



UNIVERSITY of HAWAII®
SYSTEM



FULFILL KULEANA TO
NATIVE HAWAIIANS



DEVELOP SUCCESSFUL
STUDENTS

**2023 Annual Report
Required Supplementary
Information, and Other
Supplementary Information
University of Hawai'i State
of Hawai'i**



MEET HAWAII'S
WORKFORCE NEEDS



DIVERSIFY HAWAII'S
ECONOMY

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State of Hawai‘i
(A Component Unit of the State of Hawai‘i)
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June 30, 2023

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Report of Independent Auditors

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

Opinion

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 year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the accompanying index.

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, 2023, and the changes in financial position and, where applicable, cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of the University of Hawai'i Foundation (the "Foundation"), which represent 21.6% of the total assets and deferred outflows of resources and 0.7% of the total operating revenues of the University as of and for the year ended June 30, 2023. Those financial statements were audited by other auditors whose report thereon has 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 year ended June 30, 2023, are based solely on the report of the other auditors.

Basis for Opinion


We conducted our audit 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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. The financial statements of the Foundation were not audited under *Government Auditing Standards*. We are required to be independent of the University, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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 and for 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.

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In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate that raise substantial doubt about the University's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment, made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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.

Accuity LLP

Honolulu, Hawai'i
December 7, 2023

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, 2023

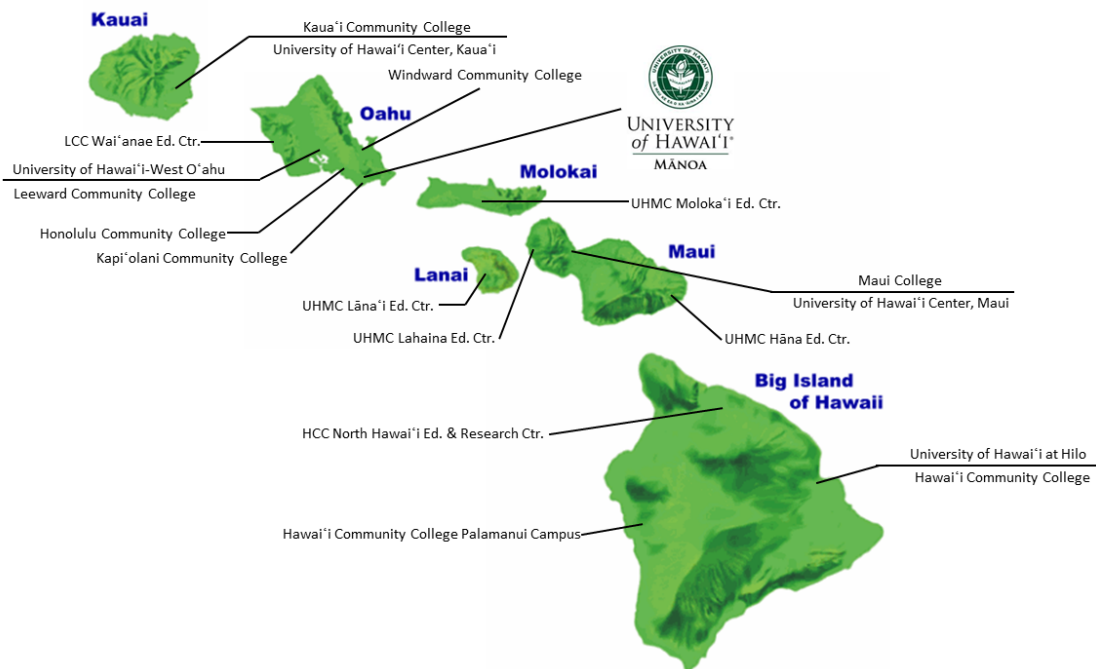
Introduction

The following discussion and analysis provide an overview of the financial position and activities of the University of Hawai‘i (the “University” or “UH”) for the year ended June 30, 2023, with selected information for the year ended June 30, 2022. 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.



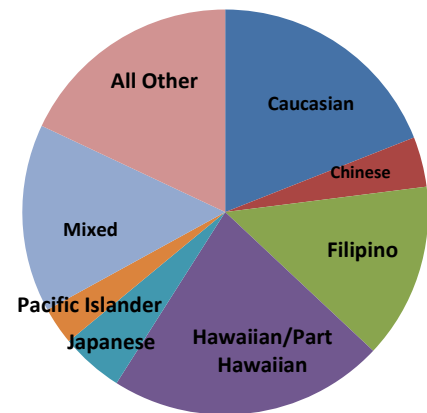
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| Students | Academic Year 2023 | Academic Year 2022 |
|-----------------|---------------------------|---------------------------|
| Undergraduate | 43,896 | 43,113 |
| Graduate | 5,037 | 5,260 |
| Total | 48,933 | 48,373 |

