



UNIVERSITY of HAWAII®
SYSTEM

**2020 Annual Financial Report,
Required Supplementary Information
and Other Supplementary Information
University of Hawai'i
State of Hawai'i**



University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Index
June 30, 2020 and 2019

	Page(s)
Report of Independent Auditors	
Management's Discussion and Analysis (Unaudited)	3–24
Financial Statements	
Statements of Net Position..... University of Hawai'i	25
Statements of Financial Position..... University of Hawai'i Foundation	26
Statements of Revenues, Expenses, and Changes in Net Position..... University of Hawai'i	27
Statements of Activities..... University of Hawai'i Foundation	28
Statements of Cash Flows	29–30
University of Hawai'i	
Notes to Financial Statements	31–79
Required Supplementary Information Other Than Management's Discussion and Analysis	
Schedule of the Proportionate Share of the Net Pension Liability (Unaudited)	80
Schedule of Pension Contributions (Unaudited).....	81
Schedule of Changes in the Net OPEB Liability and Related Ratios (Unaudited).....	82
Schedule of OPEB Contributions (Unaudited)	83
Other Supplementary Information	
Report of Independent Auditors on Supplemental Information	
Schedule I	85–86
Condensed Statements of Net Position	
Condensed Statements of Revenues, Expenses, and Changes in Net Position	
Current Unrestricted Funds Excluding General Fund	
Schedule II	87
Schedules of Series 2002A University Bond Proceeds Activity	
Schedule III	88
Schedules of Series 2006A Revenue Bond Proceeds Activity	
Schedule IV	89
Schedules of Series 2009A Revenue Bond Proceeds Activity	
Schedule V	90
Schedules of Series 2010A Revenue Bond Proceeds Activity	
Schedule VI	91
Schedules of Series 2010B Revenue Bond Proceeds Activity	

University of Hawai‘i
State of Hawai‘i
(A Component Unit of the State of Hawai‘i)
Index
June 30, 2020 and 2019

Schedule VII.....	92
Schedules of Series 2015A Revenue Bond Proceeds Activity	
Schedule VIII.....	93
Schedules of Series 2017A Revenue Bond Proceeds Activity	
Schedule IX.....	94
Condensed Statements of Net Position	
Condensed Statements of Revenues, Expenses, and Changes in Net Position	
University Bond System	
Schedule X.....	95–96
Condensed Statements of Cash Flows	
University Bond System	

Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying 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, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the accompanying index.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements based on our audits. We did not audit the financial statements of the University of Hawai'i Foundation (the "Foundation"), which represent 14.3 percent and 14.5 percent, respectively, of the total assets and deferred outflows of resources and 0.7 percent of the total operating revenues of the University as of and for the years ended June 30, 2020 and 2019. 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, 2020 and 2019, 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 financial statements are free from material misstatement. The financial statements of the Foundation were not audited under *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Opinion

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University and its discretely presented component unit as of June 30, 2020 and 2019, and the changes in financial position and, where applicable, 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 financial statements, in 2020, the University elected to change the presentation of its financial statements. The change was applied retrospectively to 2019. 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.

The logo for Accuity LLP, featuring the word "Accuity" in a stylized, handwritten-style font, followed by "LLP" in a clean, sans-serif font.

Honolulu, Hawai'i
December 3, 2020

University of Hawai'i

State of Hawai'i

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

Management's Discussion and Analysis (Unaudited)

June 30, 2020 and 2019

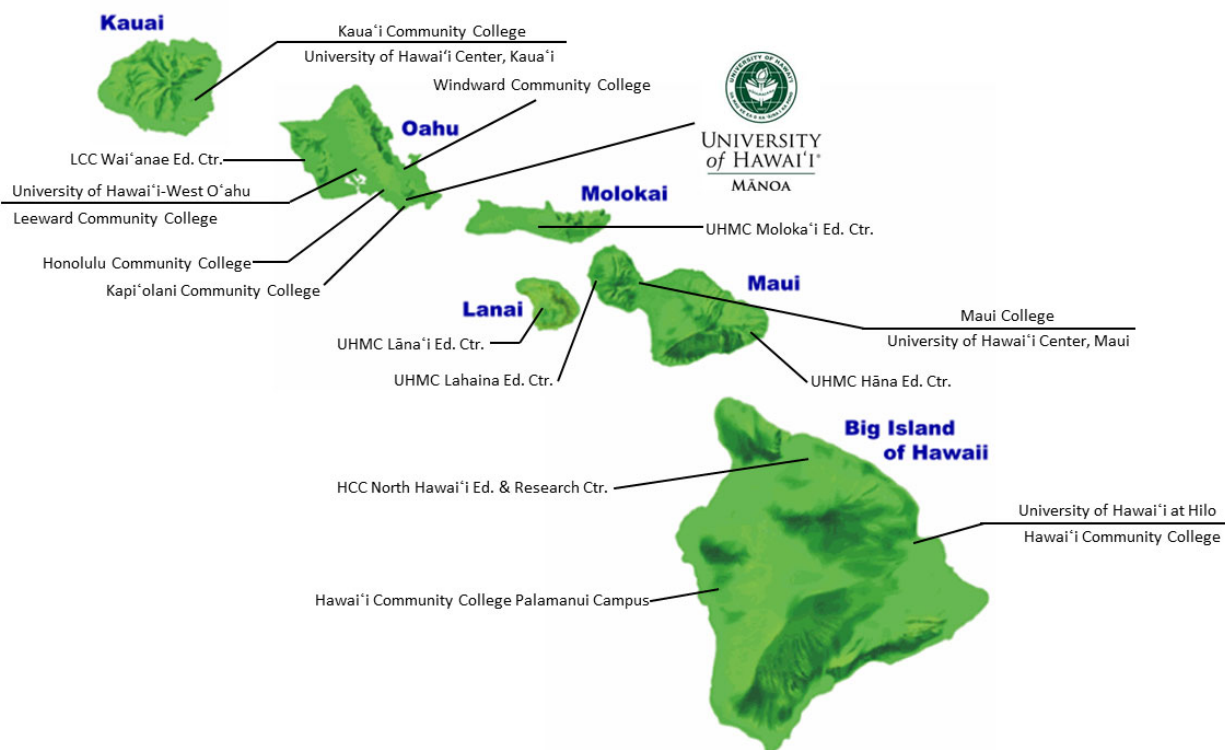
Introduction

The following discussion and analysis provides an overview of the financial position and activities of the University of Hawai'i (the "University") for the years ended June 30, 2020 and 2019, with selected information for the year ended June 30, 2018. 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, Kaua'i, 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.



University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Management's Discussion and Analysis (Unaudited)
June 30, 2020 and 2019

Students	Academic Year 2020	Academic Year 2019	Academic Year 2018
Undergraduate	44,278	44,564	46,375
Graduate	5,316	5,413	5,299
Total	49,594	49,977	51,674

Type of Degrees Awarded

Certificates: Community Colleges	171
Certificates: University	127
Associate degrees	127
Bachelor's degrees	146
Master's degrees	92
Doctoral degrees	57
Professional degrees	4

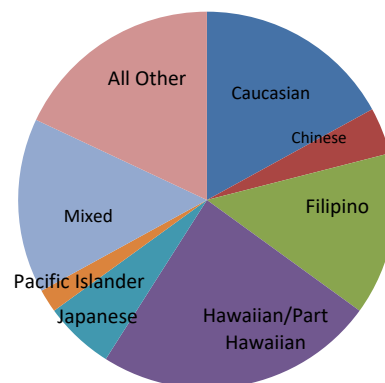
724

Residency

Hawai'i	84%
Mainland	11%
U.S Affiliated	1%
Foreign	4%

Student Diversity (full time Students)

Caucasian	17%
Chinese	4%
Filipino	14%
Hawaiian/Part Hawaiian	24%
Japanese	6%
Pacific Islander	2%
Mixed	15%
All Other	18%



Total Revenues (\$ in thousands)	Fiscal Year 2020	% of Total	Fiscal Year 2019	Fiscal Year 2018
Net tuition and fees	\$ 263,459	14%	\$ 262,063	\$ 259,205
Contracts and grants (including Pell grants)	457,682	24%	457,902	453,164
State appropriations	512,608	27%	506,399	485,153
Transfer from State for fringe benefits	304,701	16%	286,479	255,311
Sales and services	113,511	6%	130,346	128,241
Capital State appropriations	203,765	10%	133,996	184,103
Others	62,208	3%	56,152	45,093
Total	\$ 1,917,934	100%	\$ 1,833,337	\$ 1,810,270

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Management's Discussion and Analysis (Unaudited)
June 30, 2020 and 2019

Using the Financial Statements

The University's 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 financial statements are comprised of the following four components:

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

Related Entities

The University maintains close relationships with the University of Hawai'i Foundation (the "Foundation") and the Research Corporation of the University of Hawai'i (the "Research Corporation"). The Foundation is a not-for-profit organization established to solicit and manage funds for the benefit of the University and the Research Corporation provides administrative support services for research and training programs of the University. Both entities are considered to be component units of the University under GASB standards, however, only the Foundation's financial information is discretely presented in the University's accompanying financial statements. The Research Corporation was excluded from the University's financial statements due to insignificance.

Management's interpretation of the presentation of the University's component units under GASB Statement No. 61 was updated in fiscal year 2020. Prior to fiscal year 2020, both the Foundation and the Research Corporation were blended into the University's financial statements. Presenting the Foundation as a discretely presented component unit is a common method among similar public colleges

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Management's Discussion and Analysis (Unaudited)
June 30, 2020 and 2019

and universities with a legally separate foundation. This change has been applied retrospectively to the 2019 and selected 2018 information in this discussion and analysis.

The Foundation prepares stand-alone financial statements in accordance with the Financial Accounting Standards Board ("FASB") standards. Under FASB standards, certain revenue recognition and financial statement presentation requirements differ from GASB, however, no modifications have been made to the Foundation's financial information included in the University's financial report to account for these differences.

Financial Position

The 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, 2020, 2019 and 2018 are summarized as follows (in thousands of dollars):

	2020	2019	2020 vs 2019 Change	2018	2019 vs 2018 Change
Current assets					
Cash and operating investments	\$ 457,777	\$ 435,411	\$ 22,366	\$ 397,333	\$ 38,078
Receivables, net	102,021	113,892	(11,871)	107,184	6,708
Other current assets	19,422	19,173	249	21,190	(2,017)
Total current assets	579,220	568,476	10,744	525,707	42,769
Noncurrent assets					
Endowment and other investments	101,647	102,807	(1,160)	102,163	644
Capital assets, net	2,183,025	2,149,722	33,303	2,114,726	34,996
Other noncurrent assets	490,020	423,910	66,110	439,326	(15,416)
Total assets	3,353,912	3,244,915	108,997	3,181,922	62,993
Deferred outflows of resources					
Deferred outflows on net pension and OPEB liability and other	476,676	506,412	(29,736)	528,105	(21,693)
Total deferred outflows of resources	476,676	506,412	(29,736)	528,105	(21,693)
Total assets and deferred outflows of resources	\$ 3,830,588	\$ 3,751,327	\$ 79,261	\$ 3,710,027	\$ 41,300
Current liabilities	\$ 250,030	\$ 261,343	\$ (11,313)	\$ 254,996	\$ 6,347
Noncurrent liabilities					
Revenue bonds payable	467,795	487,490	(19,695)	506,655	(19,165)
Net pension liability and other postemployment benefits	3,593,590	3,496,296	97,294	3,432,462	63,834
Other noncurrent liabilities	110,698	119,689	(8,991)	127,700	(8,011)
Total liabilities	4,422,113	4,364,818	57,295	4,321,813	43,005
Deferred inflows of resources					
Deferred inflows on net pension and OPEB liability	40,708	69,279	(28,571)	53,497	15,782
Total deferred inflows of resources	40,708	69,279	(28,571)	53,497	15,782
Net position					
Net investment in capital assets	1,671,445	1,620,054	51,391	1,593,172	26,882
Restricted					
Nonexpendable	10,493	10,493	-	10,493	-
Expendable	498,211	427,654	70,557	404,093	23,561
Unrestricted	(2,812,382)	(2,740,971)	(71,411)	(2,673,041)	(67,930)
Total net position	(632,233)	(682,770)	50,537	(665,283)	(17,487)
Total liabilities, deferred inflows of resources and net position	\$ 3,830,588	\$ 3,751,327	\$ 79,261	\$ 3,710,027	\$ 41,300

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Management's Discussion and Analysis (Unaudited)
June 30, 2020 and 2019

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 5.0 percent unencumbered cash from all tuition and fee funds, special funds, and revolving funds. At June 30, 2020, 2019 and 2018, working capital amounted to \$329.2 million, \$307.1 million and \$270.7 million, respectively. The University is committed to maintaining a prudent level of working capital to fund operations, including pre-funding our extramural grants which are mostly paid on a cost reimbursement basis. Based on the \$1.7 billion of operating expenses (excluding depreciation) for the year ended June 30, 2020, the working capital at year end represents approximately 68 days of operating funds, as compared to 62 and 59 days of operating funds in 2019 and 2018, 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 \$579.2 million, \$568.5 million and \$525.7 million at June 30, 2020, 2019 and 2018, respectively. Total current assets increased by \$10.7 million, or 1.9 percent, at June 30, 2020, 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 \$42.8 million, or 8.1 percent, at June 30, 2019, primarily due to an increase in operating investments. The University implemented various cost control initiatives which started in 2018, that provided for excess funds available for investment in the University's operating investment pool.
- 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 \$250.0 million, \$261.3 million and \$255.0 million at June 30, 2020, 2019 and 2018, respectively. Total current liabilities decreased by \$11.3 million, or 4.3 percent, at June 30, 2020, as a result of the timing of payments to vendors, as well as a decrease in unearned tuition revenue. Unearned tuition revenue decreased due to the deadline extension for fall 2020 enrollment. In fiscal year 2019, total current liabilities increased by \$6.3 million, or 2.5 percent, at June 30, 2019, primarily due to the increase in accounts payable and accrued payroll. Accounts payable increased as a result of the timing of cash disbursements and the increase in accrued payroll was due to the year-over-year increases in compensation and benefits expense.

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Management's Discussion and Analysis (Unaudited)
June 30, 2020 and 2019

Endowment and Other Investments

The University's endowment and other investments consist of the University's endowment pool, the Associated Students of the University of Hawai'i endowment, and unspent bond proceeds. The aggregate investment balance remained relatively consistent in fiscal years 2020 and 2019.

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 3.0 percent and 5.0 percent of the five-year moving average of the endowment portfolio's fair value. In fiscal years 2020, 2019 and 2018, 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, \$2.8 million and \$2.7 million in fiscal years 2020, 2019 and 2018, 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, 2020, 2019 and 2018, total capital assets, net of accumulated depreciation, remained relatively constant at approximately \$2 billion, which represented approximately 65 percent of the University's total assets. Capital asset additions totaled \$171.4 million, \$180.1 million and \$177.8 million in fiscal years 2020, 2019 and 2018, respectively.

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

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Management's Discussion and Analysis (Unaudited)
June 30, 2020 and 2019

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 2020 and 2019 or in progress as of June 30, 2020 and 2019 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 were completed in December 2019. The new infrastructure lines were built roughly forty feet below Kāne'ohe Bay. Additions to the project scope included upsizing the waterline between Coconut Island and O'ahu and to replacing the existing sewer pump station.
- **Daniel K. Inouye College of Pharmacy** – The \$33.7 million Daniel K. Inouye College of Pharmacy building was completed in December 2019. This project provides a two-story 45,000 square-foot building that consolidates student laboratories, faculty offices, and Student Affairs under a single roof. It also provides faculty and student lounges, private study rooms, and a lecture hall. In addition, the new building includes 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 Law School Clinical Building at the William S. Richardson School of Law on the University of Hawai'i at Mānoa campus was completed in November 2019. The new building provides much needed space for the growing clinical services offered by law school students and faculty. 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.
- **University of Hawai'i at Mānoa Life Sciences Building** – The \$65.5 million University of Hawai'i at Mānoa Life Sciences Building was completed in July 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 includes 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

State of Hawai'i

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

Management's Discussion and Analysis (Unaudited)

June 30, 2020 and 2019

- **University of Hawai'i West O'ahu Creative Media Building** – The \$34.5 million Creative Media Building at the University of Hawai'i at West O'ahu is estimated to be completed in November 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 Gymnasiums 1 & 2** – The \$10 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 \$33 million two-story 43,000 square foot building houses the allied health, community health, health information management, long-term care, and biology programs and contains 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 \$14.3 million renovation is a cooperative project between the University 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 with completion anticipated in May 2022. The product development center will take agricultural items that would normally be wasted and turn it into value-added food products that can be marketed and sold.
- **Leeward Community College "DA Native Hawaiian Center for Excellence"** – The \$7.5 million project was completed in June 2020. Leeward Community College is leading the way in the University'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 added 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 2020, 2019 and 2018, 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 2020, 2019 and 2018, \$126.2 million, \$116.3 million and \$108.0 million, respectively, were appropriated.

