employer contributions payable to ERS by fiscal year end was paid by June 30, 2019. Excess payments of $6,025 are being applied to amounts due in fiscal year 2020. At June 30, 2018, the amount payable to the ERS was $1,279.

Other Benefits
The State absorbs the fringe benefit cost for the University's employees paid from State and federal appropriations. In fiscal years 2017 and 2016, the State appropriated funds to the Department of Budget and Finance to pay for these fringe benefit costs on behalf of the University. Fringe benefit costs included in total revenue and total expenditures amounted to $286,540 and $255,042 for fiscal years 2019 and 2018, 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, 2019 and 2018, accumulated sick leave approximated $475,761 and $469,824, 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 2019 and 2018 were $3,182 and $3,253, respectively. Temporary wage loss payments for fiscal years 2019 and 2018 amounted to $417 and $885, respectively.

14. Postemployment Health Care and Life Insurance Benefits

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

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

(All dollars reported in thousands)

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.

Employees Covered by Benefit Terms
At July 1, 2018, the following number of plan members were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	36,340
Inactive plan members entitled to but not yet receiving benefits	7,588
Active plan members	50,519
Total plan members	94,447

Contributions
Contributions are governed by HRS Chapter 87A and may be amended through legislation. Contributions to the OPEB plan for the University was $119,714 for the fiscal year ended June 30, 2019. The employer is required to make all contributions for members.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB
At June 30, 2019, and 2018, the University reported a net OPEB liability of $1,800,496 and $1,783,860, respectively, for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of July 1, 2018 and 2017, respectively, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

There were no changes between the measurement date, July 1, 2018, and the reporting date, June 30, 2019, that are expected to have a significant effect on the net OPEB liability.

(All dollars reported in thousands)

For the years ended June 30, 2019 and 2018, the University recognized OPEB expense of approximately $148,486 and $117,937, respectively. At June 30, 2019 and 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
2019		
Changes in assumptions	$ 18,581	$ 30,701
Net difference between projected and actual earnings on OPEB plan investments	-	2,351
Contributions subsequent to the measurement date	139,980	-
Total deferred inflows and outflows of resources	$ 158,561	$ 33,052
2018		
Net difference between projected and actual earnings on OPEB plan investments	$ -	$ 2,335
Contributions subsequent to the measurement date	119,714	-
Total deferred inflows and outflows of resources	$ 119,714	$ 2,335

At June 30, 2019, the approximate $139,980 reported as deferred outflows of resources related to OPEB resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2020. The $119,714 reported as deferred outflows of resources related to OPEB resulting from University contributions subsequent to the measurement date at June 30, 2018 were recognized as a reduction of the net OPEB liability in the year ending June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years ending June 30,	
2020	$ (3,192)
2021	(3,192)
2022	(3,192)
2023	(2,493)
2024	(2,314)
Thereafter	(88)
	$ (14,471)

(All dollars reported in thousands)

Actuarial Assumptions
The total OPEB liabilities in the July 1, 2018 and 2017 valuations were determined using the following actuarial assumptions adopted by the EUTF's Board of Trustees on January 8, 2018, based on the experience study covering the five-year period ended June 30, 2015 as conducted for the ERS:

	2019	**2018**
Inflation	2.50%	2.50%
Payroll growth rate (including inflation)	3.50% to 7.00%	3.50% to 7.00%
Investment rate of return	7.00%	7.00%
PPO*		
Initial rates	10.00%	6.60%, 6.60%, and 9.00%
Rate to which the cost trend rate is assumed to decline (ultimate trend rate)	4.86%	4.86%
Number of years that the rate reaches the ultimate trend rate	13 years	14 years
HMO*		
Initial rate	10.00%	9.00%
Ultimate trend rate	4.86%	4.86%
Number of years that the rate reaches the ultimate trend rate	13 years	14 years
Medicare Part B Contribution		
Initial rates	4.00% and 5.00%	2.00% and 5.00%
Ultimate trend rate	4.70%	4.70%
Number of years that the rate reaches the ultimate trend rate	12 years	14 years
Dental		
Initial rates (for the first three years)	5.00%	3.50%
Ultimate trend rate	4.00%	3.50%
Vision		
Initial rates (for the first three years)	0.00%	2.50%
Ultimate trend rate	2.50%	2.50%
Life Insurance		
Rate	0.00%	0.00%

* Blended rates for medical and prescription drug

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

(All dollars reported in thousands)

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

	Long-Term Target Allocation	Long-Term Expected Real Rate of Return
Strategic Allocation		
Private equity	10.00 %	8.65%
U.S. microcap	7.00 %	7.00%
U.S. equity	15.00 %	5.05%
Non-U.S. equity	17.00 %	6.50%
Global options	7.00 %	4.50%
Core real estate	10.00 %	4.10%
Private credit	6.00 %	5.25%
Core bonds	3.00 %	1.30%
TIPS	5.00 %	0.75%
Long Treasuries	6.00 %	1.90%
Alternative risk premia	5.00 %	2.45%
Trend following	9.00 %	3.00%
Total	100.00 %	

Single Discount Rate

The discount rate used to measure the net OPEB liability was seven percent, based on the expected rate of return on OPEB plan investments of seven percent and the municipal bond rate of 3.62 percent (based on the daily rate closest to but not later than the measurement date of the Fidelity “20-year Municipal GO AA Index”). Beginning with the fiscal year 2019 contribution, the State’s funding policy is to pay the recommended actuarially determined contribution, which is based on layered, closed amortization periods. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

OPEB Plan Fiduciary Net Position

The OPEB plan’s fiduciary net position has been determined on the same basis used by the OPEB plan. The EUTF’s financial statements are prepared using the accrual basis of accounting under which revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the cash flows. Employer 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 on a trade-date basis. Administrative expenses are financed exclusively with investment income.