| Type of Degrees Awarded | 712 |
|----------------------------------|------------|
| Certificates: Community Colleges | 166 |
| Certificates: University | 133 |
| Associate degrees | 115 |
| Bachelor’s degrees | 146 |
| Master’s degrees | 94 |
| Doctoral degrees | 51 |
| Professional degrees | 7 |

| Residency | |
|------------------|------|
| Hawai‘i | 80 % |
| Mainland | 15 % |
| U.S Affiliated | 1 % |
| Foreign | 4 % |

| Student Diversity (full time Students) | |
|---|------|
| Caucasian | 19 % |
| Chinese | 4 % |
| Filipino | 14 % |
| Hawaiian/Part Hawaiian | 22 % |
| Japanese | 5 % |
| Pacific Islander | 3 % |
| Mixed | 15 % |
| All Other | 18 % |



| Total Revenues (\$ in thousands) | Fiscal Year 2023 | % of Total | Fiscal Year 2022 |
|--|-------------------------|-------------------|-------------------------|
| Net tuition and fees | \$ 272,735 | 13 % | \$ 268,126 |
| Contracts and grants (including Pell grants) | 629,189 | 31 % | 641,320 |
| State appropriations | 580,768 | 29 % | 497,862 |
| Transfer from State for fringe benefits | 246,138 | 12 % | 232,603 |
| Sales and services | 94,704 | 5 % | 91,894 |
| Capital State appropriations | 156,078 | 8 % | 150,650 |
| Others | 54,608 | 2 % | (3,177) |
| Total | \$ 2,034,220 | 100 % | \$ 1,879,278 |

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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:

- **Statement of Net Position** – The Statement 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.
- **Statement of Revenues, Expenses, and Changes in Net Position** – The Statement of Revenues, Expenses, and Changes in Net Position presents the University’s revenues and expenses and illustrates 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 Statement of Revenues, Expenses, and Changes in Net Position distinguishes 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.
- **Statement of Cash Flows** – The Statement of Cash Flows distinguishes between cash inflows and outflows from operating activities, non-capital financing activities, capital, and related financing activities, and investing activities.
- **Notes to 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 materiality.

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.

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Financial Position

The Statement 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, 2023 and 2022 are summarized as follows (in thousands of dollars):

| | 2023 | 2022 | 2023 vs 2022 Change |
|--|---------------------|---------------------|------------------------|
| Current assets | | | |
| Cash and operating investments | \$ 831,826 | \$ 678,513 | \$ 153,313 |
| Receivables, net | 142,604 | 133,270 | 9,334 |
| Other current assets | 18,460 | 19,645 | (1,185) |
| Total current assets | <u>992,890</u> | <u>831,428</u> | 161,462 |
| Noncurrent assets | | | |
| Endowment and other investments | 112,574 | 105,330 | 7,244 |
| Capital assets, net | 2,166,345 | 2,147,010 | 19,335 |
| Other noncurrent assets | 565,050 | 520,583 | 44,467 |
| Total assets | <u>3,836,859</u> | <u>3,604,351</u> | 232,508 |
| Deferred outflows of resources | | | |
| Deferred outflows on net pension and OPEB liability and other | 303,600 | 280,380 | 23,220 |
| Total deferred outflows of resources | <u>303,600</u> | <u>280,380</u> | 23,220 |
| Total assets and deferred outflows of resources | <u>\$ 4,140,459</u> | <u>\$ 3,884,731</u> | \$ 255,728 |
| Current liabilities | \$ 258,627 | \$ 265,992 | \$ (7,365) |
| Noncurrent liabilities | | | |
| Revenue bonds payable | 395,610 | 416,765 | (21,155) |
| Net pension liability and other postemployment benefits | 3,073,192 | 3,112,229 | (39,037) |
| Other noncurrent liabilities | 107,551 | 128,600 | (21,049) |
| Total liabilities | <u>3,834,980</u> | <u>3,923,586</u> | (88,606) |
| Deferred inflows of resources | | | |
| Deferred inflows on net pension and OPEB liability | 456,916 | 462,658 | (5,742) |
| Total deferred inflows of resources | <u>456,916</u> | <u>462,658</u> | (5,742) |
| Net position | | | |
| Net investment in capital assets | 1,736,520 | 1,667,468 | 69,052 |
| Restricted | | | |
| Nonexpendable | 10,493 | 10,493 | - |
| Expendable | 580,639 | 544,161 | 36,478 |
| Unrestricted | <u>(2,479,089)</u> | <u>(2,723,635)</u> | 244,546 |
| Total net position | <u>(151,437)</u> | <u>(501,513)</u> | 350,076 |
| Total liabilities, deferred inflows of resources, and net position | <u>\$ 4,140,459</u> | <u>\$ 3,884,731</u> | \$ 255,728 |

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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 two fiscal years, which resulted mainly from the implementation of the 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% unencumbered cash from all tuition and fee funds, special funds, and revolving funds. At June 30, 2023 and 2022, working capital amounted to \$734.3 million and \$565.4 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 \$1.5 billion of operating expenses (excluding depreciation) for the year ended June 30, 2023, the working capital at year-end represents approximately 156 days of operating funds, as compared to 119 days of operating funds in 2022.