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Management's Discussion and Analysis (Unaudited)
June 30, 2020 and 2019

- **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 \$487.5 million, \$506.7 million and \$525.4 million for fiscal years 2020, 2019 and 2018, 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 in each of the fiscal years 2020, 2019 and 2018. 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 2020, 2019 and 2018, \$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.
- **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. 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, 2020, 2019 and 2018 is summarized as follows (in thousands of dollars):

	2020	2019	2018
Net investment in capital assets	\$ 1,671,445	\$ 1,620,054	\$ 1,593,172
Restricted – Nonexpendable	10,493	10,493	10,493
Restricted – Expendable	498,211	427,654	404,093
Unrestricted	<u>(2,812,382)</u>	<u>(2,740,971)</u>	<u>(2,673,041)</u>
Total net position	<u>\$ (632,233)</u>	<u>\$ (682,770)</u>	<u>\$ (665,283)</u>

Net investment in capital assets is the University's capital asset, net of accumulated depreciation and the related outstanding debt used to finance the acquisition, construction or improvement of those assets.

The net investment in capital assets increased by \$51.4 million, or 3.2 percent, in fiscal year 2020, primarily due to a net increase in capital assets of \$33.3 million and \$14.2 million in related debt retirement. The net investment in capital assets increased by \$26.9 million, or 1.7 percent, in fiscal year 2019, primarily due to a net increase in capital assets of \$8.1 million and \$19.2 million in capital related debt retirement.

Restricted nonexpendable net position primarily represents the University's permanent endowment funds, which are required to be maintained in perpetuity.

Restricted expendable net position is subject to externally imposed restrictions governing their use.

University of Hawai‘i
State of Hawai‘i
(A Component Unit of the State of Hawai‘i)
Management’s Discussion and Analysis (Unaudited)
June 30, 2020 and 2019

The overall increases in restricted expendable of \$70.6 million and \$24.6 million in fiscal years 2020 and 2019, respectively, were primarily due to capital appropriations outpacing capital project expenditures.

Net position that is not subject to externally imposed restrictions governing their use is classified as unrestricted for financial reporting purposes. At June 30, 2020, 2019 and 2018, unrestricted net positions amounted to deficits of \$2.81 billion, \$2.71 billion and \$2.67 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 \$50.2 million, \$48.2 million and \$46.9 million were designated for endowment activities at June 30, 2020, 2019 and 2018, respectively.

The reduction in unrestricted net positions for the years ended June 30, 2020 and 2019 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):

	2020	2019	2018
Unrestricted net position	\$ (2,812,382)	\$ (2,740,971)	\$ (2,673,041)
Pension	1,509,291	1,399,792	1,308,560
OPEB	1,662,321	1,674,987	1,666,481
Adjusted net unrestricted position	<u>\$ 359,230</u>	<u>\$ 333,808</u>	<u>\$ 302,000</u>

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Management's Discussion and Analysis (Unaudited)
June 30, 2020 and 2019

Results of Operations

The 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, 2020, 2019 and 2018 summarized to match revenues supporting core activities with expenses associated with core activities, are as follows (in thousands of dollars):

	2020	2019	2020 vs 2019 Change	2018	2019 vs 2018 Change
Revenues					
Operating					
Tuition and fees	\$ 394,967	\$ 394,952	\$ 15	\$ 393,452	\$ 1,500
Less: Scholarship allowances	(131,508)	(132,889)	1,381	(134,247)	1,358
Grants and contracts	400,970	404,380	(3,410)	397,108	7,272
Sales and services	113,511	130,346	(16,835)	128,241	2,105
Other revenue	910	633	277	673	(40)
Total operating revenues	<u>778,850</u>	<u>797,422</u>	<u>(18,572)</u>	<u>785,227</u>	<u>12,195</u>
Nonoperating					
State appropriations and transfers for fringe benefits	817,309	792,878	24,431	740,464	52,414
Federal Pell grant and CARES Act program	56,712	53,522	3,190	56,056	(2,534)
Net investment income	17,741	18,316	(575)	9,226	9,090
Private gifts	3,873	3,128	745	3,054	74
Total nonoperating revenues	<u>895,635</u>	<u>867,844</u>	<u>27,791</u>	<u>808,800</u>	<u>59,044</u>
Total revenues supporting core activities	<u>1,674,485</u>	<u>1,665,266</u>	<u>9,219</u>	<u>1,594,027</u>	<u>71,239</u>
Expenses					
Operating					
Compensation and benefits	1,333,828	1,304,933	28,895	1,243,688	61,245
Supplies, services and cost of goods sold	172,476	187,498	(15,022)	189,008	(1,510)
Telecom and utilities	65,141	69,309	(4,168)	65,589	3,720
Scholarships and fellowships	37,545	31,749	5,796	34,194	(2,445)
Other expense	98,829	96,447	2,382	89,021	7,426
Total operating expenses	<u>1,707,819</u>	<u>1,689,936</u>	<u>17,883</u>	<u>1,621,500</u>	<u>68,436</u>
Nonoperating revenues (expenses)					
Transfers from State, net	25,755	25,489	266	26,810	(1,321)
Transfers to (from) Federal – capital assets	6,960	87	6,873	(84)	171
Transfers (from) to other State agencies	(247)	269	(516)	(5,924)	6,193
Interest expense	(24,296)	(24,959)	663	(25,335)	376
Total nonoperating revenues, net	<u>8,172</u>	<u>886</u>	<u>7,286</u>	<u>(4,533)</u>	<u>5,419</u>
Expenses associated with core activities before depreciation	<u>1,699,647</u>	<u>1,689,050</u>	<u>10,597</u>	<u>1,626,033</u>	<u>63,017</u>
Loss from core activities before depreciation and amortization	<u>(25,162)</u>	<u>(23,784)</u>	<u>(1,378)</u>	<u>(32,006)</u>	<u>8,222</u>
Depreciation and amortization	<u>132,672</u>	<u>130,153</u>	<u>2,519</u>	<u>127,061</u>	<u>3,092</u>
Expenses associated with core activities including depreciation	<u>1,832,319</u>	<u>1,819,203</u>	<u>13,116</u>	<u>1,753,094</u>	<u>66,109</u>
Loss from core activities	<u>(157,834)</u>	<u>(153,937)</u>	<u>(3,897)</u>	<u>(159,067)</u>	<u>5,130</u>
Other nonoperating activity					
Capital appropriations and grants	210,639	141,206	69,433	187,596	(46,390)
Other expenses, net	(2,268)	(4,757)	2,489	(3,835)	(922)
Other nonoperating income, net	<u>208,371</u>	<u>136,449</u>	<u>71,922</u>	<u>183,761</u>	<u>(47,312)</u>
Increase (decrease) in net position	<u>50,537</u>	<u>(17,488)</u>	<u>\$ 68,025</u>	<u>24,694</u>	<u>\$ (42,182)</u>
Net position					
Beginning of year	<u>(682,770)</u>	<u>(665,282)</u>		<u>(689,976)</u>	
End of year	<u>\$ (632,233)</u>	<u>\$ (682,770)</u>		<u>\$ (665,282)</u>	

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Management's Discussion and Analysis (Unaudited)
June 30, 2020 and 2019

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 2020 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 years 2020 and 2019. Scholarship allowances amounted to \$131.5 million, \$132.9 million and \$134.2 million in fiscal years 2020, 2019 and 2018, respectively.

One of the largest sources of revenue continues to be grants and contracts. Total grants and contracts revenue decreased by \$3.4 million, or 0.8 percent, in fiscal year 2020 and increased by \$7.3 million, or 1.8 percent, in fiscal year 2019. There has been an increasing trend in extramural awards in recent years, however, the year-over-year changes in reported revenues are attributed to the timing of work performed as revenue is recognized when the related expenses are incurred. During fiscal year 2020, the University recognized nonoperating revenue of \$4.6 million associated with the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act").

Sales and services revenues are mainly comprised of bookstores, student and faculty housing, food services, parking, and athletics. In fiscal year 2020, sales and services revenues decreased by \$16.8 million, or 12.9 percent, which was largely due to the impact of COVID-19 which resulted in a loss of revenues. The University also gave prorated refunds of housing and meal plan fees. Sales and services revenues remained relatively consistent in fiscal year 2019.

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 \$6.2 million, or 1.2 percent, in fiscal year 2020, and \$21.2 million, or 4.4 percent, in fiscal year 2019. The increase in fiscal year 2020 was primarily attributable to an increased allotment of \$6.3 million primarily related to fund personnel costs. 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 State also pays for fringe expense for the University's general funded employees. The transfers for fringe expense amounted to \$304.7 million, \$286.5 million and \$255.3 million in fiscal years 2020, 2019 and 2018, respectively. The year-over-year increases were due to rising fringe benefit rates.

The University's net investment income of \$17.7 million in fiscal year 2020 remained relatively consistent compared to \$18.3 million in fiscal year 2019, which increased by \$9.1 million, or 98.5 percent, from fiscal year 2018. The fiscal year 2019 increase was mainly due to the increase in operating investments combined with market growth.

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 78.1 percent, 77.2 percent and 76.7 percent were related to compensation and benefits during fiscal years 2020, 2019 and 2018, respectively.

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Management's Discussion and Analysis (Unaudited)
June 30, 2020 and 2019

Compensation and benefits went up by \$28.9 million, or 2.2 percent, in fiscal year 2020 and \$61.2 million, or 4.9 percent, in fiscal year 2019. The fiscal year increases were attributable to increases in the University's share of pension and OPEB expense under GASB Statements No. 68 and 75. Additionally, the fiscal year 2019 increase was also impacted by the 2.82 percent salary increase to all University faculty, effective July 1, 2018.

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 2020, such expenses decreased by \$15.0 million, or 8.0 percent, and remained relatively consistent in fiscal year 2019. The fiscal year 2020 decrease was primarily attributable to the impact of COVID-19 as the University suspended certain services and implemented budget cuts for cost-saving measures.

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 amounted to \$169,053, \$164,638 and \$168,441 in fiscal years 2020, 2019 and 2018, respectively. The increase of \$4.4 million, or 2.7 percent, in fiscal year 2020 is due to direct student aid provided for under the CARES Act. The decrease in fiscal year 2019 was due to the timing of the scholarship allowance awarded from the additional state funding for the Hawai'i Promise scholarship.

Other operating expenses increased by \$2.4 million, or 2.5 percent, in fiscal year 2020 and \$7.4 million, or 8.3 percent, in fiscal year 2019. The increase in fiscal year 2020 is primarily due to increases in repairs and maintenance by \$7.3 million and bad debt expense by \$5.3 million, offset by a reduction of travel expenses by \$8.4 million. The increase in fiscal year 2019 is primarily due to an increase in repairs and maintenance for the University of \$5.8 million.

The University depreciates its capital assets over their estimated useful lives using the straight-line method. The University also records amortization expense in relation to the deferred outflows of resources for asset retirement obligations. Depreciation and amortization expense increased by \$2.5 million, or 1.9 percent, during fiscal year 2020 and \$3.1 million, or 2.4 percent, in fiscal year 2019. The increases in fiscal years 2020 and 2019 were primarily attributable to increases in depreciable assets relating to buildings and infrastructure.

Transfers from State, net amounted to \$25.8 million, \$25.5 million and \$26.8 million in fiscal years 2020, 2019 and 2018, 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.

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Management's Discussion and Analysis (Unaudited)
June 30, 2020 and 2019

In fiscal year 2020, capital appropriations and grants, increased by \$69.4 million, or 49.2 percent. The increase in fiscal year 2020 was attributable to an overall increase in capital appropriations from the State to fund various capital projects, including \$40 million for the Sinclair Library renovation. Capital appropriations decreased by \$46.4 million, or 24.7 percent, in fiscal year 2019 primarily due to decreased allotments for maintenance and renewal of capital assets.

Cash Flows

The 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, 2020, 2019 and 2018 is as follows (in thousands of dollars):

	2020	2019	2020 vs 2019 Change	2018	2019 vs 2018 Change
Cash received from operations	\$ 754,234	\$ 777,594	\$ (23,360)	\$ 754,859	\$ 22,735
Cash payments for operations	(1,279,910)	(1,276,177)	(3,733)	(1,256,658)	(19,519)
Net cash used in operating activities	(525,676)	(498,583)	(27,093)	(501,799)	3,216
Net cash provided by noncapital financing activities	580,141	571,600	8,541	552,412	19,188
Net cash used in capital and related financing activities	(51,262)	(52,012)	750	(47,183)	(4,829)
Net cash provided by (used in) investing activities	(757)	(37,132)	36,375	48,155	(85,287)
Net increase (decrease) in cash	2,446	(16,127)	18,573	51,585	(67,712)
Cash					
Beginning of year	84,087	100,214	(16,127)	48,629	51,585
End of year	\$ 86,533	\$ 84,087	\$ 2,446	\$ 100,214	\$ (16,127)

The net cash received from operating activities decreased by \$23.4 million, or 3.0 percent, in fiscal year 2020 and increased by \$22.7 million, or 3.0 percent, in fiscal year 2019. The decrease in fiscal year 2020 was largely impacted by the adverse impact of the COVID-19 pandemic. The increase in fiscal year 2019 was primarily due to increases in cash received from student tuition and fees, and grants and contracts.

Net cash used in noncapital financing activities remained strong as a result of the financial support from the State. Also, net cash used in capital and related financing activities remained relatively consistent in fiscal years 2020 and 2019 as a result of ongoing capital projects.

The net cash used in investing activities decreased by \$36.4 million in fiscal year 2020 primarily due to relatively flat reinvestment activity compared to the level of net reinvestment activity in fiscal year 2019.

There was a net difference of \$85.3 million in investing activity cash flows in fiscal year 2019 as there was \$37.1 million in net cash used in investing activities in fiscal year 2019 compared to \$48.2 million in net cash provided by investing activities in fiscal year 2018. In fiscal year 2019, there was a net investment of cash as a result of an increase in available funds, whereas the net cash provided by investments in fiscal year 2018 was primarily attributable to the University's investment in \$50 million of time certificates of deposits meeting the criteria to be classified as cash equivalents.

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Management's Discussion and Analysis (Unaudited)
June 30, 2020 and 2019

Looking Forward

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

- *U.S. News and World Report* released its 2021 Best Graduate Schools list that includes:
 - The University of Hawai'i at Mānoa School of Nursing in the top tier, 99 out of 319 schools, for Best Online Graduate Nursing Programs in 2019.
 - The John A. Burns School of Medicine ranked 62th nationally in medical research and 56th in medical primary care among 188 medical schools in America.
 - The William S. Richardson School of Law's evening part-time program ranks 31st 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 seven years.
 - The part-time Master of Business Administration program (Global MBA, 36-month plan) at the Shidler College of Business ranked 106th among 272 part-time MBA programs that qualified for the ranking.
 - The College of Education is ranked 69th of 393 schools.
- The Community College System was ranked in the top 20 of WalletHub's 2020 list, placing 4th from a sample of 698 schools. WalletHub ranked community colleges based on cost, education and career outcomes.
- The University of Hawai'i at Mānoa ranked 333 on the 2021 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 holds an Aa3 with stable outlook by Moody's Investors Service and maintained an AA with stable outlook by Fitch Ratings with both being updated in October 2020. Both credit agencies have cited some of the strong characteristics of the University:

- Dominant provider of higher education and important economic development driver in the State of Hawai'i.
- Strong operating support from the State of Hawai'i.
- Unique academic programming and research, and well-diversified revenue.

University of Hawai‘i
State of Hawai‘i
(A Component Unit of the State of Hawai‘i)
Management’s Discussion and Analysis (Unaudited)
June 30, 2020 and 2019

- Low debt burden which reflects strong and growing capital support from the State of Hawai‘i.
- Improved cash and investment cushion and reserve.