(All dollars reported in thousands)

There were no significant changes after the report measurement date. Detailed information about the OPEB plan's fiduciary net position is available in the separately issued EUTF financial report. The EUTF's complete financial statements are available at *http://eutf.hawaii.gov*.

Changes in Net OPEB Liability

The following table represents a schedule of changes in the net OPEB liability. The ending balances are as of the measurement dates, July 1, 2018 and July 1, 2017.

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
2019			
Beginning balance	$ 1,932,553	$ 148,693	$ 1,783,860
Service cost	40,189	-	40,189
Interest on the total OPEB liability	124,435	-	124,435
Employer contributions	-	119,714	(119,714)
Net investment income	-	13,793	(13,793)
Benefit payments	(60,589)	(60,589)	-
Change in assumptions	22,269	-	22,269
Difference between expected and actual experience in the measurement of total OPEB liability	(36,795)	-	(36,795)
Administrative expense	-	(45)	45
Net changes	89,509	72,873	16,636
Ending balance	$ 2,022,062	$ 221,566	$ 1,800,496
2018			
Beginning balance	$ 1,853,649	$ 92,473	$ 1,761,176
Service cost	31,124	-	31,124
Interest on the total OPEB liability	94,505	-	94,505
Employer contributions	-	92,918	(92,918)
Net investment income	-	9,303	(9,303)
Benefit payments	(46,725)	(46,725)	-
Administrative expense	-	(23)	23
Other	-	747	(747)
Net changes	78,904	56,220	22,684
Ending balance	$ 1,932,553	$ 148,693	$ 1,783,860

(All dollars reported in thousands)

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

The following table presents the University's net OPEB liability calculated using the discount rate of seven percent, for the measurement dates July 1, 2018 and 2017, as well as what the University's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (six percent) or one percentage point higher (eight percent) than the current discount rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
2019			
The University's proportionate share of the net OPEB liability	$ 2,128,619	$ 1,800,496	$ 1,542,673
2018			
The University's proportionate share of the net OPEB liability	$ 2,093,685	$ 1,782,860	$ 1,533,147

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

	1% Decrease	Healthcare Cost Trend Rate	1% Increase
2019			
The University's proportionate share of the net OPEB liability	$ 1,528,621	$ 1,800,496	$ 2,153,331
2018			
The University's proportionate share of the net OPEB liability	$ 1,518,711	$ 1,783,860	$ 2,118,508

Payables to the OPEB Plan

The University's employer contributions payable to the EUTF by fiscal year end was paid by June 30, 2019 and 2018.

(All dollars reported in thousands)

15. Other Noncurrent Liabilities

Other noncurrent liabilities at June 30, 2019 and 2018 are comprised of:

	2019	2018
Liabilities under split interest agreements	$ 12,529	$ 12,566
Amounts held for others	4,362	3,936
Asset retirement obligation	10,824	10,594
Refundable advance from the Federal Perkins loan program	6,299	12,013
Other	3,229	3,274
	$ 37,243	$ 42,383

The University accounts for certain costs associated with the future and on-going dismantling and removal of four telescopes on the summit of Mauna Kea in accordance with GASB Statement No. 83. Under Statement No. 83, the execution of the General Lease No. 4191 dated January 1, 1968, between the Board of Land and Natural Resources of the State of Hawai'i and the University and the University's acts of acquiring and placing the telescopes into service, serve as external and internal obligating events, respectively, that require the University to recognize a liability and corresponding deferred outflow of resources equal to the estimated current cost of activities to perform upon future retirement of the telescopes. The AROs are associated with three telescopes that currently have estimated remaining useful lives ranging from five to fifteen years and one telescope that is not currently operational but has not yet been decommissioned.

The $10,824 and $10,594 reported as a noncurrent liability at June 30, 2019 and 2018, respectively, was determined based on the most likely amount of what it would cost to perform all the dismantling and removal tasks, as determined by an outside company in 2014 and adjusted for inflation. Actual costs may be higher due to inflation or changes in construction costs or technology.

Deferred outflows of resources related to AROs amounted to $2,519, and $2,520 at June 30, 2019 and 2018, respectively.

In fiscal year 2014, the University received the title to two telescopes, as well as a total of $5,000 from the respective sublessees in exchange for assuming the retirement obligations of the telescopes.

16. State Appropriations

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

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

(All dollars reported in thousands)

Act 53, SLH 2018 Section 3, provided $116,311 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, 2019.

Act 53, SLH 2018 Section 3, provided $108,031 in general fund appropriations directly to the Department of Budget and Finance to pay for debt service on general obligation bonds issued for the University. As a result, the University itself received no appropriations and made no transfers for debt service on general obligation bonds for the year ended June 30, 2018.

The net amount of the University's State general and capital appropriations for the years ended June 30, 2019 and 2018 were $506,399 and $184,103 and $485,153 and $184,103, respectively.