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

- Current assets consist primarily of cash and cash equivalents, operating investments, and net receivables. Total current assets were \$992.9 million and \$831.4 million at June 30, 2023 and 2022, respectively. Total current assets increased by \$161.5 million, or 19.4% at June 30, 2023, primarily due to a \$153.3 million increase in cash and operating investments. As interest rates continue to rise in fiscal year 2023, the University has opted to increase their holdings of government securities and treasury notes. Increase in cash balances was attributed to an increase in cash received from operations due to a \$53 million increase in operating revenues.
- Current liabilities consist primarily of accounts payable, accrued payroll and fringe benefits, advances from sponsors, and unearned revenue. Current liabilities also include amounts due to the State of Hawai‘i, the current portion of long-term liabilities, and other current liabilities. Total current liabilities were \$258.6 million and \$266.0 million at June 30, 2023 and 2022, respectively. Total current liabilities decreased by \$7.4 million, or 2.8% for the fiscal year ended June 30, 2023, as a result of a \$4.9 million decrease in accrued payroll and fringe benefits and a \$6.7 million decrease in current portion of long-term liabilities, offset by a \$7.8 million increase in accounts payable.

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 (“ASUH”) endowment, and unspent bond proceeds. The aggregate investment balance remained relatively consistent in fiscal years 2023 and 2022.

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

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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. Effective April 15, 2021, the spending rate policy provides for an annual distribution of up to 4.25% of a rolling 20-quarter average value of the funds, with the value determined at the end of each calendar quarter and the actual distribution to be determined by the University administration for the legacy endowment and by the ASUH Board for the ASUH Stadium Stock Fund. Prior to April 15, 2021, the annual distribution rate ranged between 3.0% and 5.0% of the five-year moving average of the endowment portfolio’s fair value. In fiscal years 2023 and 2022, the University instituted a 4.10% and 4.25% distribution rate, respectively, on restricted and unrestricted endowments. The total restricted and unrestricted distributions available to the University amounted to \$2.9 million and \$2.8 million in fiscal years 2023 and 2022, respectively.

Total endowment and other investments were \$112.6 million and \$105.3 million in fiscal years 2023 and 2022, respectively. Total endowment and other investments increased by \$7.3 million, or 6.9%, at June 30, 2023, as a result of endowment investment purchases and sales.

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, 2023 and 2022, total capital assets, net of accumulated depreciation, remained relatively constant at approximately \$2.17 billion and \$2.15 billion. Total capital assets represented approximately 56.5% and 59.6% of the University’s total assets in fiscal years 2023 and 2022, respectively. Capital asset additions totaled \$166.8 million and \$113.3 million in fiscal years 2023 and 2022, respectively.

Capital asset additions increased by \$53.5 million in fiscal year 2023 in comparison to fiscal year 2022, due to increased funding from the State.

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.

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Significant capital projects completed during fiscal years 2023 and 2022 or in progress as of June 30, 2023 and 2022 include:

- **Coconut Island Marine Laboratory 1 & 2** – The \$21.6 million Hawai‘i Institute of Marine Biology (HIMB) Laboratory on Coconut Island was completed on February 1, 2022. The 23,000 square foot facility has been fully renovated with new energy efficient HVAC, lighting controls, and PV panels. The renovation also helped to contribute to the energy goals for the UH-Mānoa as well as enforce structural walls to meet seismic and hurricane standards.
- **Leeward Community College Product Development Center Renovation** – The \$17.2 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 & manufacturing rooms, laboratories, and a public loft space. The product development center will take agricultural items that would normally be wasted and turn them into value added food products that can be marketed and sold. The project is estimated to be completed by December 2023.
- **UH-Mānoa Student Success Center** – The \$56 million project will transform Sinclair Library into a Student Success Center. The Student Success Center will allow students to study individually or in groups, collaborate and receive academic advising and tutoring. Sinclair’s central location will provide students a safe place to interact. The project is estimated to be completed in August 2024.
- **UH-Mānoa Bachman Hall Renovation** – The UH-Mānoa Bachman Hall is being renovated. Improvements to the 72-year Bachman Hall includes a new central HVAC system, a new roof, and a new life safety system. Renovations will be made to the windows, floors, ceilings, restrooms and walls, along with mechanical, electrical, plumbing and telecom. The \$25.2 million project is estimated to be completed by December 2023.
- **UH-Mānoa Clarence T.C. Ching Complex Expansion and Improvement Project** – The Clarence T.C. Ching Complex was completely renovated for the 2021 Football Season. The original project included new field turf, additional seating to accommodate 9,300 fans, a new score board, grandstands, press box, and concession which was completed on September 3, 2021. The \$15 million second phase of the project added 7,700 seats to meet National Collegiate Athletic Association (“NCAA”) rules and the framing and underground utility infrastructure for the 75-foot-wide Aloha Stadium scoreboard. The second phase was completed on July 31, 2023 in time for the 2023 Football Season.
- **The Maui Food Innovation Center at UH-Maui College** – The \$9 million project renovated the Pilina building which houses the Maui Food Innovation Center (“MFIC”). The project included a brand-new manufacturing and packaging facility which students and the community can utilize to market and advance Maui County foods. The MFIC offers educational and technical classes to assist students to create businesses that will create jobs, increase profitability of Maui County products, and reduce the dependence on imports. The project was completed on December 13, 2022.
- **Ho‘ola Early Phase Clinical Research Center** – The University and the National Institutes of Health are building a clinical research center in the annex portion of the University’s Cancer Center building. The \$13 million renovation will provide the people of Hawai‘i a place to go for specialized treatments without leaving the state. The 16,500 square foot facility is striving for WELL and LEED certifications and will include an Organoid Generation Facility. The project is estimated to be completed by May 2024.