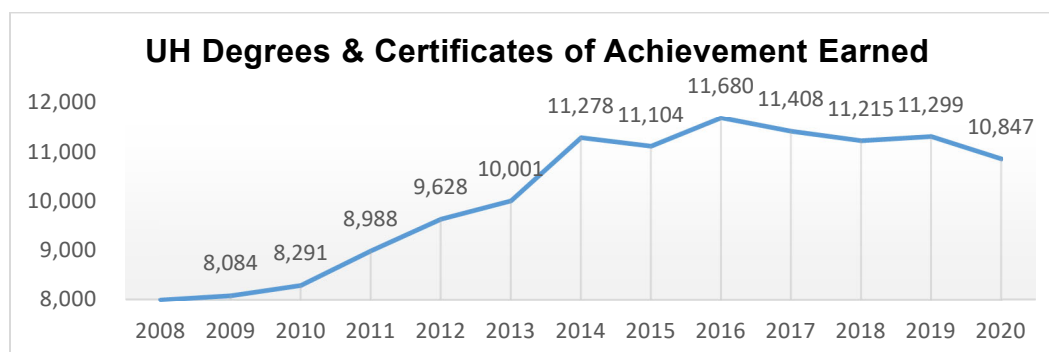
The University is committed to improving the social, economic and environmental well-being of current and future generations. To that end, the University developed and implemented the University of Hawai‘i Strategic Directions, 2015–2021, built upon previous work outlined in the Strategic Outcomes and Performances Measures, 2008–2015. 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:

- Hawai‘i Graduation Initiative.
- Hawai‘i Innovation Initiative.
- 21st Century Facilities.
- Mission Focused System.
- High Performing System.

Hawai‘i Graduation Initiative

An educated labor force and engaged citizenry are essential in today’s global, knowledge-based economy. The State of Hawai‘i has set goals to increase the percentage of working age adults with two- or four-year degrees to 55 percent by 2025 (*55 by ’25 Campaign*). As the sole provider of public higher education in Hawai‘i, the University is doing its part to increase the number of educated citizens within the State. In 2010, the Hawai‘i 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 increased its degrees and certificates of achievement earned by 34 percent since 2009.



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.

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Management's Discussion and Analysis (Unaudited)
June 30, 2020 and 2019

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 the HGI's tactical plan is the Early College program, which is a collaboration between the University and the Hawai'i 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 5,200 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

UH-Mānoa, UH-West O'ahu, and Kaua'i Community College saw headcount enrollment increases this fall while the entire 10-campus system saw the smallest overall decline since the end of the last recession. In the face of the COVID-19 pandemic and economic fallout, overall enrollment declined 0.8 percent, from 49,977 students in fall 2019 to 49,594 current students, the smallest overall decline since 2012 when enrollment was near record high levels. UH-Mānoa saw a 3.1 percent increase in enrollment to 18,025 students and is the largest enrollment increase and the highest headcount for UH-Mānoa since 2016. First-time freshman enrollment at UH-Mānoa reached 2,184 marking the second straight annual increase and the highest number recorded since fall 1981. The enrollment at UH-West O'ahu reached an all-time high with a record 3,168 students, a 3.9 percent increase from fall 2019. Enrollment at UH's seven community colleges dropped by 3.2 percent overall to 25,236 students but has increased slightly for underserved communities. That is a lower decline than the national decline in college enrollment of 7.5 percent. During the last recession UH community colleges experienced a rapid increase in enrollment, but that increase did not begin at the outset of the recession. As of August 2020, the State unemployment rate was at 12.5 percent, compared to 2.7 percent one year ago.

Due to COVID-19, the University System extended the deadline for enrollment from March 1, 2020 to August 1, 2020 or August 10, 2020 for four-year and Community Colleges, respectively. The System also implemented a modified quarantine program for out-of-state students attending campuses on O'ahu and Kaua'i, including shuttle service from the airport and hotels. Approximately 2,700 high school students graduating with dual credit were offered summer online Community College summer classes, college and career advising, and/or private scholarships. A targeted mailer was sent to encourage adults to re-enroll, which attracted 445 students to return.

Fall census headcount comparisons are as follows:

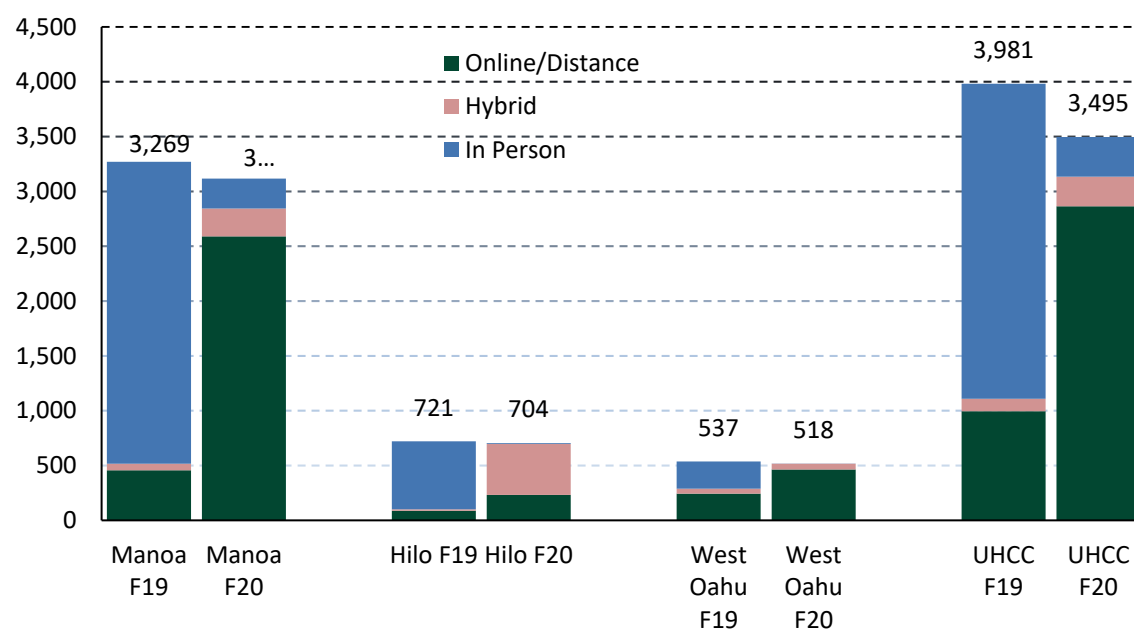
	Fall 2020	Fall 2019	% Change	Fall 2018	% Change
Mānoa	18,025	17,490	3.1	17,710	-1.2
Hilo	3,165	3,372	-6.1	3,406	-1.0
West O'ahu	3,168	3,049	3.9	3,128	-2.5
Community Colleges	25,236	26,066	-3.2	26,819	-2.8
	<u>49,594</u>	<u>49,977</u>	<u>-0.8</u>	<u>51,063</u>	<u>-2.1</u>

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Management's Discussion and Analysis (Unaudited)
June 30, 2020 and 2019

In March 2020, the University suspended in-person classes for the balance of the Spring 2020 semester. Summer 2020 classes were primarily conducted in a distance learning format. The University commenced fall 2020 semester classes with a mixture of online lectures and seminars, and in-person laboratory, clinics, art studio classes, and shops and practicum work in technical education where necessary. University attendance and research are considered essential activities under the Emergency Orders, and in-person attendance is not prohibited. The University is offering approximately 9 percent of its courses as in-person classes in fall 2020, and 8 percent of its courses in a hybrid in person and online combination. Notwithstanding the University has requested students to take as many courses online as possible while staying on track for on-time achievement of degrees and certificates. The University has extensive experience with distance learning and online attendance. For years the University has permitted students on one campus to enroll in classes at other campuses and to view lectures in real time and participate in class discussions remotely.

The mode of instruction for more than 70 percent of the courses offered in the fall semester of 2020 was adjusted to help adhere to the physical distancing requirements related to COVID-19. The affected courses were either moved entirely online or to a hybrid combination of online and in-person instruction.

The University remains committed to providing the high-quality education it is known for and have provided resources to our faculty to help with this transition to online learning.



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.

University of Hawai‘i
State of Hawai‘i
(A Component Unit of the State of Hawai‘i)
Management’s Discussion and Analysis (Unaudited)
June 30, 2020 and 2019

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 902 public and private universities for research and development expenditures in fiscal year 2017.

The extramural awards totaled \$450 million in fiscal year 2020, a progressive increase over the previous four years. 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 ten 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 2020:

- The School of Ocean and Earth Science and Technology (“SOEST”) is the research powerhouse of the University, generating fully one third of the total extramural funding received at UH-Mānoa. In fiscal year 2020, SOEST received \$99.1 million in extramural awards.
- John A. Burns School of Medicine (“JABSOM”) worked on a project to gain better understanding of Hansen’s Disease is part of Hawai‘i’s legacy to the world. More recently, it has made contributions in AIDS, in Kawasaki’s Disease, and the epidemiology of heart disease. In fiscal year 2020, JABSOM received \$46.5 million in extramural awards.
- The University of Hawai‘i Cancer Center is one of only 71 research organizations in the country designated by the National Cancer Institute. In fiscal year 2020, the University of Hawai‘i Cancer Center received \$30.1 million in extramural awards.

Facilities and Infrastructure

Improvement and modernization of the University’s physical assets are key to delivering the University’s strategic directions that strives for 21st century facilities for learning, teaching and research. The University has developed a six-year 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 with \$329.8 million for fiscal years 2020 and 2021. 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. During October 2020, a revenue bond was issued by the University for \$10 million, specifically for the parking structure major improvements.

University of Hawai'i

State of Hawai'i

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

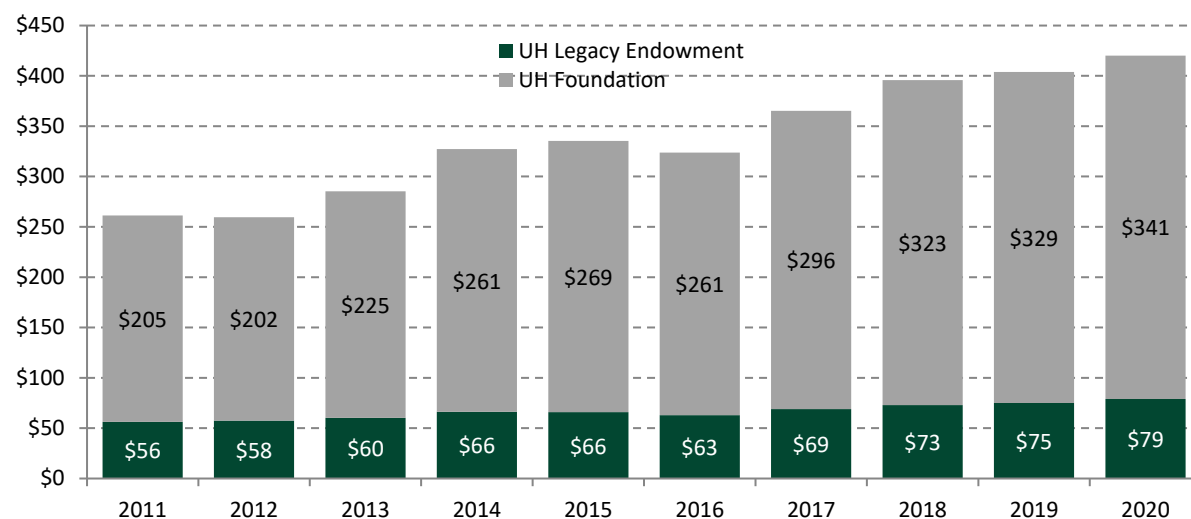
Management's Discussion and Analysis (Unaudited)

June 30, 2020 and 2019

The University continues to strive to meet the demand for modern, university housing at a reasonable cost through P3 (Public, Private Partnerships) Housing Projects. The Atherton Project, which is a partnership with the Foundation and the Hunt Development Group, is expected to house 350 students in a world-class mixed-use space that will include an innovation and entrepreneurship center. The National Oceanic and Atmospheric Administration project is a mixed-use family-oriented rental housing for graduate students, University faculty and staff, at below market rate. This is a partnership with Greystar Development Services and will have approximately 400 individual units.

Fundraising

The University and the Foundation exceeded its \$500 million goal 15 months ahead of schedule. The Foundation received 17,414 donations for over \$84.7 million in fiscal year 2020, despite the impact of COVID-19. Both the University's Legacy Endowment and the Foundation held value despite the economic impact of COVID-19.



State General Fund Appropriations and Impacts of COVID-19

COVID-19, a highly contagious, upper respiratory tract illness caused by a novel strain of coronavirus, is having significant adverse health and financial impacts throughout the world, including the State of Hawai'i. The World Health Organization declared the spread of COVID-19 to be a pandemic, and the Secretary of Health, Education and Welfare of the United States, the Governor of the State of Hawai'i, and the mayors of each county have each declared states of emergency. Since the first case was reported on February 17, 2020, there have been over 16,700 confirmed cases of COVID-19 as of November 16, 2020, in the State of Hawai'i, the majority of confirmed cases having been identified since a "second wave" of infections began in late July 2020.

On March 4, 2020, State of Hawai'i Governor David Y. Ige proclaimed the spread of COVID-19 in Hawai'i to be a disaster, declared a state of emergency in Hawai'i, and announced State responses, including the use of disaster relief funds, to address the spread of COVID-19. The Governor subsequently issued fifteen (15) supplemental proclamations through November 16, 2020, and a series of executive orders closing non-essential business, activities, and government operations for the duration of the public health emergency. On March 17, 2020, the Governor asked visitors to postpone their trips to Hawai'i and then

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Management's Discussion and Analysis (Unaudited)
June 30, 2020 and 2019

implemented a mandatory fourteen (14) day self-quarantine requirement for all persons entering the State, as well as for inter-island travelers. The quarantine requirement for persons entering the State has also been extended, but effective October 15, 2020, under a pre-travel testing program persons who have had an FDA-approved nucleic acid amplification test conducted within 72 hours of departure and can produce a negative test result may enter without having to quarantine. In addition, counties are authorized to approve enhanced movement quarantine areas, such as self-contained resorts, in which self-quarantined persons may freely move within the entire quarantine area.

On July 17, 2020, the State modified this order to permit out-of-state travelers arriving in Hawai'i prior to October 15, 2020 to attend University campuses on O'ahu and Kaua'i who have had negative test results within 72 hours of departure or 48 hours of arrival to modify self-quarantine. These students and other University related personnel may leave self-quarantine to attend classes and other official University activities during the 14-day self-quarantine period.

The spread of COVID-19 and responsive measures have had a negative impact on the State's economy. Economic activity in the State has slowed significantly, due to the closure of non-essential businesses, traveler quarantine requirements, and substantial reduction in visitors to Hawai'i. Airlines have suspended nearly all flights to and from the State and the U.S. Mainland and Asia, resulting in about a 91 percent reduction in air seat capacity. Visitor arrivals to Hawai'i dropped from an average of 30,000 to 35,000 people a day to 200 people a day in March 2020 and have risen slightly to approximately 700-plus people a day beginning in June 2020. In April 2020, 4,564 visitors came to Hawai'i, as compared to 856,250 visitors in April 2019. In August 2020, 22,334 visitors arrived in Hawai'i, as compared to 926,417 visitors in July 2019. In the first eight months of 2020, total visitor arrivals dropped 69.0 percent to 2,201,141. Many of Waikiki's major hotels have closed for the duration of the Emergency Orders through October 2020. O'ahu's hotel occupancy rate in April 2020, the first full month of the quarantine, was 8.0 percent, a 72 percent decline from April 2019. Waikiki's hotel occupancy rate in April 2020 was 5.4 percent. In May 2020, Oahu's hotel occupancy rate was 13 percent, an 84 percent decline from May 2019. Hawai'i's seasonally adjusted unemployment rate has increased from less than 3.0 percent before the COVID-19 pandemic to 13.4 percent in June 2020, before decreasing slightly to 13.1 percent in July 2020.

The impact on State finances has been severe. The State's expenditures to respond to the COVID-19 pandemic were not budgeted, and State tax revenues have declined with the suspension of economic activity. The State Department of Taxation has reported that May 2020 tax collections were likely to be less than 50 percent of May 2019 tax collections. On May 15, 2020, the State Department of Business, Economic Development and Tourism predicted that Hawai'i's economic growth would decline by 12.1 percent in the next year. On May 28, 2020, the State's Council on Revenues predicted that State tax revenues would decrease by 7 percent for the fiscal year ending June 30, 2020 from the fiscal year ended June 30, 2019, and State tax revenues would decrease an additional 12 percent for the fiscal year ending June 30, 2021. On September 9, 2020, the Council on Revenues reduced the projected decrease for the fiscal year ending June 30, 2021 from 12 percent to 11 percent. The amount of the decrease was originally estimated to be approximately \$2.3 billion.