Net general and capital appropriations for the year ended June 30, 2019 were as follows:

General appropriations	
Act 49, SLH 2017, Appropriation Warrant No. 10	$ 481,508
Act 61, SLH 2017, Appropriation Warrant No. 66	200
Act 14, SLH 2018, Appropriation Warrant No. 74	700
Act 117, SLH 2018, Appropriation Warrant No. 94	150
Act 132, SLH 2018, Appropriation Warrant No. 99	500
	483,058
Total funds lapsed	(665)
Executive restriction	(2,138)
Collective bargaining adjustment	26,144
Total general appropriations	$ 506,399
Capital appropriations	
Sections 30 & 56 of Act 49, SLH 2017, Amended by Section 5 of Act 53 SL	$ 21,173
Section 49, SLH 2017 Sections 30 & 56	9,000
Sections 30 & 56, Act 49, Amended by Act 53 SLH 2018	104,450
Total funds lapsed	(627)
Total capital appropriations	$ 133,996

(All dollars reported in thousands)

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

General appropriations	
Act 49, SLH 2017, Appropriation Warrant No. 10	$ 475,757
Act 61, SLH 2017, Appropriation Warrant No. 70	200
Total funds lapsed	(13)
Executive restriction	(2,203)
Collective bargaining adjustment	11,412
Total general appropriations	$ 485,153
Capital appropriations	
Sections 47, 83 & 93 of Act 119, SLH 2015, Amended by Act 124, SLH 2016	$ 35,000
Section 47 & 83 of Act 119, SLH 2015, Amended by Act 124 SLH 2016	29,700
Section 49, SLH 2017 Sections 30 & 56	120,220
Total funds lapsed	(817)
Total capital appropriations	$ 184,103

Net transfers from the State of Hawai‘i for the years ended June 30, 2019 and 2018 were as follows:

	2019	2018
Fringe benefits	$ 286,479	$ 255,311
Hawai‘i Barrel Tax	2,665	2,578
School of Nursing	238	1,053
University of Hawai‘i Cancer Center	5,323	5,913
	$ 294,705	$ 264,855

(All dollars reported in thousands)

17. Blended Component Information

The following condensed combining information summarizes the individual components of the University's consolidated financial position, results of operations, and cash flows as of and for the years ended June 30, 2019 and 2018:

Condensed Consolidating Statements of Net Position

	2019				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Assets and Deferred Outflows of Resources					
Current assets	$ 542,963	$ 38,162	$ 43,284	$ -	$ 624,409
Interdepartmental receivables	27,737	3,425	5,253	(36,415)	-
Capital assets, net	2,149,722	3,217	10,386	-	2,163,325
Other assets	526,716	-	484,425	-	1,011,141
Total assets	3,247,138	44,804	543,348	(36,415)	3,798,875
Deferred outflows of resources	506,412	55	-	-	506,467
Total deferred outflows of resources	506,412	55	-	-	506,467
Total assets and deferred outflows of resources	$ 3,753,550	$ 44,859	$ 543,348	$ (36,415)	$ 4,305,342
Liabilities, Deferred Inflows of Resources, and Net Position					
Current liabilities	$ 239,239	$ 30,395	$ 2,750	$ -	$ 272,384
Interdepartmental payables	24,328	-	6,487	(30,815)	-
Noncurrent liabilities	4,103,474	4,408	25,075	-	4,132,957
Total liabilities	4,367,041	34,803	34,312	(30,815)	4,405,341
Deferred inflows of resources	69,279	501	-	-	69,780
Total deferred inflows of resources	69,279	501	-	-	69,780
Net position					
Net investment in capital assets	1,620,054	3,217	2,186	-	1,625,457
Restricted					
Nonexpendable	10,493	-	296,650	(5,253)	301,890
Expendable	427,654	-	205,739	-	633,393
Unrestricted	(2,740,971)	6,338	4,461	(347)	(2,730,519)
Total net position	(682,770)	9,555	509,036	(5,600)	(169,779)
Total liabilities, deferred inflows of resources, and net position	$ 3,753,550	$ 44,859	$ 543,348	$ (36,415)	$ 4,305,342

(All dollars reported in thousands)

	2018				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Assets and Deferred Outflows of Resources					
Current assets	$ 505,165	$ 32,055	$ 29,967	$ -	$ 567,187
Interdepartmental receivables	22,241	6,327	6,323	(34,891)	-
Capital assets, net	2,114,726	3,145	10,544	-	2,128,415
Other assets	541,489	-	549,125	-	1,090,614
Total assets	3,183,621	41,527	595,959	(34,891)	3,786,216
Deferred outflows of resources	528,105	68	-	-	528,173
Total deferred outflows of resources	528,105	68	-	-	528,173
Total assets and deferred outflows of resources	$ 3,711,726	$ 41,595	$ 595,959	$ (34,891)	$ 4,314,389
Liabilities, Deferred Inflows of Resources, and Net Position					
Current liabilities	$ 236,928	$ 26,953	$ 2,959	$ -	$ 266,840
Interdepartmental payables	19,769	644	7,799	(28,212)	-
Noncurrent liabilities	4,066,814	4,728	24,702	-	4,096,244
Total liabilities	4,323,511	32,325	35,460	(28,212)	4,363,084
Deferred inflows of resources	53,497	-	-	-	53,497
Total deferred inflows of resources	53,497	-	-	-	53,497
Net position					
Net investment in capital assets	1,593,171	3,145	2,344	-	1,598,660
Restricted					
Nonexpendable	10,493	-	356,383	(6,323)	360,553
Expendable	404,093	-	202,773	-	606,866
Unrestricted	(2,673,039)	6,125	(1,001)	(356)	(2,668,271)
Total net position	(665,282)	9,270	560,499	(6,679)	(102,192)
Total liabilities, deferred inflows of resources, and net position	$ 3,711,726	$ 41,595	$ 595,959	$ (34,891)	$ 4,314,389