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- **Kapi‘olani Community College Culinary Institute of the Pacific, Phase 2** – Phase 2 of the Culinary Institute of the Pacific at Kapi‘olani Community College includes a restaurant, an innovation center, an auditorium, and parking. The \$30 million design build project is estimated to be completed in May 2024.
- **UH-Hilo Pharmacy Modular Buildings Renovation** – Work to renovate the UH-Hilo Pharmacy Modular Buildings was completed on March 7, 2023. The \$7.3 million dollar renovation replaced the HVAC and roof of Building B, while preparing Building C to handle the Nuclear Magnetic Resonance (“NMR”) equipment that is currently located in the Waiākea Research Station.
- **UH-Maui College Hospitality Academy Training Center** – The UH-Maui College is completely renovating their Multipurpose Building into a Hospitality Training Center. The \$5.8 million renovation of the building includes upgrades to the HVAC, electrical and plumbing systems, and will create mock hotel rooms so students in the Hospitality and Tourism program will have hands-on experience in a hotel setting. The project is scheduled to be completed for the Fall 2024 semester.

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 2023 and 2022, 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 2023 and 2022, \$153.3 million and \$148.8 million, respectively, were appropriated.
- **Revenue bonds** – The University has previously issued revenue bonds to finance capital projects. These bonds are carried as liabilities of the University. Total revenue bond liabilities were \$416.8 million and \$437.0 million for fiscal years 2023 and 2022, 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 \$9.9 million and \$9.4 million in fiscal years 2023 and 2022, respectively. The University also receives a portion of the State of Hawai‘i’s cigarette tax revenues, by statute, for the University’s Cancer Center to be used for research and operating expenses and capital expenditures. Cigarette tax revenues of \$6.9 million were used to cover debt service for the bonds that financed the University’s Cancer Center for each of the fiscal years 2023 and 2022. Refer to Note 9 for more information regarding the University revenue bonds.
- **Equipment financing obligations** – In November 2017, the University entered into two tax-exempt financing 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 UH-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. These financing agreements were paid off in full in fiscal year 2023.

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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, 2023 and 2022 is summarized as follows (in thousands of dollars):

| | 2023 | 2022 |
|----------------------------------|---------------------|---------------------|
| Net investment in capital assets | \$ 1,736,520 | \$ 1,667,468 |
| Restricted – Nonexpendable | 10,493 | 10,493 |
| Restricted – Expendable | 580,639 | 544,161 |
| Unrestricted | <u>(2,479,089)</u> | <u>(2,723,635)</u> |
| Total net position | <u>\$ (151,437)</u> | <u>\$ (501,513)</u> |

Net investment in capital assets is the University’s capital assets, 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 \$69.1 million, or 4.1%, in fiscal year 2023, primarily due to a net increase in capital assets of \$19.3 million, a \$19.3 million increase in the net change of debt retirement related to revenue bonds, net of proceeds used in current year, offset by a decrease of TELP funds of \$23.7 million.

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.

The overall increase in restricted expendable of \$36.5 million in fiscal year 2023 was primarily due to a \$32.5 million increase in plant funds.

Net position that is not subject to externally imposed restrictions governing their use is classified as unrestricted for financial reporting purposes. At June 30, 2023 and 2022, unrestricted net positions amounted to deficits of \$2.48 billion and \$2.72 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 \$55.8 million and \$51.1 million were designated for endowment activities at June 30, 2023 and 2022, respectively.

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The negative unrestricted net position for the years ended June 30, 2023 and 2022 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):

| | 2023 | 2022 |
|------------------------------------|-------------------|-------------------|
| Unrestricted net position | \$ (2,479,089) | \$ (2,723,635) |
| Pension | 1,556,453 | 1,605,467 |
| OPEB | <u>1,604,430</u> | <u>1,694,583</u> |
| Adjusted net unrestricted position | <u>\$ 681,794</u> | <u>\$ 576,415</u> |

Results of Operations

The Statement of Revenues, Expenses, and Changes in Net Position represents 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.