The impact on University finances is expected to be substantial. In response to the COVID-19 pandemic, the federal government recently enacted the CARES Act, which created the Coronavirus Relief Fund for State and Local Governments. The U.S. Treasury Department is distributing \$150 billion to state and local governments under a population-based formula to reimburse state and local governments for COVID-19-related medical, public health, economic support, and other emergency response costs incurred and spent between March 1, 2020 and December 30, 2020, provided that such costs were not included in the most recently approved local government budget.

University of Hawai'i

State of Hawai'i

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

Management's Discussion and Analysis (Unaudited)

June 30, 2020 and 2019

The University was awarded \$44.9 million in direct CARES Act funding in three tranches. Tranche 1 funds of \$12 million are for aid awarded and paid directly to students. Tranche 2 funds of \$12 million may be used to cover costs associated with changes to the delivery of instruction such as the purchase of equipment or software for distance learning. The University may use Tranche 3 funds of \$20.9 million to defray institutional expenses, including loss of revenue and costs associated with the transition to distance learning.

The University was also awarded \$20.13 million from the State's allocation of CARES Act funds. The University is using these funds primarily for COVID-19 related expenses, including cleaning, janitorial, and face protection supplies for COVID-19 related response and overtime for after-hours cleaning. Additionally, the University was awarded \$3 million from the City and County of Honolulu's allocation of CARES Act funds to provide job training for approximately 2,000 unemployed individuals under the newly-created O'ahu Back to Work Program.

It is likely that the fiscal impact of the COVID-19 pandemic on the University will last for several years and continue to change as the situation further develops. The fiscal impact will depend on future events outside of the University's control, including actions of the federal government and the State.

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Statements of Net Position – University of Hawai'i
Years Ended June 30, 2020 and 2019
(All dollars reported in thousands)

	2020	2019
Assets and Deferred Outflows of Resources		
Current assets		
Cash and cash equivalents	\$ 86,533	\$ 84,087
Operating investments	371,244	351,324
Due from State of Hawai'i	1,951	944
Accounts receivable, net	90,021	93,820
Due from the Research Corporation of the University of Hawai'i, net	9,394	18,138
Current portion of notes receivable, net	655	990
Other current assets	19,422	19,173
Total current assets	579,220	568,476
Noncurrent assets		
Due from State of Hawai'i	484,663	414,016
Endowment and other investments	101,647	102,807
Notes receivable, net	4,290	7,790
Capital assets, net	2,183,025	2,149,722
Other noncurrent assets	1,067	2,104
Total noncurrent assets	2,774,692	2,676,439
Total assets	3,353,912	3,244,915
Deferred outflows of resources		
Deferred outflows on net pension liability, OPEB liability, and other	476,676	506,412
Total deferred outflows of resources	476,676	506,412
Total assets and deferred outflows of resources	\$ 3,830,588	\$ 3,751,327
Liabilities, Deferred Inflows of Resources, and Net Position		
Current liabilities		
Accounts payable	\$ 59,248	\$ 64,529
Accrued payroll and fringe benefits	57,759	56,773
Advances from sponsors	20,639	22,937
Unearned revenue	35,793	43,461
Due to State of Hawai'i	5,809	6,129
Current portion of long-term liabilities	64,450	61,151
Other current liabilities	6,332	6,363
Total current liabilities	250,030	261,343
Noncurrent liabilities		
Accrued vacation	44,810	42,854
Accrued workers' compensation	11,683	11,666
Revenue bonds payable	467,795	487,490
Premium on bonds payable	18,469	20,272
Equipment lease obligations	25,491	27,003
Net pension liability	1,791,098	1,695,800
Other postemployment benefits	1,802,492	1,800,496
Other noncurrent liabilities	10,245	17,894
Total noncurrent liabilities	4,172,083	4,103,475
Total liabilities	4,422,113	4,364,818
Deferred inflows of resources		
Deferred inflows on net pension and OPEB liability	40,708	69,279
Total deferred inflows of resources	40,708	69,279
Commitments and contingencies		
Net position		
Net investment in capital assets	1,671,445	1,620,054
Restricted		
Nonexpendable	10,493	10,493
Expendable	498,211	427,654
Unrestricted	(2,812,382)	(2,740,971)
Total net position	(632,233)	(682,770)
Total liabilities, deferred inflows of resources, and net position	\$ 3,830,588	\$ 3,751,327

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

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Statements of Financial Position – University of Hawai'i Foundation
Years Ended June 30, 2020 and 2019
(All dollars reported in thousands)

	2020	2019
Assets		
Cash and cash equivalents	\$ 16,028	\$ 19,771
Contributions receivable, net	26,555	35,811
Prepaid expenses and other receivables	7,781	2,072
Property and equipment, at cost, net of accumulated depreciation and amortization of \$2,038 and \$1,843	10,191	10,386
Other assets, at cost	1,918	3,700
Investments	457,269	439,691
Beneficial interest in trusts held by others	28,665	31,917
Total assets	<u>\$ 548,407</u>	<u>\$ 543,348</u>
Liabilities and Net Assets		
Accounts payable	\$ 5,618	\$ 8,553
Liabilities under split-interest agreements	12,141	12,529
Amounts held for others	4,487	4,362
Long-term debt	7,400	8,200
Other liabilities	3,245	668
Total liabilities	<u>32,891</u>	<u>34,312</u>
Commitments and contingencies		
Net assets		
Without donor restrictions	4,705	4,640
With donor restrictions	510,811	504,396
Total net assets	<u>515,516</u>	<u>509,036</u>
Total liabilities and net assets	<u>\$ 548,407</u>	<u>\$ 543,348</u>

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

University of Hawai‘i
State of Hawai‘i
(A Component Unit of the State of Hawai‘i)
Statements of Revenues, Expenses, and Changes in Net Position –
University of Hawai‘i
Years Ended June 30, 2020 and 2019
(All dollars reported in thousands)

	2020	2019
Operating revenues		
Student tuition and fees	\$ 394,967	\$ 394,952
Less: Scholarship allowances	131,508	132,889
Net student tuition and fees	263,459	262,063
Federal appropriations, grants and contracts	308,033	310,647
State and local grants and contracts	45,206	42,250
Nongovernmental sponsored programs	47,731	51,483
Sales and services of educational departments, other	30,723	37,900
Auxiliary enterprises		
Bookstores	13,533	15,886
Student housing, net of scholarship allowances of \$999 and \$1,432	28,234	30,322
Other auxiliary enterprises revenues	41,021	46,238
Other operating revenues	910	633
Total operating revenues	778,850	797,422
Operating expenses		
Compensation and benefits	1,333,828	1,304,933
Supplies, services, and cost of goods sold	172,476	187,498
Depreciation and amortization	132,672	130,153
Telephone and utilities	65,141	69,309
Scholarships and fellowships	37,545	31,749
Travel expenses	21,438	29,864
Repairs and maintenance	36,507	29,252
Rental expenses	10,077	9,926
Other operating expenses	30,807	27,405
Total operating expenses	1,840,491	1,820,089
Operating loss	(1,061,641)	(1,022,667)
Nonoperating revenues (expenses)		
State appropriations	512,608	506,399
Federal Pell grants	52,103	53,522
Federal CARES Act program	4,609	-
Private gifts	3,873	3,128
Net investment income	17,741	18,316
Interest expense	(24,296)	(24,959)
Net transfers from State of Hawai‘i	313,203	294,705
Loss on disposal of capital assets	(1,864)	(4,860)
Other, net	(404)	103
Net nonoperating revenues before capital and endowment additions	877,573	846,354
Capital – state appropriations	203,765	133,996
Capital – federal grants/subsidies	6,161	5,955
Capital – gifts and grants	711	581
Net transfers from State of Hawai‘i for capital assets	2	674
Transfers from State of Hawai‘i, Tobacco settlement	9,396	9,400
Transfers from State of Hawai‘i, University of Hawai‘i Cancer Center	7,857	7,863
Net transfers from (to) other State agencies	(247)	269
Net transfers from Federal – capital assets	6,960	87
Total other revenues	234,605	158,825
Net nonoperating revenues	1,112,178	1,005,179
Change in net position	50,537	(17,488)
Net position		
Beginning of year	(682,770)	(665,282)
End of year	\$ (632,233)	\$ (682,770)

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

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Statements of Activities – University of Hawai'i Foundation
Years Ended June 30, 2020 and 2019
(All dollars reported in thousands)

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue			
Contributions	\$ 1,060	\$ 62,464	\$ 63,524
Fees, honoraria, royalties and other	3,660	688	4,348
Investment income (loss), net	2,540	(3,799)	(1,259)
Administrative fees	7,275	(7,275)	-
Fundraising events and projects	-	766	766
Net assets released from restrictions	46,429	(46,429)	-
Total revenue	60,964	6,415	67,379
Expenses			
Program services			
Extension and public services	1,196	-	1,196
Academic support	6,938	-	6,938
Research	11,001	-	11,001
Student aid and services	11,574	-	11,574
Faculty and staff support	3,415	-	3,415
Capital projects	1,877	-	1,877
Athletics	2,535	-	2,535
Special programs	7,774	-	7,774
Other	119	-	119
Total program services	46,429	-	46,429
Supporting services			
Administrative, management, and fiscal services	6,609	-	6,609
Development	7,861	-	7,861
Total supporting services	14,470	-	14,470
Total expenses	60,899	-	60,899
Change in net assets	65	6,415	6,480
Net assets at beginning of year	4,640	504,396	509,036
Net assets at end of year	\$ 4,705	\$ 510,811	\$ 515,516
	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue			
Contributions	\$ 225	\$ 53,486	\$ 53,711
Fees, honoraria, royalties and other	3,832	851	4,683
Investment income (loss), net	4,833	(55,315)	(50,482)
Administrative fees	6,718	(6,718)	-
Fundraising events and projects	-	1,070	1,070
Net assets released from restrictions	46,240	(46,240)	-
Total revenue	61,848	(52,866)	8,982
Expenses			
Program services			
Extension and public services	1,036	-	1,036
Academic support	7,375	-	7,375
Research	11,397	-	11,397
Student aid and services	10,890	-	10,890
Faculty and staff support	3,309	-	3,309
Capital projects	697	-	697
Athletics	2,785	-	2,785
Special programs	8,075	-	8,075
Other	677	-	677
Total program services	46,241	-	46,241
Supporting services			
Administrative, management, and fiscal services	5,502	-	5,502
Development	8,703	-	8,703
Total supporting services	14,205	-	14,205
Total expenses	60,446	-	60,446
Change in net assets	1,402	(52,866)	(51,464)
Net assets at beginning of year	3,238	557,262	560,500
Net assets at end of year	\$ 4,640	\$ 504,396	\$ 509,036

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

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Statements of Cash Flows – University of Hawai'i
Years Ended June 30, 2020 and 2019
(All dollars reported in thousands)

	2020	2019
Cash flows from operating activities		
Student tuition and fees	\$ 257,368	\$ 261,298
Grants and contracts	400,914	402,333
Other revenues	95,952	113,963
Payments to employees	(908,449)	(897,979)
Payments to suppliers and other	(333,997)	(346,535)
Payments for scholarships and fellowships	(37,464)	(31,663)
Net cash used in operating activities	<u>(525,676)</u>	<u>(498,583)</u>
Cash flows from noncapital financing activities		
State appropriations	511,601	506,724
Gifts and grants for other than capital purposes	60,358	56,661
Net transfers from State of Hawai'i	8,502	8,226
Other disbursements	(320)	(11)
Net cash provided by noncapital financing activities	<u>580,141</u>	<u>571,600</u>
Cash flows from capital and related financing activities		
Capital appropriations	133,023	122,124
Capital gifts and grants	6,099	6,208
Proceeds from other note payable	-	-
Purchases of capital assets	(163,040)	(152,072)
Proceeds from sale of capital assets	708	720
Principal paid on capital debt and leases	(20,551)	(20,873)
Interest paid on capital debt and leases	(24,754)	(25,382)
Transfer from State of Hawai'i for		
Tobacco Settlement	9,396	9,400
University of Hawai'i Cancer Center	7,857	7,863
Net cash used in capital and related financing activities	<u>(51,262)</u>	<u>(52,012)</u>
Cash flows from investing activities		
Interest and dividends on investments, net	9,832	9,750
Proceeds from sales and maturities of investments	637,686	626,637
Purchase of investments	(648,275)	(673,519)
Net cash used in investing activities	<u>(757)</u>	<u>(37,132)</u>
Net increase (decrease) in cash and cash equivalents	2,446	(16,127)
Cash and cash equivalents		
Beginning of year	84,087	100,214
End of year	<u>\$ 86,533</u>	<u>\$ 84,087</u>

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

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Statements of Cash Flows – University of Hawai'i
Years Ended June 30, 2020 and 2019
(All dollars reported in thousands)

	2020	2019
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (1,061,641)	\$ (1,022,667)
Adjustments to reconcile operating loss to net cash used in operating activities		
On behalf payments by State for fringe benefits	304,701	286,479
Depreciation and amortization expense	132,672	130,153
Pension and other postretirement healthcare benefit expense	96,833	99,670
Bad debt expense, net	3,174	2,138
Changes in operating assets and liabilities		
Accounts receivable	(1,617)	(4,776)
Due from the Research Corporation of the University of Hawai'i, net	8,960	(3,437)
Notes receivable	(71)	1,057
Prepaid expenses and other assets	(1,616)	4,144
Accounts payable	(65)	5,561
Accrued payroll and fringe benefits	3,157	2,560
Accrued workers' compensation liability	(109)	332
Advances from sponsors	(2,298)	(438)
Other, net	(7,756)	641
Net cash used in operating activities	<u>\$ (525,676)</u>	<u>\$ (498,583)</u>
Supplemental information of noncash transactions		
Net transfers from State of Hawai'i for capital assets	\$ 97	\$ 1,694
Net transfers from Federal for capital assets	6,960	87
Net transfers (to) from other State agencies	(247)	269
Accounts payable for capital assets	30,507	31,820
Escrow funds used to fund capital asset additions	792	20,891

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

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Notes to Financial Statements
June 30, 2020 and 2019
(All dollars reported in thousands)

1. Organization and Summary of Significant Accounting Policies

Financial Reporting Entity

The accompanying financial statements of the University of Hawai'i (the "University") include the activities of the University of Hawai'i at Mānoa, University of Hawai'i at Hilo, University of Hawai'i at West O'ahu, University of Hawai'i at Maui College, University of Hawai'i Community Colleges, and its component units. The University has defined its reporting entity in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, as amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*. The basic criterion for including a potential component unit within the reporting entity is financial accountability. Other criteria, 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.

The Research Corporation of the University of Hawai'i (the "Research Corporation") is a legally separate, tax-exempt entity that provides administrative support services for research and training programs of the University. At June 30, 2020 and 2019, the net position of the Research Corporation was \$9,416 and \$9,554, respectively. The University has determined that the Research Corporation meets the criteria to be considered a component unit of the University, however, has excluded the Research Corporation from the accompanying financial statements due to insignificance.

The University of Hawai'i Foundation (the "Foundation") is a legally separate, not-for-profit organization established to solicit and manage funds for the benefit of the University. Although the University does not control the timing, purpose, or amount of its receipts from the Foundation, the resources that the Foundation holds and invests can only be used by, or for the benefit of, the University. Because of the nature and significance of the Foundation's relationships with the University, the Foundation is considered a component unit of the University and is discretely presented in the accompanying financial statements. In addition, the Foundation's significant notes are summarized in Note 3.

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"). No modifications have been made to the Foundation financial information included in the University's financial report to account for these differences.

The Foundation's federal Form 990 is available for inspection as required by Internal Revenue Code ("IRC") Section 6104 at the University of Hawai'i Foundation, 1314 South King Street, Suite B, Honolulu, HI 96814.

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

In fiscal year 2020, the Research Corporation, which was previously presented as a blended component unit, is excluded from the University's financial statements as their financial information was determined to be insignificant to the University as a whole. Additionally, the Foundation, which was also previously presented as a blended component unit, is now

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Notes to Financial Statements
June 30, 2020 and 2019
(All dollars reported in thousands)

a discretely presented component unit. This change has been applied retrospectively to the 2019 financial statements to conform with the 2020 presentation. The change resulted in the exclusion due to materiality of the Research Corporation's net position and the separate presentation of the Foundation's net assets.

The discrete presentation of the Foundation is a common method of presentation among similar public colleges and universities with a legally separate foundation. It also better reflects the net position of the University as the University does not control the timing, purpose, or amount of its receipts from the Foundation.