(All dollars reported in thousands)

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

	2019				
	University	Corporation	Foundation	Adjustments	Total
Operating revenues					
Student tuition and fees, net	$ 262,063	$ -	$ -	$ (219)	$ 261,844
Federal appropriations, grants and contracts	310,647	-	-	(3)	310,644
State and local grants and contracts	42,250	1,766	-	(972)	43,044
Nongovernmental sponsored programs	51,483	-	-	(14,907)	36,576
Sales and services of educational departments, other	37,900	6,427	4,683	(9,703)	39,307
Auxiliary enterprises	92,446	-	-	-	92,446
Other operating revenues	633	-	1,070	-	1,703
Total operating revenues	797,422	8,193	5,753	(25,804)	785,564
Operating expenses					
Depreciation and amortization	130,153	682	199	-	131,034
Other operating expenses	1,689,937	7,880	59,997	(27,172)	1,730,642
Total operating expenses	1,820,090	8,562	60,196	(27,172)	1,861,676
Operating loss	(1,022,668)	(369)	(54,443)	1,368	(1,076,112)
Nonoperating activity					
Net nonoperating revenues (expenses)	556,510	654	(14,648)	(1,255)	541,261
Capital contributions and additions to permanent endowments	136,346	-	17,628	966	154,940
Transfers	312,324	-	-	-	312,324
Total nonoperating activity	1,005,180	654	2,980	(289)	1,008,525
Change in net position	(17,488)	285	(51,463)	1,079	(67,587)
Net position					
Beginning of year	(665,282)	9,270	560,499	(6,679)	(102,192)
End of year	$ (682,770)	$ 9,555	$ 509,036	$ (5,600)	$ (169,779)

(All dollars reported in thousands)

	2018				
	University (Restated)	Research Corporation	Foundation	Consolidation Adjustments	Total
Operating revenues					
Student tuition and fees, net	$ 259,205	$ -	$ -	$ (318)	$ 258,887
Federal appropriations, grants and contracts	306,672	-	-	7	306,679
State and local grants and contracts	40,405	1,788	-	(1,107)	41,086
Nongovernmental sponsored programs	50,031	-	-	(16,266)	33,765
Sales and services of educational departments, other	33,509	5,863	4,978	(9,071)	35,279
Auxiliary enterprises	94,732	-	-	-	94,732
Other operating revenues	673	-	955	-	1,628
Total operating revenues	785,227	7,651	5,933	(26,755)	772,056
Operating expenses					
Depreciation and amortization	127,060	570	212	-	127,842
Other operating expenses	1,621,498	7,445	60,584	(27,352)	1,662,175
Total operating expenses	1,748,558	8,015	60,796	(27,352)	1,790,017
Operating loss	(963,331)	(364)	(54,863)	597	(1,017,961)
Nonoperating activity					
Net nonoperating revenues	528,963	332	64,886	(724)	593,457
Capital contributions and additions to permanent endowments	182,952	-	17,717	(545)	200,124
Transfers	276,113	-	-	-	276,113
Total nonoperating activity	988,028	332	82,603	(1,269)	1,069,694
Change in net position	24,697	(32)	27,740	(672)	51,733
Net position					
Beginning of year	192,367	10,408	532,759	(6,007)	729,527
Adjustment for change in accounting principle	(882,346)	(1,106)	-	-	(883,452)
Beginning of year, as restated	(689,979)	9,302	532,759	(6,007)	(153,925)
End of year	$ (665,282)	$ 9,270	$ 560,499	$ (6,679)	$ (102,192)

Condensed Consolidating Statements of Cash Flows

	2019			
	University	Research Corporation	Foundation	Total
Net cash provided by (used in)				
Operating activities	$ (548,637)	$ 6,188	$ (3,315)	$ (545,764)
Noncapital financing activities	611,377	-	9,935	621,312
Capital and related financing activities	(45,643)	(754)	-	(46,397)
Investing activities	(33,361)	8,533	4,639	(20,189)
Total change in cash	(16,264)	13,967	11,259	8,962
Cash and cash equivalent balances				
Beginning of year	100,351	14,014	8,512	122,877
End of year	$ 84,087	$ 27,981	$ 19,771	$ 131,839

(All dollars reported in thousands)

	2018			
	University	Research Corporation	Foundation	Total
Net cash provided by (used in)				
Operating activities	$ (544,388)	$ 8,153	$ (13,009)	$ (549,244)
Noncapital financing activities	584,505	-	17,832	602,337
Capital and related financing activities	(44,808)	(1,218)	-	(46,026)
Investing activities	50,994	(1,077)	(3,203)	46,714
Total change in cash	46,303	5,858	1,620	53,781
Cash and cash equivalent balances				
Beginning of year	54,048	8,156	6,892	69,096
End of year	$ 100,351	$ 14,014	$ 8,512	$ 122,877

18. Litigation, Other Contingent Liabilities, and Commitments

HRS §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 CAFR that includes financial statements and required supplementary information which may be obtained from the following address:

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

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

Risk Management

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

Construction and Other Contracts

The University is committed under contracts awarded for construction and other services. These commitments amounted to approximately $230,283 and $312,859 as of June 30, 2019 and 2018, respectively.