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The University’s results of operations for the years ended June 30, 2023 and 2022, summarized to match revenues supporting core activities with expenses associated with core activities, are as follows (in thousands of dollars):

| | 2023 | 2022 | 2023 vs 2022 Change |
|---|---------------------|---------------------|------------------------|
| Revenues | | | |
| Operating | | | |
| Tuition and fees | \$ 403,207 | \$ 400,605 | \$ 2,602 |
| Less: Scholarship allowances | (130,472) | (132,479) | 2,007 |
| Grants and contracts | 469,154 | 423,744 | 45,410 |
| Sales and services | 94,704 | 91,894 | 2,810 |
| Other revenue | 185 | 3 | 182 |
| Total operating revenues | <u>836,778</u> | <u>783,767</u> | <u>53,011</u> |
| Nonoperating | | | |
| State appropriations and transfers for fringe benefits | 826,906 | 730,465 | 96,441 |
| Federal Pell grant and federal non-operating revenues | 160,035 | 217,576 | (57,541) |
| Net investment (loss) gain | 22,537 | (31,407) | 53,944 |
| Private gifts | 2,323 | 3,186 | (863) |
| Total nonoperating revenues | <u>1,011,801</u> | <u>919,820</u> | <u>91,981</u> |
| Total revenues supporting core activities | <u>1,848,579</u> | <u>1,703,587</u> | <u>144,992</u> |
| Expenses | | | |
| Operating | | | |
| Compensation and benefits | 1,086,895 | 1,091,105 | (4,210) |
| Supplies, services and cost of goods sold | 215,189 | 181,567 | 33,622 |
| Telecom and utilities | 82,077 | 69,095 | 12,982 |
| Scholarships and fellowships | 34,101 | 86,571 | (52,470) |
| Other expense | 103,220 | 84,065 | 19,155 |
| Total operating expenses | <u>1,521,482</u> | <u>1,512,403</u> | <u>9,079</u> |
| Nonoperating revenues (expenses) | | | |
| Transfers from State, net | 22,733 | 22,236 | 497 |
| Interest expense | (13,467) | (14,464) | 997 |
| Total nonoperating revenues, net | <u>9,266</u> | <u>7,772</u> | <u>1,494</u> |
| Expenses associated with core activities before depreciation | <u>1,512,216</u> | <u>1,504,631</u> | <u>7,585</u> |
| Gain from core activities before depreciation and amortization | <u>336,363</u> | <u>198,956</u> | <u>137,407</u> |
| Depreciation and amortization | <u>146,281</u> | <u>143,957</u> | <u>2,324</u> |
| Expenses associated with core activities including depreciation | <u>1,658,497</u> | <u>1,648,588</u> | <u>9,909</u> |
| Gain from core activities | <u>190,082</u> | <u>54,999</u> | <u>135,083</u> |
| Other nonoperating activity | | | |
| Capital appropriations and grants | 161,343 | 152,131 | 9,212 |
| Other expenses, net | (1,349) | (5,551) | 4,202 |
| Other nonoperating income, net | <u>159,994</u> | <u>146,580</u> | <u>13,414</u> |
| Increase in net position | <u>350,076</u> | <u>201,579</u> | <u>\$ 148,497</u> |
| Net position | | | |
| Beginning of year | <u>(501,513)</u> | <u>(703,092)</u> | |
| End of year | <u>\$ (151,437)</u> | <u>\$ (501,513)</u> | |

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Revenues Supporting Core Activities

The University has a diversified stream of revenues to support its operations. No single source generated more than 35% of the total 2023 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 2023 and 2022. Scholarship allowances amounted to \$130.5 million and \$132.5 million in fiscal years 2023 and 2022, respectively.

One of the largest sources of revenue continues to be grants and contracts. Total grants and contracts revenue increased by \$45.4 million, or 10.7%, in fiscal year 2023. 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. In fiscal year 2023, Federal Pell grant and Coronavirus Aid, Relief, and Economic Security Act (“CARES”) Act program revenues decreased \$57.5 million. The fiscal year 2023 decrease was due to the University recognizing nonoperating revenue of \$113.8 million and \$171.6 million associated with the American Rescue Plan Act (“ARPA”), the Coronavirus Response and Relief Supplemental Appropriations Act (“CRRSAA”), and the CARES Act in fiscal years 2023 and 2022, respectively, an overall decrease of \$57.8 million.

Sales and services revenues are mainly comprised of bookstores, student and faculty housing, food services, parking, and athletics. In fiscal year 2023, sales and services revenues increased by \$2.8 million, or 3.1%, which was largely due to a decrease of \$14.0 million in other auxiliary enterprises revenue from educational departments, offset by a significant increase of \$13.4 million in other auxiliary enterprises revenue from tickets sales, due to an increased amount of in-person presence on campus.