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 financial statements of the University are presented using the economic resources measurement focus and the accrual basis of accounting.

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 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, and equity securities with readily determinable fair values are reported at fair value based on quoted market prices. Unrealized gains and losses on investments are included in the 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. The title to short-term investments, made from pooled cash, is vested in the name of the University.

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Notes to Financial Statements
June 30, 2020 and 2019
(All dollars reported in thousands)

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 Statements of Net Position.

Amounts due to the State are primarily due to operating or capital advances.

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.

Due from the Research Corporation, Net

The Research Corporation provides administrative support services such as human resources, payroll processing, procurement, and disbursement services for research and training programs of the University, and receives a management fee for such services. The University is responsible for all programmatic decisions and for authorizing and approving all project expenditures and commitments, however, the contractual commitments of the projects are in the name of the Research Corporation and are included as a liability for such commitments on their balance sheet, with a corresponding receivable for reimbursement from the University. "Due from the Research Corporation, net" represents funds advanced to the Research Corporation for project expenditures net of management fees due.

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Notes to Financial Statements
June 30, 2020 and 2019
(All dollars reported in thousands)

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. 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, 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 that 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.

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Notes to Financial Statements
June 30, 2020 and 2019
(All dollars reported in thousands)

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 14 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.

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Notes to Financial Statements
June 30, 2020 and 2019
(All dollars reported in thousands)

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

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

Net Position Restricted by Enabling Legislation

GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34*, requires that limitations on the use of net position imposed by enabling legislation be reported as restricted net position. GASB Statement No. 46 also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Restricted net position at June 30, 2020 and 2019 amounted to \$508,704 and \$438,147, respectively, of which \$455,012 and \$386,075 were restricted by enabling legislation for capital activity.

Operating and Nonoperating Activities

The University's policies for defining operating activities, as reported on the 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, federal Pell grants, 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. If the room and other rental revenues for the summer term been prorated between fiscal years, the difference would not be material.

Federal economic relief received as a result of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") represent nonexchange transactions that are reported as nonoperating revenues. During fiscal year 2020, the University received payments from the Higher Education Emergency Relief Fund.

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Notes to Financial Statements
June 30, 2020 and 2019
(All dollars reported in thousands)

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 financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the 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 Statements of Net Position (see Note 10).

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 12 and 13.

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.

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Notes to Financial Statements
June 30, 2020 and 2019
(All dollars reported in thousands)

New Accounting Pronouncements

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, postponed by GASB Statement No. 95 for eighteen months. The University has begun the data collection and analysis to determine the effect this Statement will have on its financial statements.

The GASB issued Statement No. 92, *Omnibus 2020*. The primary objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The requirements of this Statement are effective at multiple periods depending on when certain Statements are implemented, postponed by GASB Statement No. 95 for one year. The University has not determined the effect this Statement will have on its financial statements.

The GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The primary objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of interbank offered rates. The removal of the London Interbank Offered Rate as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020, postponed by GASB Statement No. 95 for one year. The University has not determined the effect this Statement will have on its financial statements.

The GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022. The University has not determined the effect this Statement will have on its financial statements.

During fiscal year 2020, the University implemented GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. The requirements of this Statement are effective immediately. This Statement did not have any effect on the University's financial statements.

The GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements for government end users. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022. The University has not determined the effect this Statement will have on its financial statements.

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Notes to Financial Statements
June 30, 2020 and 2019
(All dollars reported in thousands)

The GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The main objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution OPEB plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency and comparability of the accounting and financial reporting for Internal Revenue Code Section 457 deferred compensation plans that meet the definition of a pension plan and for benefits provided through those plans. Certain requirements of this Statement are effective immediately while other requirements, like reporting for section 457 plans are effective for fiscal years beginning after June 15, 2021. The University has not determined the effect this Statement will have on its financial statements.

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, 2020 and 2019, classified as cash and cash equivalents and operating investments, were \$198,209 and \$212,763, with corresponding bank balances of \$181,811 and \$219,633, 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 \$181,061 at June 30, 2020 and \$217,883 at June 30, 2019.

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

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

As a result of market fluctuations, the fair market value of certain donor-restricted endowments may fall below the historical cost of such funds and are 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. There were no deficiencies of this nature as of June 30, 2020 and 2019.

- **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.

University of Hawai‘i
State of Hawai‘i
(A Component Unit of the State of Hawai‘i)
Notes to Financial Statements
June 30, 2020 and 2019
(All dollars reported in thousands)

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 2020 and 2019, the University’s spending rate policy provided for annual distributions at 4.5 percent of the trailing five-year moving average of the endowment fair value.

At June 30, 2020 and 2019, the University’s investments were comprised of the following:

	2020		2019	
	Fair Value	Cost	Fair Value	Cost
Cash and money market funds	\$ 2,476	\$ 2,476	\$ 1,965	\$ 1,965
Fixed income securities	299,146	291,971	272,885	269,706
Equity securities	58,222	50,478	49,626	45,499
Time certificates of deposit	111,750	111,750	128,750	128,750
Other investments	1,297	1,297	905	905
Total investments	472,891	457,972	454,131	446,825
Less: Current portion	371,244	366,729	351,324	349,684
Total noncurrent investments	<u>\$ 101,647</u>	<u>\$ 91,243</u>	<u>\$ 102,807</u>	<u>\$ 97,141</u>

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Notes to Financial Statements
June 30, 2020 and 2019
(All dollars reported in thousands)

Changes in the University's investments for the year ended June 30, 2020 were as follows:

	Fair Value	Cost Basis	Net Unrealized Gain (Loss)	Net Realized Gain (Loss)
University Endowment Pool				
End of year	\$ 78,324	\$ 68,489	\$ 9,835	
Beginning of year	74,853	69,622	5,231	
Net change	<u>3,471</u>	<u>(1,133)</u>	<u>4,604</u>	\$ 54
Associated Students of the University of Hawai'i				
End of year	9,188	8,622	566	
Beginning of year	9,074	8,682	392	
Net change	<u>114</u>	<u>(60)</u>	<u>174</u>	(60)
School of Medicine				
End of year	2,453	2,453	-	
Beginning of year	2,577	2,575	2	
Net change	<u>(124)</u>	<u>(122)</u>	<u>(2)</u>	9
University Bond System				
End of year	10,385	10,382	3	
Beginning of year	15,398	15,357	41	
Net change	<u>(5,013)</u>	<u>(4,975)</u>	<u>(38)</u>	81
Operating investments				
End of year	371,244	366,729	4,515	
Beginning of year	351,324	349,684	1,640	
Net change	<u>19,920</u>	<u>17,045</u>	<u>2,875</u>	341
Other				
End of year	1,297	1,297	-	
Beginning of year	905	905	-	
Net change	<u>392</u>	<u>392</u>	<u>-</u>	-
Total investments				
End of year	472,891	457,972	14,919	
Beginning of year	454,131	446,825	7,306	
Net change	<u>\$ 18,760</u>	<u>\$ 11,147</u>	<u>\$ 7,613</u>	<u>\$ 425</u>

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Notes to Financial Statements
June 30, 2020 and 2019
(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
University Endowment Pool				
End of year	\$ 74,853	\$ 69,622	\$ 5,231	
Beginning of year	<u>72,692</u>	<u>65,825</u>	<u>6,867</u>	
Net change	<u>2,161</u>	<u>3,797</u>	<u>(1,636)</u>	\$ 4,667
Associated Students of the University of Hawai'i				
End of year	9,074	8,682	392	
Beginning of year	<u>8,896</u>	<u>8,880</u>	<u>16</u>	
Net change	<u>178</u>	<u>(198)</u>	<u>376</u>	(124)
School of Medicine				
End of year	2,577	2,575	2	
Beginning of year	<u>2,733</u>	<u>2,731</u>	<u>2</u>	
Net change	<u>(156)</u>	<u>(156)</u>	<u>-</u>	6
University Bond System				
End of year	15,398	15,357	41	
Beginning of year	<u>17,588</u>	<u>17,565</u>	<u>23</u>	
Net change	<u>(2,190)</u>	<u>(2,208)</u>	<u>18</u>	91
Operating investments				
End of year	351,324	349,684	1,640	
Beginning of year	<u>297,118</u>	<u>299,912</u>	<u>(2,794)</u>	
Net change	<u>54,206</u>	<u>49,772</u>	<u>4,434</u>	108
Other				
End of year	905	905	-	
Beginning of year	<u>254</u>	<u>254</u>	<u>-</u>	
Net change	<u>651</u>	<u>651</u>	<u>-</u>	-
Total investments				
End of year	454,131	446,825	7,306	
Beginning of year	<u>399,281</u>	<u>395,167</u>	<u>4,114</u>	
Net change	<u>\$ 54,850</u>	<u>\$ 51,658</u>	<u>\$ 3,192</u>	<u>\$ 4,748</u>

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Notes to Financial Statements
June 30, 2020 and 2019
(All dollars reported in thousands)

Net investment income for the years ended June 30, 2020 and 2019 was as follows:

	2020	2019
Summary of net investment income		
Change in unrealized net gain	\$ 7,613	\$ 3,192
Net realized gain	425	4,748
	<u>8,038</u>	<u>7,940</u>
Interest and dividend income	10,249	10,858
Investment income before management fees	18,287	18,798
Less: Management fees	546	482
Net investment income	<u>\$ 17,741</u>	<u>\$ 18,316</u>

The University's investments reported at fair value on a recurring basis have been categorized based on the fair value hierarchy in Note 1 at June 30, 2020 and 2019 as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Investments Not Categorized Within the Fair Value Hierarchy
2020				
Cash and money market funds	\$ 2,476	\$ 2,476	\$ -	\$ -
Fixed income securities	299,146	184,570	104,653	9,923
Equity securities	58,222	58,222	-	-
Time certificates of deposit	111,750	-	-	111,750
Other investments	1,297	-	-	1,297
Total investments	<u>\$ 472,891</u>	<u>\$ 245,268</u>	<u>\$ 104,653</u>	<u>\$ 122,970</u>
2019				
Cash and money market funds	\$ 1,965	\$ 1,965	\$ -	\$ -
Fixed income securities	272,885	155,260	111,491	6,134
Equity securities	49,626	49,626	-	-
Time certificates of deposit	128,750	-	-	128,750
Other investments	905	-	-	905
Total investments	<u>\$ 454,131</u>	<u>\$ 206,851</u>	<u>\$ 111,491</u>	<u>\$ 135,789</u>

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

The 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

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Notes to Financial Statements
June 30, 2020 and 2019
(All dollars reported in thousands)

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 Statements of Net Position and is not represented by the contract or notional amounts of the instruments.

Investment Risk Factors

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

Concentration Risk

Concentration risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the organization to greater risks resulting from adverse economic, political, regulatory, geographic or credit development. The University limits its risk of concentration of assets by limiting individual bond positions other than obligations of the U.S. government to not more than 5.0 percent of the total fixed income portion of the portfolio. Individual equities are limited to not more than 5.0 percent of the total market value of the stock portfolio. In addition, investment in any one stock is not to exceed 5.0 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, 2020 and 2019, along with credit quality ratings, is summarized below:

		Credit Quality Rating					
		U.S. Govt- Exempt	AAA	AA	A	BBB	BB or Lower
2020							
Money market funds	\$ 533	\$ -	\$ 533	\$ -	\$ -	\$ -	\$ -
U.S. Treasury	184,841	184,841	-	-	-	-	-
U.S. government agencies	101,974	-	-	101,974	-	-	-
Corporate bonds	12,331	-	307	1,006	4,105	6,445	468
Total fixed income securities	<u>\$ 299,679</u>	<u>\$ 184,841</u>	<u>\$ 840</u>	<u>\$ 102,980</u>	<u>\$ 4,105</u>	<u>\$ 6,445</u>	<u>\$ 468</u>
2019							
Money market funds	\$ 639	\$ -	\$ 639	\$ -	\$ -	\$ -	\$ -
U.S. Treasury	155,546	155,546	-	-	-	-	-
U.S. government agencies	103,445	-	-	103,445	-	-	-
Corporate bonds	13,894	-	265	1,890	5,560	5,854	325
Total fixed income securities	<u>\$ 273,524</u>	<u>\$ 155,546</u>	<u>\$ 904</u>	<u>\$ 105,335</u>	<u>\$ 5,560</u>	<u>\$ 5,854</u>	<u>\$ 325</u>

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Notes to Financial Statements
June 30, 2020 and 2019
(All dollars reported in thousands)

Interest Rate Risk

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

At June 30, 2020, 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
Money market funds	\$ 533	\$ 533	\$ -	\$ -	\$ -
U.S. Treasury	184,841	92,828	85,998	3,328	2,687
U.S. government agencies	101,974	31,133	64,472	-	6,369
Corporate bonds	12,331	812	5,500	4,238	1,781
Total fixed income securities	<u>\$ 299,679</u>	<u>\$ 125,306</u>	<u>\$ 155,970</u>	<u>\$ 7,566</u>	<u>\$ 10,837</u>

Foreign Currency Risk

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

At June 30, 2020 and 2019, the University's exposure to foreign currency risk expressed in U.S. dollars was not significant.

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Notes to Financial Statements
June 30, 2020 and 2019
(All dollars reported in thousands)

3. Foundation Investments

The Foundation invests in various types of investment securities that are reported at fair value. It applies the provisions of FASB Accounting Standard Codification ("ASC") Topic 820 in applying valuation techniques. The fair value hierarchy of inputs to valuation techniques in ASC Topic 820 are consistent with GASB Statement No. 72.

The Foundation's estimated fair values of investments measured on a recurring basis as of June 30, 2020 and 2019 were 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
2020					
Domestic equities	\$ 43,903	\$ 12,417	\$ -	\$ -	\$ 31,486
Fixed income securities	139,008	130,506	8,502	-	-
Foreign equities	68,972	26,666	-	-	42,306
Money market funds	590	590	-	-	-
Natural resources/real estate	26,505	3,440	-	9,497	13,568
Hedge funds	132,440	4,130	-	-	128,310
Private equity securities	45,851	-	-	1,906	43,945
Total investments	<u>\$ 457,269</u>	<u>\$ 177,749</u>	<u>\$ 8,502</u>	<u>\$ 11,403</u>	<u>\$ 259,615</u>
2019					
Domestic equities	\$ 42,331	\$ 10,221	\$ -	\$ -	\$ 32,110
Fixed income securities	132,903	122,579	10,324	-	-
Foreign equities	81,438	38,734	-	-	42,704
Money market funds	2,222	2,222	-	-	-
Natural resources/real estate	36,973	7,670	-	10,258	19,045
Hedge funds	107,619	5,281	-	-	102,338
Private equity securities	36,205	-	-	1,906	34,299
Total investments	<u>\$ 439,691</u>	<u>\$ 186,707</u>	<u>\$ 10,324</u>	<u>\$ 12,164</u>	<u>\$ 230,496</u>

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.

University of Hawai‘i
State of Hawai‘i
(A Component Unit of the State of Hawai‘i)
Notes to Financial Statements
June 30, 2020 and 2019
(All dollars reported in thousands)

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

- **Domestic equities** – These investments can be redeemed on a monthly or quarterly basis, with notification provided between 15 and 30 days prior to redemption.
- **Foreign equities** – These investments can be redeemed on a monthly basis with notification provided between 5 and 30 days prior to redemption.
- **Natural resources/real estate and private equity securities** – These investments can be redeemed at the discretion of the investment managers. The Foundation has commitments to contribute additional amounts to this class of investments of approximately \$39,700 at June 30, 2020.
- **Hedge funds** – Redemption frequency for these investments 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.

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.

4. Accounts Receivable

The composition of accounts receivable, net of allowance for uncollectible receivables, of \$36,106 and \$30,519 at June 30, 2020 and 2019, respectively, is summarized as follows:

	2020	2019
U.S. government	\$ 52,584	\$ 53,289
State and local government	10,832	9,653
Private agencies	11,953	13,962
Student tuition and fees	6,502	8,503
Other	8,150	8,413
	<u>\$ 90,021</u>	<u>\$ 93,820</u>

At June 30, 2020 and 2019, private agency receivables from the Foundation was \$7,577 and \$6,487, respectively. Private grant revenue from the Foundation approximated \$15,137 and \$15,014 during fiscal years 2020 and 2019, respectively.

The University has an agreement with the Foundation to receive fundraising and alumni services through June 30, 2020. The annual compensation under this agreement amounted to \$3,000 for each of the fiscal years 2020 and 2019. The service expense was paid in full as of fiscal years ended June 30, 2020 and June 30, 2019, and is reported in supplies, services, and cost of goods sold in the accompanying financial statements.