Collective Bargaining Agreements

The Hawai‘i State Constitution under Article XIII, Section 2, grants public employees in the State the right to organize for the purpose of collective bargaining as provided by law. Chapter 89, HRS, provides for 14 recognized bargaining units for all public employees throughout the State, including State and county employees. Each bargaining unit is represented by an employee organization otherwise known as the exclusive bargaining representative or "union" of all employees in the unit, which negotiates wages, hours, and terms and conditions of employment with the public employers.

As the University is part of the State, most employees working at the University are included in a bargaining unit as defined in HRS §89-6(a) depending on the nature of their positions. The University is responsible for properly administering eight collective bargaining agreements ("CBAs") associated with the aforementioned bargaining units. The number of University employees in each bargaining unit ("Unit") as reported by the Hawai‘i Labor Relations Board on March 15, 2019, are as follows:

- Unit 1 (nonsupervisory employees in blue collar positions): 514
- Unit 2 (supervisory employees in blue collar positions): 12
- Unit 3 (nonsupervisory employees in white collar positions: 640
- Unit 4 (supervisory employees in white collar positions): 34
- Unit 7 (faculty of the University and the community college system): 3,673
- Unit 8 (personnel of the University and the community college system, other than faculty): 2,388
- Unit 9 (registered professional nurses): 8
- Unit 10 (institutional. health and correctional workers): 2

The civil service employees working at the University are included in Units 1, 2, 3, 4, 9 and 10. The University's employees exempt from civil service are considered Board of Regents appointees, and include faculty members, who are included in Unit 7, and administrative, professional, and technical ("APT") employees, who are included in Unit 8.

- Employees in executive or 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 employees are as provided by law or action of the Board of Regents, as applicable. Some employees (for example, 89-day contractual hires) are not parties to any bargaining unit under HRS chapter 89.

Units 1, 7 and 10 have CBAs that are effective through June 30, 2021. The salary increases for these units through the terms of the CBAs have been reported in the University's previous financial statements; however, the following additional salary adjustments were negotiated pursuant to the CBAs' reopener provisions:

Unit 1: Effective January 1, 2020, all members shall receive a 1.2 percent per month across-the-board ("ATB") salary increase. Members not administratively assigned to the salary schedule shall receive a 1.2 percent per month increase.

Effective January 1, 2021, all members shall receive a 1.2 percent per month ATB salary increase; members not administratively assigned to the salary schedule shall receive a 1.2 percent per month increase.

Unit 7: Effective January 2, 2020, a salary enhancement equivalent to the average negotiated step movement plans in other bargaining units or 1.2 percent, whichever is higher.

Effective January 1, 2021, a salary enhancement equivalent to the average negotiated step movement plans in other bargaining units or 1.2 percent, whichever is higher.

Unit 10: Effective July 1, 2019, employees eligible for Developmental Career Plan ("DCP") movements during the period July 1, 2019 to June 30, 2020, shall move to the appropriate step on their DCP movement date.

Effective January 1, 2020, a 0.74 percent per month ATB increase to the salary schedule. Employees not administratively assigned to the salary schedule shall receive a 0.74 percent per month increase.

Effective July 1, 2020, employees eligible for DCP movements during the period July 1, 2020 to June 30, 2021 shall move to the appropriate step on their DCP movement date.

Effective January 1, 2021, a 1.07 percent ATB increase to the salary schedule. Employees not administratively assigned to the salary schedule shall receive 1.07 percent per month increase.

(All dollars reported in thousands)

For Units 2, 3, 4, 8, and 9, the CBAs expired on June 30, 2019. Since then, wages, hours, and terms and conditions of employment have remained "status quo." However, Unit 9 received an interest arbitration award on September 16, 2019, that is summarized below; these salary adjustments are tentative pending approval by the appropriate legislative bodies:

Unit 9: Effective July 1, 2019, employees shall receive a 2.5 percent ATB increase to the salary schedule, and the continuation of existing step movements. Employees not administratively assigned to the salary schedule shall receive a 2.5 percent increase.

Effective July 1, 2019, a new step L-5 shall be established and implemented for employees who have accrued 25 years or more of service credit in accordance with the current step movement plan.

Effective July 1, 2019, employees on salary ranges from SR-16 to SR-30, who are administratively assigned, shall receive a one-time-bonus as follows (with the bonus for employees who work less than full time prorated):

Step B	$1,800
Step C	$1,825
Step D	$1,850
Step E	$1,875
Step L1	$1,900
Step L2	$1,925
Step L3	$1,950
Step L4	$1,975
Step L5	$2,000

Effective July 1, 2019, employees not administratively assigned to the salary schedule shall receive a one-time bonus of $1,800; employees less than full-time shall receive a prorated amount.

Effective July 1, 2020, employees shall receive a 2.5 percent ATB increase to the salary schedule and the continuation of existing step movements. Employees not administratively assigned to the salary schedule shall receive a 2.5 percent increase.