The State continues to provide strong financial support to the University as the sole public higher education system within the State. In fiscal year 2023, general state appropriations and transfers from the State for fringe benefits increased by \$13.5 million, or 5.8%, and \$82.9 million, or 16.7%, respectively, from fiscal year 2022. The increase in fiscal year 2023 was primarily attributable to the return to pre-pandemic levels of state revenues and overall budget. In response, the Legislature increased the overall state budget by \$1.1 billion, or 6.9%, in fiscal year 2023.

Net transfers from State amounted to \$22.7 million and \$22.2 million in fiscal years 2023 and 2022, 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’s Cancer Center cigarette stamp tax collections.

The University’s net investment income of \$22.5 million in fiscal year 2023 represents an increase of \$53.9 million, or 171.8%, from fiscal year 2022. The fiscal year 2023 increase was primary due to the \$12.4 million increase of interest and dividend income and \$44.3 million of the unrealized gains on endowment and operating investments, as a result of rising interest rates and an overall improvement of the stock market.

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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 71.4% and 72.1% were related to compensation and benefits during fiscal years 2023 and 2022, respectively.

Compensation and benefits went down by \$4.2 million, or 0.4%, in fiscal year 2023. The fiscal year 2023 decrease was attributable to a \$36.2 million decrease in OPEB adjustments, offset by a \$23.4 million increase in payroll expenses due to hiring of additional employees and annual raises, and a \$8.6 million increase in pension adjustments due to the GASB 75 requirement previously established to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive liabilities.

Supplies, services, and cost of goods sold expense includes service fees, printing and binding, advertising, dues and subscriptions, non-capital property acquisitions, cost of goods sold for resale items, and other miscellaneous operating costs. Such expenses increased by \$33.6 million, or 18.5%, in fiscal year 2023. The fiscal year 2023 increase was primarily attributable to an increase in other service expenses, due to an increase in student activity relative to previous years, as lingering effects of the pandemic continue to diminish.

The University is committed to providing quality education that is affordable 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 \$164,573 and \$219,050 in fiscal years 2023 and 2022, respectively. The decrease of \$54.5 million, or 24.9%, from fiscal year 2023 is due to decrease in direct student aid provided for under the ARPA and the CARES Act, as the majority of funds were spent in prior fiscal years.

Operating expenses includes travel expenses, repairs and maintenance, rental expenses, and other operating expenses. Other operating expenses increased by \$19.2 million, or 22.8%, in fiscal year 2023. The increase in fiscal year 2023 is primarily due to a \$13.0 million increase in travel expenses due to frequency of travel returning to pre-pandemic levels, with new safety precautions implemented.

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 \$2.3 million, or 1.6%, during fiscal year 2023. The increase in fiscal year 2023 was primarily attributable to increases in depreciable assets relating to buildings and infrastructure.

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.

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In fiscal year 2023, capital appropriations increased by \$9.2 million, or 6.1%. The increase in fiscal year 2023 was attributable to a \$5.4 million increase in capital appropriations allotted to the University and a \$4.4 million increase in capital federal grants/subsidies. In fiscal year 2023, \$156.1 million was allotted, while in fiscal year 2022, \$151.0 million was allotted.

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, 2023 and 2022 is as follows (in thousands of dollars):

| | 2023 | 2022 | 2023 vs 2022 Change |
|---|--------------------|--------------------|--------------------------------|
| Cash received from operations | \$ 813,790 | \$ 769,059 | \$ 44,731 |
| Cash payments for operations | <u>(1,335,796)</u> | <u>(1,321,338)</u> | <u>(14,458)</u> |
| Net cash used in operating activities | <u>(522,006)</u> | <u>(552,279)</u> | <u>30,273</u> |
| Net cash provided by noncapital financing activities | 748,640 | 724,522 | 24,118 |
| Net cash used in capital and related financing activities | (86,330) | (29,136) | (57,194) |
| Net cash used in investing activities | <u>(104,447)</u> | <u>(318,854)</u> | <u>214,407</u> |
| Net increase (decrease) in cash | 35,857 | (175,747) | 211,604 |
| Cash | | | |
| Beginning of year | <u>120,520</u> | <u>296,267</u> | <u>(175,747)</u> |
| End of year | <u>\$ 156,377</u> | <u>\$ 120,520</u> | <u>\$ 35,857</u> |

The net cash received from operating activities increased by \$44.7 million, or 5.8%, in fiscal year 2023. The increase in fiscal year 2023 was primarily attributable to a \$45.6 million increase in grants and contracts, and a \$7.1 million increase in other revenues due to increase in auxiliary revenues, offset by a \$7.9 million decrease in student tuition and fees.

Net cash provided by noncapital financing activities remained strong as a result of the financial support from the State.