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Notes to Financial Statements
June 30, 2020 and 2019
(All dollars reported in thousands)

5. U.S. Government Funding

The federal government reimburses the University for certain overhead costs (e.g., facilities and administrative costs) incurred in support of federally-sponsored programs based on cost reimbursement rates negotiated with the University's cognizant agency, the U.S. Department of Health and Human Services. These reimbursements amounted to approximately \$44,654 in 2020 and \$45,387 in 2019 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.

6. Direct Loan Programs

During the years ended June 30, 2020 and 2019, the University distributed \$129,384 and \$137,147, respectively, in Direct Loan programs. These distributions and related funding sources are not included as expenses or revenues in the accompanying financial statements. There were no distributions of any student loans through the U.S. Department of Education Federal Perkins Loan Program.

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Notes to Financial Statements
June 30, 2020 and 2019
(All dollars reported in thousands)

7. Other Current Assets

Other current assets at June 30, 2020 and 2019 were comprised of:

	2020	2019
Accrued interest receivable	\$ 2,125	\$ 2,253
Inventories	8,601	7,281
Prepaid expenses	8,246	9,577
Other	450	62
	<u>\$ 19,422</u>	<u>\$ 19,173</u>

The inventories and the methods of valuation at June 30, 2020 and 2019 are summarized below:

		2020	2019
University of Hawai'i Bookstore merchandise inventory	Lower of cost or market using the first-in, first-out retail inventory method.	\$ 5,417	\$ 4,328
University of Hawai'i Chemistry Stockroom	Cost applied on the first-in, first-out basis.	1,167	1,112
University of Hawai'i Facilities Management Warehouse	Cost applied on the first-in, first-out basis.	957	917
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.	836	703
University of Hawai'i other inventory	Lower of cost or market using the weighted average cost method.	224	221
		<u>\$ 8,601</u>	<u>\$ 7,281</u>

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Notes to Financial Statements
June 30, 2020 and 2019
(All dollars reported in thousands)

8. Capital Assets

A summary of capital assets at June 30, 2020 and 2019 is as follows:

	Beginning Balance	Additions	Deductions	Transfers	Ending Balance
2020					
Nondepreciable capital assets					
Land	\$ 49,045	\$ -	\$ -	\$ 6,867	\$ 55,912
Construction in progress	240,254	134,387	782	(121,577)	252,282
Total capital assets not being depreciated	289,299	134,387	782	(114,710)	308,194
Depreciable capital assets					
Land improvements	153,096	515	-	3,481	157,092
Infrastructure	260,899	1,065	-	17,608	279,572
Buildings	2,592,462	16,256	8,231	92,501	2,692,988
Equipment	399,565	17,273	9,728	1,120	408,230
Library materials	176,998	1,885	-	-	178,883
Total capital assets being depreciated	3,583,020	36,994	17,959	114,710	3,716,765
Less: Accumulated depreciation	1,722,597	133,819	14,482	-	1,841,934
Capital assets, net	<u>\$ 2,149,722</u>	<u>\$ 37,562</u>	<u>\$ 4,259</u>	<u>\$ -</u>	<u>\$ 2,183,025</u>
2019					
Nondepreciable capital assets					
Land	\$ 47,295	\$ -	\$ -	\$ 1,750	\$ 49,045
Construction in progress	221,920	138,442	164	(119,944)	240,254
Total capital assets not being depreciated	269,215	138,442	164	(118,194)	289,299
Depreciable capital assets					
Land improvements	139,520	1,302	-	12,274	153,096
Infrastructure	253,346	528	-	7,025	260,899
Buildings	2,488,367	23,692	15,253	95,656	2,592,462
Equipment	392,943	13,438	10,055	3,239	399,565
Library materials	174,305	2,693	-	-	176,998
Total capital assets being depreciated	3,448,481	41,653	25,308	118,194	3,583,020
Less: Accumulated depreciation	1,602,969	139,521	19,893	-	1,722,597
Capital assets, net	<u>\$ 2,114,727</u>	<u>\$ 40,574</u>	<u>\$ 5,579</u>	<u>\$ -</u>	<u>\$ 2,149,722</u>

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.

Depreciation expense amounted to \$133,819 and \$129,922 during fiscal years 2020 and 2019, respectively.

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Notes to Financial Statements
June 30, 2020 and 2019
(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, 2020 and 2019 were as follows:

	2020		2019	
	Due from	Due to	Due from	Due to
State appropriations for current operations	\$ 1,951		\$ 944	
State capital appropriations – noncurrent	484,663		414,016	
Total due from State of Hawai'i	<u>\$ 486,614</u>		<u>\$ 414,960</u>	
Imprest/petty cash advances		\$ 74		\$ 74
Advance		6,000		6,000
Employee fringe adjustments		(265)		55
Total due to State of Hawai'i		<u>\$ 5,809</u>		<u>\$ 6,129</u>

10. Long-Term Liabilities

Long-term liability activity for the years ended June 30, 2020 and 2019 is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
2020					
Bonds payable					
Revenue bonds payable	\$ 506,655	\$ -	\$ 19,165	\$ 487,490	\$ 19,695
Other liabilities					
Workers' compensation	16,182	4,308	3,525	16,965	5,282
Accrued vacation	78,900	30,156	26,324	82,732	37,922
Net pension liability (Note 12)	1,695,799	294,900	199,601	1,791,098	-
Postemployment health care/life insurance benefits (Note 13)	1,800,496	133,754	131,758	1,802,492	-
Equipment lease obligations	28,428	-	1,386	27,042	1,551
Total other liabilities	<u>3,619,805</u>	<u>463,118</u>	<u>362,594</u>	<u>3,720,329</u>	<u>44,755</u>
Total long-term liabilities	<u>\$ 4,126,460</u>	<u>\$ 463,118</u>	<u>\$ 381,759</u>	<u>\$ 4,207,819</u>	<u>\$ 64,450</u>
2019					
Bonds payable					
Revenue bonds payable	\$ 525,425	\$ -	\$ 18,770	\$ 506,655	\$ 19,165
Other liabilities					
Workers' compensation	15,425	4,713	3,956	16,182	4,515
Accrued vacation	77,960	30,664	29,724	78,900	36,046
Net pension liability (Note 12)	1,648,600	267,865	220,666	1,695,799	-
Postemployment health care/life insurance benefits (Note 13)	1,783,860	167,067	150,431	1,800,496	-
Equipment lease obligations	30,531	-	2,103	28,428	1,425
Total other liabilities	<u>3,556,376</u>	<u>470,309</u>	<u>406,880</u>	<u>3,619,805</u>	<u>41,986</u>
Total long-term liabilities	<u>\$ 4,081,801</u>	<u>\$ 470,309</u>	<u>\$ 425,650</u>	<u>\$ 4,126,460</u>	<u>\$ 61,151</u>

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Notes to Financial Statements
June 30, 2020 and 2019
(All dollars reported in thousands)

Revenue Bonds Payable

The University's revenue bonds payable at June 30, 2020 and 2019 is as follows:

	Series	Date Issued	Authorized	2020	2019
Various acquisition and construction projects (interest rate, 2.5% to 6.0%)	2009A	April 15, 2009	\$ 100,000	\$ -	\$ 2,905
University of Hawai'i Cancer Center (interest rate, 2.5% to 6.0%)	2010A-1, 2010A-2	October 7, 2010	138,640	111,265	114,800
Various construction projects (interest rate, 2.5% to 6.0%)	2010B-1, 2010B-2	October 7, 2010	154,090	127,535	131,545
Hilo College of Pharmacy and Law School Expansion and Modernization (interest rate, 1.0% to 4.7%)	2015A	September 24, 2015	8,575	7,855	8,040
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	7,010	9,895
University Health & Wellness Center (interest rate, 0.8% to 2.8%)	2015D(R)	September 24, 2015	25,715	9,450	14,675
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	3,585	3,790
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	20,320	20,535
			<u>\$ 669,810</u>	<u>\$ 487,490</u>	<u>\$ 506,655</u>

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 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 \$5,499 and \$6,125 at June 30, 2020 and 2019, respectively. The coupon interest

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Notes to Financial Statements
June 30, 2020 and 2019
(All dollars reported in thousands)

rates for the Series 2017 Bonds range from 2.0 percent to 5.0 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 \$6,089 and \$6,972 at June 30, 2020 and 2019, 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 financial statements of the University. During the year ended June 30, 2016, \$163,245 of bonds outstanding from the Series 2006A University Revenue Bonds and the Refunding Series 2006A University Bonds were considered defeased. The defeasance resulted in an accounting gain of \$15,080 and an economic gain (difference between the present values of the debt service payment on the old and new debt) of \$9,573. The coupon interest rates for the Series 2015 Bonds range from 0.811 percent to 5.0 percent (first interest payment due on April 1, 2016) with the last maturity on October 1, 2044.

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 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 \$9,396 and \$9,400 in 2020 and 2019, respectively.

University of Hawai‘i
State of Hawai‘i
(A Component Unit of the State of Hawai‘i)
Notes to Financial Statements
June 30, 2020 and 2019
(All dollars reported in thousands)

The revenue bonds are paid from certain unrestricted revenues in annual installments, including semi-annual interest payments ranging from \$12 to \$12,212 with the final payment due in October 2044. Interest on the Series 2009A, 2010, 2015 and 2017 Bonds 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, 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 25.0 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.

At June 30, 2020, future maturities of revenue bonds are as follows:

Year ending June 30,	Principal	Interest
2021	\$ 19,695	\$ 24,082
2022	20,305	23,352
2023	21,050	22,479
2024	21,900	21,489
2025	22,795	20,450
2026–2030	126,800	84,865
2031–2035	131,770	51,521
2036–2040	104,585	19,300
2041–2045	18,590	774
	<u>\$ 487,490</u>	<u>\$ 268,312</u>

In October 2020, the University issued \$217,165 in Series 2020A (\$10,045, taxable new money), 2020B (\$44,555, tax-exempt refunding), 2020C (\$54,300, taxable refunding), 2020D (\$77,135, tax-exempt refunding), and 2020E (\$31,130, taxable refunding) Bonds (collectively, the “Series 2020 Bonds”) for the purpose of financing the costs of University projects and refunding previously issued bonds. The University projects include renovations and improvements to parking facilities. The Series 2020B and 2020C Bonds refunded the Series 2010A-1 University Revenue Bonds and the Series 2020D and 2020E Bonds refunded the Series 2010B-1 University Revenue Bonds. Total premium for the Series 2020 Bonds approximated \$25,710. The coupon interest rates for the Series 2020 Bonds range from 0.539 percent to 5.0 percent (first interest payment due on April 1, 2021) with the last maturity on October 1, 2040.

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Notes to Financial Statements
June 30, 2020 and 2019
(All dollars reported in thousands)

Bond Premiums

Activity related to the premiums on revenue bonds for the years ended June 30, 2020 and 2019 is as follows:

	Series	Beginning Balance	Additions	Reductions	Ending Balance
2020					
University of Hawai'i Cancer Center	2010A	\$ 17	\$ -	\$ 17	\$ -
Various construction projects	2010B	29	-	29	-
Student Housing	2015B(R)	4,588	-	310	4,278
John A. Burns School of Medicine	2015E(R)	6,219	-	635	5,584
Sinclair Library basement renovation	2017A	460	-	52	408
John A. Burns School of Medicine	2017B	241	-	24	217
Student Housing	2017D	100	-	9	91
Student Housing	2017F	8,618	-	727	7,891
Total bond premiums		<u>\$ 20,272</u>	<u>\$ -</u>	<u>\$ 1,803</u>	<u>\$ 18,469</u>
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		<u>\$ 22,185</u>	<u>\$ -</u>	<u>\$ 1,913</u>	<u>\$ 20,272</u>

Equipment Lease Obligations

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. 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.

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Notes to Financial Statements
June 30, 2020 and 2019
(All dollars reported in thousands)

At June 30, 2020, future minimum lease payments required under the capital lease agreements are as follows:

	Principal	Interest
Year ending June 30,		
2021	1,551	\$ 688
2022	1,565	649
2023	1,709	609
2024	1,838	566
2025	1,999	519
2026–2030	12,569	1,741
2031–2032	5,811	218
	<u>\$ 27,042</u>	<u>\$ 4,990</u>

11. Property Leases

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

	Lease Amount
Year ending June 30,	
2021	\$ 2,208
2022	2,164
2023	1,916
2024	1,149
2025	420
2026–2030	2,102
2031–2035	829
Thereafter	1,401
	<u>\$ 12,189</u>

Rent expense for outside space for the years ended June 30, 2020 and 2019 approximated \$6,473 and \$5,754, respectively.

12. 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/resources/financials>.

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Notes to Financial Statements
June 30, 2020 and 2019
(All dollars reported in thousands)

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 plans. 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 ten 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 35.0 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 30.0 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/re-entry 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.

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Notes to Financial Statements
June 30, 2020 and 2019
(All dollars reported in thousands)

Contributory Class for Members Hired Prior to July 1, 2012

- Retirement Benefits – General employees' retirement benefits are determined as 2.0 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 50.0 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 30.0 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 50.0 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 50.0 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.

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 50.0 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.

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Notes to Financial Statements
June 30, 2020 and 2019
(All dollars reported in thousands)

Hybrid Class for Members Hired Prior to July 1, 2012

- Retirement Benefits – General employees' retirement benefits are determined as 2.0 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 35.0 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 25.0 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 50.0 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 150.0 percent, or 50.0 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.

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 ten 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 ten years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest, or 50.0 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.

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Notes to Financial Statements
June 30, 2020 and 2019
(All dollars reported in thousands)

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 22.0 percent and 19.0 percent for fiscal years 2020 and 2019, respectively. Contributions to the pension plan for the University for the years ended June 30, 2020 and 2019 were \$142,908 and \$117,600, respectively.

Pursuant to 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 22.0 percent on July 1, 2019, and increased to 24.0 percent on July 1, 2020.

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

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

At June 30, 2020 and 2019, the University reported a liability of \$1,791,098 and \$1,695,800, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 and 2018, 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, 2019 and 2018, the University's proportion was 12.64 percent and 12.73 percent, respectively, which was a decrease of 0.09 percent. There was no change in the University's proportion at June 30, 2018 and 2017.

The following changes were made to actuarial assumptions as of June 30, 2018 to June 30, 2019.

- The assumed salary increase schedules include an ultimate component for general wage inflation that may add on additional increases for individual merit and then an additional component for step rates based on service.
- Mortality rates generally decreased due to the continued improvements in using a fully generational approach and Scale BB.

There were no changes between the measurement date, June 30, 2019, and the reporting date, June 30, 2020, that are expected to have a significant effect on the proportionate share of the net pension liability.

For the years ended June 30, 2020 and 2019, the University recognized pension expense of \$249,809 and \$203,974, respectively.

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Notes to Financial Statements
June 30, 2020 and 2019
(All dollars reported in thousands)

At June 30, 2020 and 2019, 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
2020		
Difference between expected and actual experience	\$ 31,338	\$ 3,585
Net difference between projected and actual investment earnings on pension plan investments	-	4,916
Change in assumptions	121,945	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	881	6,764
Contributions subsequent to the measurement date	142,908	-
Total deferred inflows and outflows of resources	<u>\$ 297,072</u>	<u>\$ 15,265</u>
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	<u>\$ 332,235</u>	<u>\$ 36,227</u>

At June 30, 2020, the \$142,908 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, 2021. The \$117,600 reported as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date at June 30, 2019 was recognized as a reduction of the net pension liability in the year ended June 30, 2020.

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,	
2021	\$ 80,714
2022	36,455
2023	9,518
2024	10,839
2025	1,373
	<u>\$ 138,899</u>

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Notes to Financial Statements
June 30, 2020 and 2019
(All dollars reported in thousands)

Actuarial Assumptions

The total pension liability in the June 30, 2019 and 2018 actuarial valuations was determined using the following actuarial assumptions adopted by the ERS's Board of Trustees on August 12, 2019, based on the 2018 Experience Study for the five-year period from July 1, 2013 through June 30, 2018:

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

The assumptions from the 2018 Experience Study did not change from the 2015 Experience Study for the five-year period from July 1, 2010 through June 30, 2015 as adopted by the ERS's Board of Trustees on December 12, 2016.