For Unit 8, the employer received notice on October 24, 2019 that the affected employees ratified a tentative agreement ("TA") that had been reached between the parties, with cost items subject to approval by the appropriate legislative bodies. A summary of the salary adjustments in Unit 8 TA is as follows:

- Effective July 1, 2019, employees assigned to the salary schedule as of June 30, 2019, shall receive a one-time bonus of $1,000 for employees with less than three (3) years of service, or $2,000 for employees with three (3) or more years of service.

- Effective July 1, 2020, employees on Step 1 to Step 46 receive a two-step adjustment to the next higher step; employees on Step 47 receive a one-step adjustment to the next higher step and a two percent lump sum payment; and employees on Step 48 receive a four percent lump sum payment.

- Effective January 1, 2020, a 1.2 percent across the board increase for eleven-month and nine-month APT employees.

For Unit 2, the employer received notice on October 24, 2019 that the affected employees ratified a TA that had been reached between the parties with cost items subject to approval by the appropriate legislative bodies. A summary of the salary adjustments in the Unit 2 TA is as follows:

- Effective July 1, 2019, employees receive a $2,000 lump sum bonus.

- Effective July 1, 2020, employees receive a 5.29 percent across the board increase.

- Effective January 1, 2021, employees receive a 1.2 percent across the board increase.

For Unit 3, interest arbitration hearings are scheduled for January 13, 2020 through January 17, 2020.

For Unit 4, interest arbitration hearings were held the week of September 30, 2019; an award has not been rendered as of this update in November 2019.

Finally, all Units have identical adjustments to the employer’s EUTF contributions, effective July 1, 2019 through June 30, 2021.

Required Supplementary Information Other Than Management's Discussion and Analysis

University of Hawai‘i
State of Hawai‘i
(A Component Unit of the State of Hawai‘i)
Schedule of the Proportionate Share of the Net Pension Liability (Unaudited)
Year Ended June 30, 2019
(All dollars reported in thousands)

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, 2019	12.73%	$1,695,800	$590,725	287%	55.48%
June 30, 2018	12.73%	$1,648,600	$586,658	281%	54.80%
June 30, 2017	12.75%	$1,704,470	$587,203	290%	51.28%
June 30, 2016	13.11%	$1,144,564	$572,907	200%	63.42%
June 30, 2015	13.60%	$1,089,882	$564,736	193%	63.92%
June 30, 2014	13.75%	$1,227,787	$550,758	223%	57.96%

University of Hawai‘i
State of Hawai‘i
(A Component Unit of the State of Hawai‘i)
Schedule of Pension Contributions (Unaudited)
Year Ended June 30, 2019
(All dollars reported in thousands)

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, 2019	$117,600	$117,600	$0	$590,725	19.91%
June 30, 2018	$111,436	$111,436	$0	$586,658	19.00%
June 30, 2017	$98,865	$98,865	$0	$587,203	16.84%
June 30, 2016	$97,394	$97,394	$0	$572,907	17.00%
June 30, 2015	$93,949	$93,949	$0	$564,736	16.64%
June 30, 2014	$88,381	$88,381	$0	$550,758	16.05%

1. Changes of Benefit Terms

There were no changes of benefit terms in 2019, 2018, 2017, 2016 or 2015.

2. Changes of Assumptions

There were no significant changes in actuarial assumptions in 2019 or 2018.

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 seven 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.

University of Hawai‘i
State of Hawai‘i
(A Component Unit of the State of Hawai‘i)
Schedule of Changes in the Net OPEB Liability and Related Ratios (Unaudited)
Year Ended June 30, 2019
(All dollars reported in thousands)

	2019	2018
Total OPEB liability		
Service cost	$ 40,189	$ 31,124
Interest	124,435	94,505
Difference between expected and actual experience	(36,795)	-
Changes of assumptions	22,269	-
Benefit payments	(60,589)	(46,725)
Net change in total OPEB liability	89,509	78,904
Total OPEB liability – beginning	1,932,553	1,853,649
Total OPEB liability – ending	$ 2,022,062	$ 1,932,553
Plan fiduciary net position		
Employer contributions	$ 119,714	$ 92,918
Net investment income	13,793	9,303
Benefit payments	(60,589)	(46,725)
OPEB plan administrative expense	(45)	(23)
Other	-	747
Net change in plan fiduciary net position	72,873	56,220
Plan fiduciary net position – beginning	148,693	92,473
Plan fiduciary net position – ending	221,566	148,693
Net OPEB liability – ending	$ 1,800,496	$ 1,783,860
Plan fiduciary net position as a percentage of OPEB liability	10.96%	7.69%
Covered-employee payroll	$ 590,725	$ 586,658
Net OPEB liability as a percentage of covered-employee payroll	304.79%	304.07%

University of Hawai‘i
State of Hawai‘i
(A Component Unit of the State of Hawai‘i)
Schedule of OPEB Contributions (Unaudited)
Year Ended June 30, 2019
(All dollars reported in thousands)

	2019	2018
Actuarially determined contribution	$ 134,898	$ 135,072
Contributions in relation to the actuarially required contribution	139,980	119,714
Contributions excess	$ (5,082)	$ 15,358
University's covered-employee payroll	$ 590,725	$ 586,658
Contributions as a percentage of covered employee payroll	23.70%	20.41%

1. Changes of Benefit Terms

There were no changes of benefit terms in 2019.