The net cash used in capital and related financing activities increased by \$57.2 million, or 196.3%, in fiscal year 2023. The increase in fiscal year 2023 was primarily attributable to a \$48.0 million increase in purchases of capital assets and a \$28.7 million increase in principal paid on capital debt and leases, offset by a \$12.0 million increase in capital appropriations.

The net cash used in investing activities decreased by \$214.4 million in fiscal year 2023 primarily due to increase in proceeds from sales and maturities and investments of \$257.5 million, offset by an increase in the purchase of investments of \$53.8 million due to favorable interest rates.

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Looking Forward

The University offers opportunity and hope for every resident of Hawai‘i. As the sole provider of higher public education in the state, the University can drive a more vibrant, sustainable, resilient, just and kind future across our islands. And our scholarship must address the opportunities and challenges of Hawai‘i, the Pacific and our planet. We want the University to be grounded in traditional Hawaiian values, in aloha, to create a strong sense of place, while also serving as a forward-looking economic engine driving hubs of innovation and research. As the University begins its 116th year of service, we must remain vigilant, anticipate what is coming, and act with agility and compassion to maintain a vital role in shaping the future of our island home.

A new six-year strategic plan for the UH 10-campus system was unanimously approved by the UH Board of Regents (“BOR”) at the Board’s November 17, 2022 meeting. The UH System Strategic Plan 2023–2029 – Hawai‘i’s University for Today and Tomorrow will guide the state’s only public higher education system and includes vision and mission statements, foundational principals, and four imperatives with metrics to measure success. The foundational principles include: Hawaiian place of learning; statewide need, diversity and equity; sustainability; and stewardship of resources. The imperatives identified are: fulfill kuleana (responsibility) to Hawaiian and Hawai‘i, promote successful students for a better future, meet Hawai‘i workforce needs of today and tomorrow, and diversify Hawai‘i’s economy through the University’s innovation and research.

University President David Lassner plans to retire at the end of 2024, after what will be more than a decade in the position. President Lassner notified the BOR and employees by email on September 19, 2023. He has served as the 15th president of Hawai‘i’s 10-campus public higher education system since July 2014, after serving as the interim president from July 2013. President Lassner made the announcement early so the planning process for the search for the next president can begin right away but he plans to actively advance all aspects of our mission until his last day as President.

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 2023-24 Best Graduate Schools list that includes:
 - Sixteen graduate programs at UH-Mānoa have been nationally recognized for academic and research excellence.
 - Seven programs were ranked in the nation’s top 100, and five placed in the top 75.
 - The School of Ocean and Earth Science and Technology (“SOEST”) ranked 42 for its earth sciences doctoral programs.
 - The Nancy Atmospera-Walch School of Nursing placed 49 for its Doctor of Nursing practice (“DNP”) program and 60 for best master’s nursing programs.
 - The College of Education ranked 64 and the College of Social Sciences placed 72 in public affairs for its Public Administration Program.
- Times Higher Education 2024 World University Rankings has the UH-Mānoa at among the world’s top 1% for teaching and research. The campus places 57 in the U.S. and in the 201-250 tier worldwide, out of more than 25,000 colleges and universities in the world.
- UH-Mānoa was ranked 66 in the U.S. (out of nearly 4,000 colleges and universities in the country) and 386 in the world (out of more than 25,000 worldwide colleges and universities) on the 2024 Quacquarelli Symonds World University Ranking (“QSWUR”). The QSWUR ranking is more commonly used and referenced by international students.

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The University’s strength is further demonstrated through its credit ratings. The University holds an Aa3 with stable outlook by Moody’s Investors Service, last updated in October 2020 and Fitch affirmed at AA with stable outlook September 2023. Both credit agencies have cited some of the strong characteristics of the University:

- Dominant provider of higher education and important economic development driver in the State of Hawai‘i.
- Strong operating support from the State of Hawai‘i.
- Unique academic programming and research, and well-diversified revenue.
- Low debt burden which reflects strong and growing capital support from the State of Hawai‘i.
- Growing cash reserves to improved levels and building amounts of endowments and investments as further reserves.

Enrollment and Tuition

While there is some recovery in higher education enrollment in Fall 2023 compared to the immediate aftermath of the pandemic, the situation for the University remains complex and varies by campus and region. Factors such as the ongoing effects of the pandemic, economic conditions, and changes in learning preferences may continue to impact higher education enrollment. Some campuses, such as Hilo and West O‘ahu, have seen significant declines over the past two years. UH-Mānoa has seen growth with a 1% enrollment boost from Fall 2022. UH Community Colleges have experienced growth for the first time since Fall 2011 with a 2.6% increase in enrollment. As of August 2023, the State unemployment rate was 3.1%, which is one percent lower compared to August 2022. Nationally, the seasonally adjusted unemployment rate was 3.8% for September 2023.