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, 2019 and 2018 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 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%
	<u>100.0%</u>	

University of Hawai‘i
State of Hawai‘i
(A Component Unit of the State of Hawai‘i)
Notes to Financial Statements
June 30, 2020 and 2019
(All dollars reported in thousands)

Discount Rate

The discount rate used to measure the net pension liability was 7.0 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 7.00 percent, for the measurement dates June 30, 2019 and 2018, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00 percent) or one percentage point higher (8.00 percent) than the current rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
2020			
The University's proportionate share of the net pension liability	<u>\$ 2,323,736</u>	<u>\$ 1,791,098</u>	<u>\$ 1,407,608</u>
2019			
The University's proportionate share of the net pension liability	<u>\$ 2,205,113</u>	<u>\$ 1,695,800</u>	<u>\$ 1,275,949</u>

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://ers.ehawaii.gov/resources/financials>.

Payable to the Pension Plan

The University's employer contributions payable to the ERS for fiscal years 2020 and 2019 were paid by June 30, 2020 and 2019, respectively. Excess payments of \$15,482 are being applied to amounts due in fiscal year 2021. Excess payments of \$6,025 were applied to amounts due in fiscal year 2020.

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Notes to Financial Statements
June 30, 2020 and 2019
(All dollars reported in thousands)

Other Benefits

The State absorbs the fringe benefit cost for the University's general funded employees. Fringe benefit costs included in total revenue and total expenditures amounted to \$304,701 and \$286,479 for fiscal years 2020 and 2019, 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 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 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, 2020 and 2019, accumulated sick leave approximated \$472,061 and \$475,761, 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 amounted to \$3,182 for fiscal years 2020 and 2019. Temporary wage loss payments for fiscal years 2020 and 2019 amounted to \$240 and \$417, respectively.

13. Postemployment Healthcare and Life Insurance Benefits

Plan Description

The State provides certain healthcare 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 at <https://eutf.hawaii.gov/reports>. The report may also be obtained by writing to:

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

For employees hired before July 1, 1996, the State pays the entire base monthly contribution for employees retiring with ten years or more of credited service, and 50.0 percent of the base monthly contribution for employees retiring with fewer than ten years of credited service. A retiree can elect a family plan to cover dependents.

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Notes to Financial Statements
June 30, 2020 and 2019
(All dollars reported in thousands)

For employees hired after June 30, 1996, but before July 1, 2001, and who retire with less than ten years of service, the State makes no contributions. For those retiring with at least ten years, but fewer than 15 years of service, the State pays 50.0 percent of the base monthly contribution. For employees retiring with at least 15 years, but fewer than 25 years of service, the State pays 75.0 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 ten years of service, the State makes no contributions. For those retiring with at least ten years, but fewer than 15 years of service, the State pays 50.0 percent of the base monthly contribution. For those retiring with at least 15 years, but fewer than 25 years of service, the State pays 75.0 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, 2019, the following number of plan members was covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	36,993
Inactive plan members entitled to but not yet receiving benefits	7,678
Active plan members	<u>50,591</u>
Total plan members	<u>95,262</u>

Contributions

Contributions are governed by HRS Chapter 87A and may be amended through legislation. Contributions to the OPEB plan for the University was \$139,980 and \$119,714 for the fiscal years ended June 30, 2020 and 2019, respectively. 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, 2020, and 2019, the University reported a net OPEB liability of \$1,802,492 and \$1,800,496, respectively, for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of July 1, 2019 and 2018, 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, 2019, and the reporting date, June 30, 2020, that are expected to have a significant effect on the net OPEB liability.

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Notes to Financial Statements
June 30, 2020 and 2019
(All dollars reported in thousands)

For the years ended June 30, 2020 and 2019, the University recognized OPEB expense of approximately \$125,785 and \$148,486, respectively. At June 30, 2020 and 2019, 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
2020		
Changes in assumptions	\$ 23,732	\$ 25,443
Net difference between projected and actual earnings on OPEB plan investments	3,430	-
Contributions subsequent to the measurement date	<u>138,452</u>	<u>-</u>
Total deferred inflows and outflows of resources	<u>\$ 165,614</u>	<u>\$ 25,443</u>
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	<u>139,980</u>	<u>-</u>
Total deferred inflows and outflows of resources	<u>\$ 158,561</u>	<u>\$ 33,052</u>

At June 30, 2020, the approximate \$138,452 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, 2021. 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 were recognized as a reduction of the net OPEB liability in the year ended June 30, 2020.

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,	
2021	\$ (1,052)
2022	(1,052)
2023	299
2024	644
2025	2,722
Thereafter	<u>158</u>
	<u>\$ 1,719</u>

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Notes to Financial Statements
June 30, 2020 and 2019
(All dollars reported in thousands)

Actuarial Assumptions

The total OPEB liabilities were determined by the EUTF's Board of Trustees adoption of the following actuarial assumptions based on the five-year experience study conducted for the ERS:

	2020	2019
Actuarial valuation date	July 1, 2019	July 1, 2018
Date of adoption	January 13, 2020	January 8, 2018
Five-year experience study end date	June 30, 2018	June 30, 2015
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	8.00%	10.00%
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	12 years	13 years
HMO*		
Initial rates	8.00%	10.00%
Ultimate trend rate	4.86%	4.86%
Number of years that the rate reaches the ultimate trend rate	12 years	13 years
Medicare Part B Contribution		
Initial rates	5.00%	4.00% and 5.00%
Ultimate trend rate	4.70%	4.70%
Number of years that the rate reaches the ultimate trend rate	11 years	12 years
Dental		
Initial rates (for the first two years)	5.00%	5.00%
Ultimate trend rate	4.00%	4.00%
Vision		
Initial rates (for the first two years)	0.00%	0.00%
Ultimate trend rate	2.50%	2.50%
Life Insurance		
Rate	0.00%	0.00%

* Blended rates for medical and prescription drugs.

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

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Notes to Financial Statements
June 30, 2020 and 2019
(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 %	8.80%
U.S. microcap	7.00 %	7.30%
U.S. equity	15.00 %	5.35%
Non-U.S. equity	17.00 %	6.90%
Global options	7.00 %	4.75%
Core real estate	10.00 %	3.90%
Private credit	6.00 %	5.60%
Core bonds	3.00 %	1.50%
TIPS	5.00 %	1.20%
Long treasuries	6.00 %	2.00%
Alternative risk premia	5.00 %	2.75%
Trend following	9.00 %	3.25%
	<u>100.00 %</u>	

Single Discount Rate

The discount rate used to measure the net OPEB liability was 7.00 percent, based on the expected rate of return on OPEB plan investments of 7.00 percent and the municipal bond rate of 3.13 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.

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Notes to Financial Statements
June 30, 2020 and 2019
(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 <https://eutf.hawaii.gov/reports>.

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, 2019 and July 1, 2018.

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
2020			
Beginning balance	\$ 2,022,062	\$ 221,566	\$ 1,800,496
Service cost	42,039	-	42,039
Interest on the total OPEB liability	132,510	-	132,510
Employer contributions	-	139,980	(139,980)
Net investment income	-	12,727	(12,727)
Benefit payments	(63,458)	(63,458)	-
Change in assumptions	10,650	-	10,650
Difference between expected and actual experience in the measurement of total OPEB liability	(1,103)	-	(1,103)
Administrative expense	-	(87)	87
Other	-	29,480	(29,480)
Net changes	<u>120,638</u>	<u>118,642</u>	<u>1,996</u>
Ending balance	<u>\$ 2,142,700</u>	<u>\$ 340,208</u>	<u>\$ 1,802,492</u>
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	<u>89,509</u>	<u>72,873</u>	<u>16,636</u>
Ending balance	<u>\$ 2,022,062</u>	<u>\$ 221,566</u>	<u>\$ 1,800,496</u>

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Notes to Financial Statements
June 30, 2020 and 2019
(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 7.00 percent, for the measurement dates July 1, 2019 and 2018, 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 (6.00 percent) or one percentage point higher (8.00 percent) than the current discount rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
2020			
The University's proportionate share of the net OPEB liability	<u>\$ 2,147,636</u>	<u>\$ 1,802,492</u>	<u>\$ 1,530,155</u>
2019			
The University's proportionate share of the net OPEB liability	<u>\$ 2,128,619</u>	<u>\$ 1,800,496</u>	<u>\$ 1,542,673</u>

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
2020			
The University's proportionate share of the net OPEB liability	<u>\$ 1,517,749</u>	<u>\$ 1,802,492</u>	<u>\$ 2,170,375</u>
2019			
The University's proportionate share of the net OPEB liability	<u>\$ 1,528,621</u>	<u>\$ 1,800,496</u>	<u>\$ 2,153,331</u>

Payables to the OPEB Plan

The University's employer contributions payable to the EUTF by fiscal year end was paid by June 30, 2020 and 2019.

Subsequent Supplementary Proclamation

The Fourteenth Supplementary Proclamation, issued on October 13, 2020, suspended specific provisions of law. Included were Sections 87A-42(b) – (f), HRS, other post-employment benefits trust, 87A-43, HRS, payment of public employer contributions to the other post-employment benefits trust, and 237-31(3), HRS, remittances, related to the requirement for public employers to pay the annual required contribution to EUTF in fiscal year 2021.

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Notes to Financial Statements
June 30, 2020 and 2019
(All dollars reported in thousands)

14. Asset Retirement Obligations

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 AROs were 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. The estimated ARO associated with the nonoperational telescope was updated in fiscal year 2020 based on an updated project budget prepared by management. Actual costs may be higher due to inflation or changes in construction costs or technology.

The ARO liability at June 30, 2020 and 2019 was \$9,561 and \$10,824, respectively, and is included in other noncurrent liabilities in the University's Statements of Financial Position. Deferred outflows of resources related to AROs amounted to \$2,402, and \$2,519 at June 30, 2020 and 2019, 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.

15. State Appropriations

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

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

Act 7, SLH 2020, Supplemental Appropriations Act of 2020, Section 3, provided \$126,238 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, 2020.

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Notes to Financial Statements
June 30, 2020 and 2019
(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.

Net general and capital appropriations for the year ended June 30, 2020 were as follows:

General appropriations

Act 5, SLH 2019, Appropriation Warrant No. 10	\$ 517,482
Act 61, SLH 2019, Appropriation Warrant No. 65	700
Act 39, SLH 2019, Appropriation Warrant No. 84	100
Act 156, SLH 2019, Appropriation Warrant No. 111	455
Act 164, SLH 2019, Appropriation Warrant No. 113	38
Act 168, SLH 2019, Appropriation Warrant No. 117	60
Act 228, SLH 2019, Appropriation Warrant No. 126	1,200
Act 264, SLH 2019, Appropriation Warrant No. 129	4,000
Act 265, SLH 2019, Appropriation Warrant No. 130	350
Act 266, SLH 2019, Appropriation Warrant No. 131	195
	<hr/>
	524,580
Total funds lapsed	(802)
Executive restriction	(11,275)
Collective bargaining adjustment	105
	<hr/>
Total general appropriations	\$ 512,608

Capital appropriations

Sections 30 & 56 of Act 49, SLH 2017, Amended by Section 5 of Act 53 SLH 2018	\$ 17,000
Sections 4 & 20, Act 40, SLH 2019	56,571
Section 4, Act 40, SLH 2019	131,150
Total funds lapsed	(956)
	<hr/>
Total capital appropriations	\$ 203,765

University of Hawai‘i
State of Hawai‘i
(A Component Unit of the State of Hawai‘i)
Notes to Financial Statements
June 30, 2020 and 2019
(All dollars reported in thousands)

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
	<u>483,058</u>
Total funds lapsed	(665)
Executive restriction	(2,138)
Collective bargaining adjustment	26,144
Total general appropriations	<u>\$ 506,399</u>

Capital appropriations

Sections 30 & 56 of Act 49, SLH 2017, Amended by Section 5 of Act 53 SLH 2018	\$ 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	<u>\$ 133,996</u>

Net transfers from the State for the years ended June 30, 2020 and 2019 were as follows:

	2020	2019
Fringe benefits	\$ 304,701	\$ 286,479
Hawai‘i Barrel Tax	2,575	2,665
School of Nursing	1,093	238
University of Hawai‘i Cancer Center	4,834	5,323
	<u>\$ 313,203</u>	<u>\$ 294,705</u>

16. 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.

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Notes to Financial Statements
June 30, 2020 and 2019
(All dollars reported in thousands)

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 \$311,279 and \$230,222 as of June 30, 2020 and 2019, respectively.

COVID-19 Pandemic

In March 2020, the World Health Organization declared the outbreak of COVID-19 as a pandemic which remains a rapidly evolving situation. The extent of the impact of COVID-19 on the University's financial position and results of operations will depend on future developments. While the University continues to design and execute plans to mitigate these risks, the duration of the disruption and its overall financial impact is expected to be substantial but cannot be reasonably estimated. The University has taken steps to mitigate the impact, including reducing operating expenses and implementing executive pay cuts, and continues to explore all options.

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Notes to Financial Statements
June 30, 2020 and 2019
(All dollars reported in thousands)

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 the recognized bargaining units for public employees throughout the State. Each bargaining unit is represented by an employee organization otherwise known as the exclusive 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 provided by HRS §89-6(a), and depending on the nature of their positions. The University is responsible for administering eight collective bargaining agreements ("CBAs") associated with the aforementioned bargaining units. The number of University employees in each bargaining unit ("Unit") as of October 12, 2020, are as follows:

- Unit 1 (nonsupervisory employees in blue collar positions): 512
- Unit 2 (supervisory employees in blue collar positions): 13
- Unit 3 (nonsupervisory employees in white collar positions): 556
- Unit 4 (supervisory employees in white collar positions): 39
- Unit 7 (faculty of the University and the community college system): 3,541
- Unit 8 (personnel of the University and the community college system, other than faculty): 2,402
- 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.

All Units at the University have CBAs that are effective through June 30, 2021. Employer Group and the various unions have commenced preliminary negotiations for the CBAs that will be effective beginning July 1, 2021; however, negotiations are in very early stages.

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Notes to Financial Statements
June 30, 2020 and 2019
(All dollars reported in thousands)

The current CBA salary increases for Units 1, 7, and 10 have been reported in the University's previous financial statements. However, Units 2, 3, 4, 8 and 9 did not have finalized CBAs for the period July 1, 2019 through June 30, 2021, as of our last Collective Bargaining update. Since then, tentative agreements between the Union and the employer group for Units 2, 3, 4, 8 and 9 have been funded by the appropriate legislative bodies, thereby becoming final, and the salary adjustments are as follows:

UNIT 2:

Effective July 1, 2019:

- Salary schedule in effect on June 30, 2019 starting point.
- Step movement plan is deleted.
- Employees receive \$2,000 lump sum bonus; employees less than full time will receive prorated amount.

Effective July 1, 2020:

- Employees on Step A1 move to C1. No employees left on Step A1.
- Employees on Steps B1 and C1 received 5.29% pay increases, and are no longer on the salary schedule.
- Delete Steps A1 and B1 from the salary schedule; rename Step C1 to Step A.
- Increase salary schedule by 1.2%.
- Move employees to the same pay range and step of new salary schedule.
- Employees who were on Step L5 on July 1, 2015 and are no longer on a step on the salary schedule receive 5.29% pay increase.
- Employees not administratively assigned to the salary schedule receive a 5.29% increase.

Effective January 1, 2021:

- 1.2% across-the-board increase to salary schedule, to become new salary schedule.
- Employees move from old salary schedule to same range and step of new salary schedule.
- Employees who were on Steps B1 and C1 on June 30, 2020, and are no longer on a step on the salary schedule get 1.2% increase.
- Employees who were on Step L5 on July 1, 2015, and are no longer on a step receive a 1.2% increase.
- MOA to address employees formerly on steps L5, B1 and C1.

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Notes to Financial Statements
June 30, 2020 and 2019
(All dollars reported in thousands)

UNIT 3

Effective July 1, 2019:

- \$2,800 lump sum payment for all employees; employees less than full time receive prorated amount.
- Replace the step movement plan with negotiated step movements.

Effective July 1, 2020:

- Employees on Steps B to L move one step, and Step B is deleted.
- Increase SR-4 through SR-8 by 2.0% to 10.1%.
- 2% one-time lump sum payment for SR-8 on Step M as of June 30, 2020.
- 4% one-time lump sum payment for SR-9 and above on Step M as of June 30, 2020, and SRNA.

Effective January 1, 2021:

- Increase salary schedule by 3.46%.
- Employees not administratively assigned (SRNA, exempt included employees) receive 3.46% pay increase.

UNIT 4:

Effective July 1, 2019:

- 5.98% lump sum payment based on June 30, 2019 annual base pay.
- Replace the step movement plan with negotiated step movements.