2. Changes of Assumptions

Actuarial assumption changes during the University's fiscal year 2019 included updating the healthcare trend assumptions to better anticipate short-term premium experience. The actuarial methods and assumptions used to calculate the total OPEB liability are described in Note 14 of the consolidated financial statements.

Other Supplementary Information

CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditors on Supplemental Information

To the Board of Regents
University of Hawaiʻi

We have audited the consolidated financial statements of the University of Hawaiʻi as of and for the years ended June 30, 2019 and 2018, and our report thereon dated December 5, 2019, which expressed an unmodified opinion, appears on pages 1 to 3. 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.

Accuity LLP

Honolulu, Hawaiʻi
December 5, 2019

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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
As of and for the Years Ended June 30, 2019 and 2018
(All dollars reported in thousands) **Schedule I**

	2019	2018
Condensed statements of net position		
Assets		
Current assets	$ 380,384	$ 352,970
Noncurrent assets	1,388	715
Total assets	$ 381,772	$ 353,685
Liabilities		
Current liabilities	$ 94,590	$ 93,011
Noncurrent liabilities	11,948	12,158
Total liabilities	106,538	105,169
Net position		
Unrestricted	275,234	248,516
Total net position	275,234	248,516
Total liabilities and net position	$ 381,772	$ 353,685
Condensed statements of revenues, expenses and changes in net position		
Operating revenues	$ 439,335	$ 433,229
Operating expenses	393,059	389,851
Operating income	46,276	43,378
Nonoperating revenues and transfers	48,181	52,302
Nonoperating expenses and transfers	67,739	65,755
Change in net position	26,718	29,925
Net position		
Beginning of year	248,516	218,591
End of year	$ 275,234	$ 248,516

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 2009A, 2010A, 2010B, 2012A(R), 2015A, 2015B(R), 2015C(R), 2015D(R), 2015E(R), 2017A, 2017B, 2017C, 2017D, 2017E, 2017F and 2017G revenue bonds, and are presented on the accrual basis of accounting. The financial information of the Research Corporation of the University of Hawai‘i and the University of Hawai‘i Foundation is not reflected in this schedule.

2. Employee Benefits

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

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

University of Hawai‘i
State of Hawai‘i
(A Component Unit of the State of Hawai‘i)
Schedules of Series 2002A University Bond Proceeds Activity
Years Ended June 30, 2019 and 2018
(All dollars reported in thousands) **Schedule II**

	2019	2018
Beginning balance	$ 2,733	$ 5,540
Additions		
Interest and investment income	59	59
Total additions	59	59
Deductions		
Payments – building, construction in progress, other	212	2,863
Management fees	3	3
Total deductions	215	2,866
Ending balance	$ 2,577	$ 2,733

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.

In September 2015, the University refinanced a portion of the outstanding Refunding Series 2006A University Bonds through the issuance of Series 2015D(R) and 2015E(R) revenue bonds. The Series 2015D(R) revenue bonds were delivered on September 24, 2015 and the forward delivery Series 2015E(R) revenue bonds were delivered on April 20, 2016.

In December 2017, the University refinanced the remainder of the outstanding Refunding Series 2006A University Bonds through the issuance of Series 2017B and 2017C revenue bonds.

Proceeds from the State’s settlement agreement with tobacco companies are expected to be utilized to service the debt.

University of Hawai‘i
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Schedules of Series 2006A Revenue Bond Proceeds Activity
Years Ended June 30, 2019 and 2018
(All dollars reported in thousands) **Schedule III**

	2019	2018
Beginning balance	$ 4,035	$ 3,994
Additions		
Interest and investment income	99	44
Total additions	99	44
Deductions		
Management fees	4	3
Total deductions	4	3
Ending balance	$ 4,130	$ 4,035

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.

In December 2017, the University refinanced the remainder of the outstanding Series 2006A revenue bonds through the issuance of Series 2017D and 2017E revenue bonds.

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Schedules of Series 2009A Revenue Bond Proceeds Activity
Years Ended June 30, 2019 and 2018
(All dollars reported in thousands) **Schedule IV**

	2019	2018
Beginning balance	$ 1,565	$ 1,549
Additions		
Interest and investment income	36	17
Total additions	36	17
Deductions		
Management fees	1	1
Total deductions	1	1
Ending balance	$ 1,600	$ 1,565

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.

2. Refinancing

In December 2017, the University refinanced a portion of the outstanding Series 2009A revenue bonds through the issuance of Series 2017F and 2017G revenue bonds.

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Schedules of Series 2010A Revenue Bond Proceeds Activity
Years Ended June 30, 2019 and 2018
(All dollars reported in thousands) **Schedule V**

	2010A-1	2010A-2
Balance at June 30, 2017	$ 112	$ 1,119
Additions		
Interest and investment income	1	12
Total additions	1	12
Deductions		
Payments − building, construction in progress, other	-	505
Management fees	-	1
Total deductions	-	506
Balance at June 30, 2018	113	625
Additions		
Interest and investment income	2	12
Total additions	2	12
Deductions		
Payments − building, construction in progress, other	-	288
Total deductions	-	288
Balance at June 30, 2019	$ 115	$ 349

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 of Hawai‘i Cancer Center. The financial information of the Research Corporation of the University of Hawai‘i and the University of Hawai‘i Foundation is not reflected in these schedules.