Effective July 1, 2020:

- Employees on Steps B move to Step C; Step B is deleted.
- Delete SR-4.
- Increase SR-5 to SR-8 by 5.6% to 11.8%.
- Increase salary schedule for SR-9 and above by 3.60%.
- Employees not assigned to salary schedule receive 3.60% increase.

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Notes to Financial Statements
June 30, 2020 and 2019
(All dollars reported in thousands)

Effective January 1, 2021:

- Increase salary schedule by 3.74%.
- Employees not administratively assigned (SRNA, exempt included employees) receive 3.74% pay increase).

UNIT 8:

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 (or second to last step) receive a one-step adjustment to the next higher step and a 2% lump sum payment.
- Employees on Step 48 (or last step) receive a 4% lump sum payment.
- 1.24% across-the-board increase to salary schedules for 11-month APTs and 9-month APTs.

Effective January 1, 2021:

- A 1.2% across the board increase for 11-month and 9-month APT Employees.

UNIT 9:

Effective July 1, 2019:

- Employees shall receive a 2.5% across-the-board 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% increase.
- 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.

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Notes to Financial Statements
June 30, 2020 and 2019
(All dollars reported in thousands)

- 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

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% across-the-board 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% increase.

**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)
Last Ten Fiscal Years*
(All dollars reported in thousands)

	2020	2019	2018	2017	2016	2015	2014
Proportionate share of the net pension liability	12.64%	12.73%	12.73%	12.75%	13.11%	13.60%	13.75%
Proportion of the net pension liability	\$ 1,971,098	\$ 1,695,800	\$ 1,648,600	\$ 1,704,470	\$ 1,144,564	\$ 1,089,882	\$ 1,227,787
Covered payroll	\$ 603,076	\$ 591,759	\$ 587,203	\$ 569,235	\$ 564,736	\$ 550,758	\$ 520,981
Proportionate share of the net pension liability as a percentage of its covered payroll	326.84%	286.57%	280.75%	299.43%	202.67%	197.89%	235.67%
Plan fiduciary net position as a percentage of total net pension liability	54.87%	55.48%	54.80%	51.28%	63.42%	63.92%	57.96%

* Information for 2011–2013 is unavailable.

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Schedule of Pension Contributions (Unaudited)
Last Ten Fiscal Years*
(All dollars reported in thousands)

	2020	2019	2018	2017	2016	2015	2014
Statutorily required contribution	\$ 133,759	\$ 115,001	\$ 111,436	\$ 98,865	\$ 97,394	\$ 93,949	\$ 88,381
Contributions in relation to the contractually required contribution	133,759	115,001	111,436	98,865	97,394	93,949	88,381
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 606,426	\$ 603,076	\$ 591,759	\$ 587,203	\$ 569,235	\$ 564,736	\$ 550,758
Contributions as a percentage of covered payroll	22.06%	19.07%	18.83%	16.84%	17.11%	16.64%	16.05%

* Information for 2011–2013 is unavailable.

1. Changes of Benefit Terms

There were no changes of benefit terms in 2020, 2019, 2018, 2017, 2016 or 2015.

2. Changes of Assumptions

There were no significant changes in actuarial assumptions in 2020, 2019 or 2018.

In fiscal year 2017, the discount rate for the June 30, 2016 actuarial valuation decreased by 0.65 percent from 7.65 percent to 7.00 percent and the mortality assumption decreased to reflect longer life expectancies and an explicit assumption for continued future mortality improvement (generational approach).

In fiscal year 2016, the discount rate for the June 30, 2015 actuarial valuation decreased by 0.10 percent from 7.75 percent to 7.65 percent.

There were no significant changes in actuarial 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)

Last Ten Fiscal Years*

(All dollars reported in thousands)

	2020	2019	2018
Total OPEB liability			
Service cost	\$ 42,039	\$ 40,189	\$ 31,124
Interest	132,510	124,435	94,505
Difference between expected and actual experience	(1,103)	(36,795)	-
Changes of assumptions	10,650	22,269	-
Benefit payments	(63,458)	(60,589)	(46,725)
Net change in total OPEB liability	120,638	89,509	78,904
Total OPEB liability – beginning	2,022,062	1,932,553	1,853,649
Total OPEB liability – ending	<u>\$ 2,142,700</u>	<u>\$ 2,022,062</u>	<u>\$ 1,932,553</u>
Plan fiduciary net position			
Employer contributions	\$ 139,980	\$ 119,714	\$ 92,918
Net investment income	12,727	13,793	9,303
Benefit payments	(63,458)	(60,589)	(46,725)
OPEB plan administrative expense	(87)	(45)	(23)
Other	29,480	-	747
Net change in plan fiduciary net position	118,642	72,873	56,220
Plan fiduciary net position – beginning	221,566	148,693	92,473
Plan fiduciary net position – ending	<u>340,208</u>	<u>221,566</u>	<u>148,693</u>
Net OPEB liability – ending	<u>\$ 1,802,492</u>	<u>\$ 1,800,496</u>	<u>\$ 1,783,860</u>
Plan fiduciary net position as a percentage of OPEB liability	15.88%	10.96%	7.69%
Covered-employee payroll	\$ 603,076	\$ 591,759	\$ 587,203
Net OPEB liability as a percentage of covered-employee payroll	298.88%	304.26%	303.79%

* Information for 2011-2017 is unavailable.

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Schedule of OPEB Contributions (Unaudited)
Last Ten Fiscal Years*
(All dollars reported in thousands)

	2020	2019	2018
Actuarially determined contribution	\$ 144,567	\$ 134,898	\$ 135,072
Contributions in relation to the actuarially required contribution	<u>138,452</u>	<u>139,980</u>	<u>119,714</u>
Contributions excess	<u>\$ 6,115</u>	<u>\$ (5,082)</u>	<u>\$ 15,358</u>
University's covered-employee payroll	\$ 606,426	\$ 603,076	\$ 591,759
Contributions as a percentage of covered employee payroll	22.83%	23.21%	20.23%

* Information for 2011-2017 is unavailable.

1. Changes of Benefit Terms

There were no changes of benefit terms in 2020 or 2019.

2. Changes of Assumptions

Actuarial assumption changes during the University's fiscal years 2020 and 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 13 of the financial statements.

Other Supplementary Information

Report of Independent Auditors on Supplemental Information

To the Board of Regents
University of Hawai'i

We have audited the financial statements of the University of Hawai'i as of and for the years ended June 30, 2020 and 2019, and our report thereon dated December 3, 2020, which expressed an unmodified opinion, appears on pages 1 to 2. Our audits were conducted for the purpose of forming an opinion on the 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 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Accuity LLP

Honolulu, Hawai'i
December 3, 2020

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, 2020 and 2019***(All dollars reported in thousands)***Schedule I**

	2020	2019
Condensed statements of net position		
Assets		
Current assets	\$ 403,411	\$ 380,384
Noncurrent assets	1,535	1,388
Total assets	<u>404,946</u>	<u>381,772</u>
Deferred outflows of resources		
Deferred outflows on asset retirement obligation	374	-
Total deferred outflows of resources	<u>374</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 405,320</u>	<u>\$ 381,772</u>
Liabilities		
Current liabilities	\$ 93,539	\$ 94,590
Noncurrent liabilities	20,039	11,948
Total liabilities	<u>113,578</u>	<u>106,538</u>
Net position		
Unrestricted	<u>291,742</u>	<u>275,234</u>
Total net position	<u>291,742</u>	<u>275,234</u>
Total liabilities and net position	<u>\$ 405,320</u>	<u>\$ 381,772</u>
Condensed statements of revenues, expenses and changes in net position		
Operating revenues	\$ 426,547	\$ 439,335
Operating expenses	<u>398,662</u>	<u>393,059</u>
Operating income	27,885	46,276
Nonoperating revenues and transfers	50,738	48,181
Nonoperating expenses and transfers	<u>62,115</u>	<u>67,739</u>
Change in net position	16,508	26,718
Net position		
Beginning of year	<u>275,234</u>	<u>248,516</u>
End of year	<u>\$ 291,742</u>	<u>\$ 275,234</u>

1. Basis of Presentation

The accompanying condensed statements of net position and related condensed statements of revenues, expenses, and changes in net position present the financial position and results of operations of certain of the University's Special and Revolving Funds, which are pledged as collateral on the University's Series 2009A, 2010A, 2010B, 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 University of Hawai'i Foundation is not reflected in this schedule.

University of Hawai'i

State of Hawai'i

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

Condensed Statements of Net Position

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

Current Unrestricted Funds Excluding General Fund

As of and for the Years Ended June 30, 2020 and 2019

(All dollars reported in thousands)

Schedule I

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, 2020 and 2019

(All dollars reported in thousands)

Schedule II

	2020	2019
Beginning balance	\$ 2,577	\$ 2,733
Additions		
Interest and investment income	45	59
Total additions	45	59
Deductions		
Payments – building, construction in progress, other	167	212
Management fees	2	3
Total deductions	169	215
Ending balance	\$ 2,453	\$ 2,577

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 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

State of Hawai'i

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

Schedules of Series 2006A Revenue Bond Proceeds Activity

Years Ended June 30, 2020 and 2019

(All dollars reported in thousands)

Schedule III

	2020	2019
Beginning balance	\$ 4,130	\$ 4,035
Additions		
Interest and investment income	77	99
Total additions	77	99
Deductions		
Management fees	3	4
Total deductions	3	4
Ending balance	\$ 4,204	\$ 4,130

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 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.

University of Hawai'i

State of Hawai'i

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

Schedules of Series 2009A Revenue Bond Proceeds Activity

Years Ended June 30, 2020 and 2019

(All dollars reported in thousands)

Schedule IV

	2020	2019
Beginning balance	\$ 1,600	\$ 1,565
Additions		
Interest and investment income	27	36
Total additions	27	36
Deductions		
Management fees	1	1
Total deductions	1	1
Ending balance	\$ 1,626	\$ 1,600

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 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.

University of Hawai'i

State of Hawai'i

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

Schedules of Series 2010A Revenue Bond Proceeds Activity

Years Ended June 30, 2020 and 2019

(All dollars reported in thousands)

Schedule V

	2010A-1	2010A-2
Balance at June 30, 2018	\$ 113	\$ 625
Additions		
Interest and investment income	<u>2</u>	<u>12</u>
Total additions	<u>2</u>	<u>12</u>
Deductions		
Payments – building, construction in progress, other	<u>-</u>	<u>288</u>
Total deductions	<u>-</u>	<u>288</u>
Balance at June 30, 2019	<u>115</u>	<u>349</u>
Additions		
Interest and investment income	<u>2</u>	<u>5</u>
Total additions	<u>2</u>	<u>5</u>
Deductions		
Payments – building, construction in progress, other	<u>-</u>	<u>30</u>
Total deductions	<u>-</u>	<u>30</u>
Balance at June 30, 2020	<u>\$ 117</u>	<u>\$ 324</u>

1. Basis of Presentation

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

University of Hawai'i

State of Hawai'i

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

Schedules of Series 2010B Revenue Bond Proceeds Activity

Years Ended June 30, 2020 and 2019

(All dollars reported in thousands)

Schedule VI

	2010B-1	2010B-2
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
Additions		
Interest and investment income	8	16
Total additions	8	16
Deductions		
Management fees	-	1
Total deductions	-	1
Balance at June 30, 2020	\$ 575	\$ 886

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 University of Hawai'i Foundation is not reflected in these schedules.

University of Hawai'i

State of Hawai'i

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

Schedules of Series 2015A Revenue Bond Proceeds Activity

Years Ended June 30, 2020 and 2019

(All dollars reported in thousands)

Schedule VII

	2020	2019
Beginning balance	\$ 5,266	\$ 5,322
Additions		
Interest and investment income	43	120
Total additions	43	120
Deductions		
Payments – building, construction in progress, other	4,655	171
Management fees	1	5
Total deductions	4,656	176
Ending balance	<u>\$ 653</u>	<u>\$ 5,266</u>

1. Basis of Presentation

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

University of Hawai'i

State of Hawai'i

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

Schedules of Series 2017A Revenue Bond Proceeds Activity

Years Ended June 30, 2020 and 2019

(All dollars reported in thousands)

Schedule VIII

	2020	2019
Beginning balance	\$ 2,500	\$ 4,521
Additions		
Interest and investment income	41	85
Total additions	41	85
Deductions		
Payments – building, construction in progress, other	538	2,103
Management fees	2	3
Total deductions	540	2,106
Ending balance	\$ 2,001	\$ 2,500

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 University of Hawai'i Foundation is not reflected in this schedule.

University of Hawai'i**State of Hawai'i**

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

Condensed Statements of Net Position**Condensed Statements of Revenues, Expenses, and Changes in Net Position****University Bond System****As of and for the Years Ended June 30, 2020 and 2019***(All dollars reported in thousands)***Schedule IX**

	2020	2019
Condensed statements of net position		
Assets and deferred outflows of resources		
Current assets	\$ 116,267	\$ 119,481
Capital assets, net	446,332	470,848
Other assets	10,385	15,399
Total assets	<u>572,984</u>	<u>605,728</u>
Deferred outflows of resources	11,588	13,097
Total deferred outflows of resources	<u>11,588</u>	<u>13,097</u>
Total assets and deferred outflows of resources	<u>\$ 584,572</u>	<u>\$ 618,825</u>
Liabilities		
Current liabilities	\$ 31,608	\$ 38,139
Noncurrent liabilities	487,555	508,993
Total liabilities	<u>519,163</u>	<u>547,132</u>
Net position		
Net investment in capital assets	(37,854)	(30,201)
Restricted expendable	1,039	1,038
Unrestricted	102,224	100,856
Total net position	<u>65,409</u>	<u>71,693</u>
Total liabilities and net position	<u>\$ 584,572</u>	<u>\$ 618,825</u>
Condensed statements of revenues, expenses, and changes in net position		
Operating revenues		
Bookstores	\$ 15,056	\$ 17,907
Room and other rentals	28,925	31,533
Parking	5,673	5,905
Telecommunications	3,321	2,887
Other operating revenues	9,483	9,658
Total operating revenues	<u>62,458</u>	<u>67,890</u>
Operating expenses (including \$29,639 and \$29,475 in depreciation expense in 2020 and 2019, respectively)	<u>(82,286)</u>	<u>(85,816)</u>
Operating loss	(19,828)	(17,926)
Nonoperating revenues	37,837	41,620
Nonoperating expenses	<u>(24,293)</u>	<u>(24,957)</u>
Change in net position	(6,284)	(1,263)
Net position		
Beginning of year	<u>71,693</u>	<u>72,956</u>
End of year	<u>\$ 65,409</u>	<u>\$ 71,693</u>

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, 2020 and 2019
(All dollars reported in thousands)

Schedule X

	2020	2019
Condensed statements of cash flows		
Net cash flows provided by (used in) operating activities	\$ (1,507)	\$ 18,819
Net cash flows provided by non-capital financing activities	2,477	5,307
Net cash flows used in capital and related financing activities	(12,839)	(17,979)
Net cash flows provided by (used in) investing activities	<u>13,055</u>	<u>(1,244)</u>
Net increase in cash and cash equivalents	1,186	4,903
Cash and cash equivalents		
Beginning of year	<u>16,143</u>	<u>11,240</u>
End of year	<u>\$ 17,329</u>	<u>\$ 16,143</u>

1. Reporting Entity

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

The University Bond System's outstanding debt was issued pursuant to the bond resolution adopted in November 2001 and as amended and supplemented by supplemental resolutions adopted in November 2006, February 2009, August 2010, January 2012, August 2015, and November 2017. 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 September 17, 2020, the University of Hawai'i Board of Regents adopted a supplemental resolution authorizing the issuance of University Revenue Bonds. The University, in October 2020, sold \$217,165 in Series 2020A (\$10,045, taxable new money), 2020B (\$44,555, tax-exempt refunding), 2020C (\$54,300, taxable refunding), 2020D (\$77,135, tax-exempt refunding), and 2020E (\$31,130, taxable refunding) Bonds for the purpose of financing the cost of a University project and refunding previously issued bonds. The Series 2020B and 2020C Bonds were issued to refund the Series 2010A-1 University Revenue Bonds and the Series 2020D and 2020E Bonds were issued to refund the Series 2010B-1 University Revenue Bonds.

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, 2020 and 2019

(All dollars reported in thousands)

Schedule X

2. Basis of Presentation

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

3. Employee Benefits

In accordance with University policy, the University's liability for other postemployment benefits ("OPEB") 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.