University of Hawai‘i
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Schedules of Series 2010B Revenue Bond Proceeds Activity
Years Ended June 30, 2019 and 2018
(All dollars reported in thousands) **Schedule VI**

	2010B-1	2010B-2
Balance at June 30, 2017	$ 584	$ 852
Additions		
Interest and investment income	7	10
Total additions	7	10
Deductions		
Payments – building, construction in progress, other	36	9
Management fees	-	1
Total deductions	36	10
Balance at June 30, 2018	555	852
Additions		
Interest and investment income	12	20
Total additions	12	20
Deductions		
Management fees	-	1
Total deductions	-	1
Balance at June 30, 2019	$ 567	$ 871

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.

University of Hawai‘i
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Schedules of Series 2015A Revenue Bond Proceeds Activity
Years Ended June 30, 2019 and 2018
(All dollars reported in thousands) **Schedule VII**

	2019	2018
Beginning balance	$ 5,322	$ 8,528
Additions		
Interest and investment income	120	92
Total additions	120	92
Deductions		
Payments – building, construction in progress, other	171	3,292
Management fees	5	6
Total deductions	176	3,298
Ending balance	$ 5,266	$ 5,322

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.

University of Hawaiʻi
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Schedule of Series 2017A Revenue Bond Proceeds Activity
Years Ended June 30, 2019 and 2018
(All dollars reported in thousands) **Schedule VIII**

	2019	2018
Beginning balance	$ 4,521	$ -
Additions		
Bond proceeds	-	4,526
Interest and investment income	85	23
Total additions	85	4,549
Deductions		
Payments – building, construction in progress, other	2,103	26
Management fees	3	2
Total deductions	2,106	28
Ending balance	$ 2,500	$ 4,521

1. Basis of Presentation

The accompanying schedule of Series 2017A revenue bond proceeds activity present the sources and uses of bond proceeds associated with renovations to the Sinclair Library basement on the Mānoa campus. The financial information of the Research Corporation of the University of Hawaiʻi and the University of Hawaiʻi 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
University Bond System
As of and for the Years Ended June 30, 2019 and 2018
(All dollars reported in thousands) **Schedule IX**

	2019	2018
Condensed statements of net position		
Assets and deferred outflows of resources		
Current assets	$ 119,481	$ 110,177
Capital assets, net	470,848	495,230
Other assets	15,399	17,588
Total assets	605,728	622,995
Deferred outflows of resources	13,097	14,737
Total deferred outflows of resources	13,097	14,737
Total assets and deferred outflows of resources	$ 618,825	$ 637,732
Liabilities		
Current liabilities	$ 38,139	$ 34,710
Noncurrent liabilities	508,993	530,066
Total liabilities	547,132	564,776
Net position		
Net investment in capital assets	(30,201)	(20,453)
Restricted expendable	1,038	1,037
Unrestricted	100,856	92,372
Total net position	71,693	72,956
Total liabilities and net position	$ 618,825	$ 637,732
Condensed statements of revenues, expenses and changes in net position		
Operating revenues		
Bookstores	$ 17,907	$ 20,639
Room and other rentals	31,533	32,975
Parking	5,905	5,933
Telecommunications	2,887	3,444
Other operating revenues	9,658	9,175
Total operating revenues	67,890	72,166
Operating expenses (including $29,475 and $29,606 in depreciation expense in 2019 and 2018, respectively)	(85,816)	(88,477)
Operating loss	(17,926)	(16,311)
Nonoperating revenues	41,620	37,080
Nonoperating expenses	(24,957)	(41,339)
Change in net position	(1,263)	(20,570)
Net position		
Beginning of year	72,956	93,526
End of year	$ 71,693	$ 72,956

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, 2019 and 2018
(All dollars reported in thousands) **Schedule X**

	2019	2018
Condensed statements of cash flows		
Net cash flows provided by operating activities	$ 18,819	$ 14,146
Net cash flows provided by non-capital financing activities	5,307	3,079
Net cash flows used in capital and related financing activities	(17,979)	(10,925)
Net cash flows used in investing activities	(1,244)	(6,457)
Net increase (decrease) in cash and cash equivalents	4,903	(157)
Cash and cash equivalents		
Beginning of year	11,240	11,397
End of year	$ 16,143	$ 11,240

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.

On November 16, 2017, the University of Hawai‘i Board of Regents adopted a supplemental resolution authorizing the issuance of University Revenue Bonds. The University, in December 2017, sold $110,795 in Series 2017A ($3,990, tax-exempt new money), 2017B ($12,040, tax-exempt refunding), 2017C ($4,110, taxable refunding), 2017D ($13,185, tax-exempt refunding), 2017E ($4,450, taxable refunding), 2017F ($52,275, tax-exempt refunding), and 2017G ($20,745, taxable refunding) bonds (collectively, the "Series 2017 Bonds") for the purpose of financing the costs of a University project and refunding previously issued bonds. The Series 2017B and 2017C bonds were issued to refund the remainder of the outstanding Refunding Series 2006A University Bonds issued under a different bond resolution, the Series 2017D and 2017E bonds were issued to refund the remainder of the outstanding Series 2006A University Revenue Bonds and the Series 2017F and 2017G bonds were issued to refund a portion of the Series 2009A University Revenue Bonds.

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") and deferred outflows and deferred inflows of resources related to OPEB ("OPEB benefits") are not allocated internally to individual departments and funds. Accordingly, OPEB benefits are not reflected in this schedule.

In accordance with University policy, the University's liability for pension benefits and 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.