Fall census headcount comparisons are as follows:

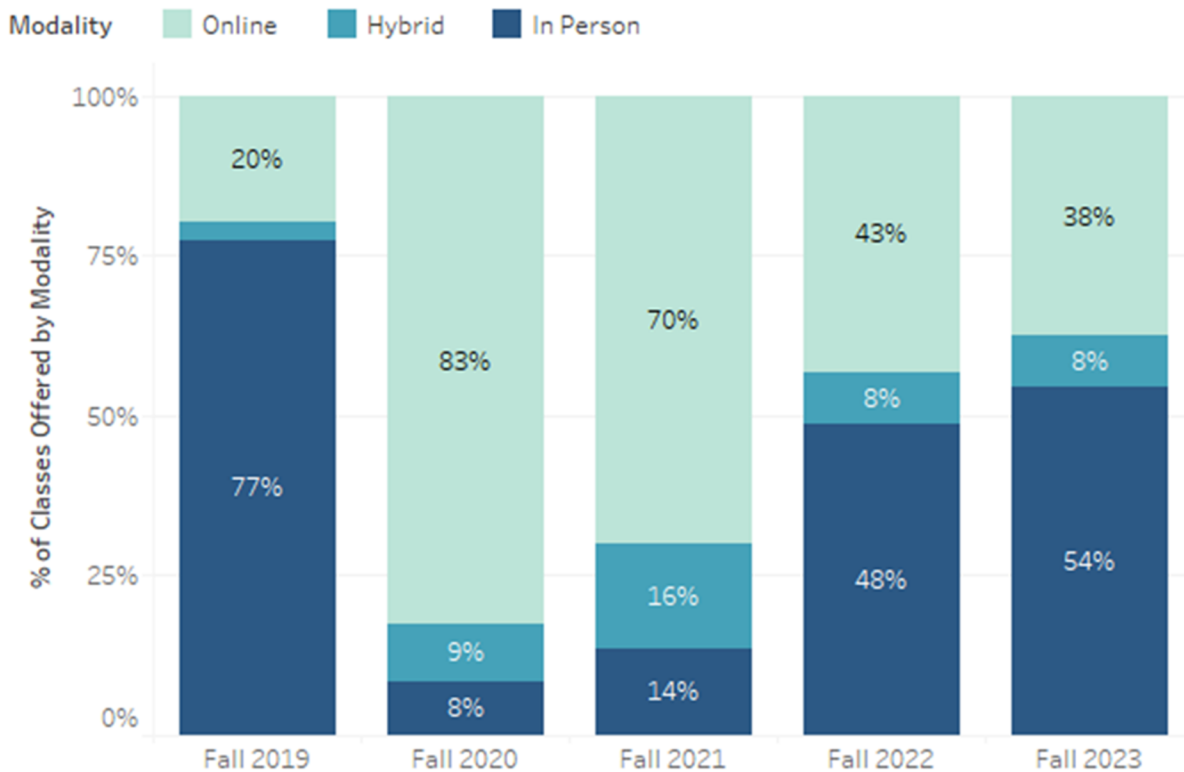
| | Fall 2023 | Fall 2022 | % Change | Fall 2021 | % Change |
|--------------------|------------------|------------------|-----------------|------------------|-----------------|
| Mānoa | 19,256 | 19,074 | 1.0 | 19,098 | (0.1) |
| Hilo | 2,781 | 2,977 | (6.6) | 3,243 | (8.2) |
| West O‘ahu | 2,863 | 2,913 | (1.7) | 3,008 | (3.2) |
| Community Colleges | <u>24,033</u> | <u>23,409</u> | <u>2.7</u> | <u>24,424</u> | <u>(4.2)</u> |
| | <u>48,933</u> | <u>48,373</u> | <u>1.2</u> | <u>49,773</u> | <u>(2.8)</u> |

Fall Course Offerings by Class Type

With the pandemic pivot, most courses moved to an online format. In-person formats have not yet returned to pre-pandemic levels. In Fall 2023, 77.4% of UH-Mānoa classes were offered in person, compared to 84.2% in Fall 2019. UH-Hilo offered 85.8% of its classes in person in Fall 2019 but offered only 52.5% of its classes in person in Fall 2023. UH-West O‘ahu offered 46.7% of its classes in person in Fall 2019, but that number has dropped to 26.3% in Fall 2023. The UH Community Colleges offered 73.9% of its courses in person in Fall 2019 compared to 36.1% in Fall 2023. Class fill rates could serve as a significant indicator in determining future modality offerings across programs and/or subjects.

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Overall Percentages of Course Offerings by Modality (In Aggregate Across All Ten Campuses)



In Spring 2022, UH administration initiated discussions regarding potential adjustments to tuition fees for the academic years from 2024 to 2027. A proposed tuition plan was presented to the BOR in October 2022. In addition to presenting to the BOR, administrators conducted a series of five public hearings, both in person and via Zoom, in various locations across the islands, in October and November. Additionally, people provided written testimonies solicited through an online comment form.

After this consultation period, the BOR approved the proposed tuition plan on January 19, 2023. Under this plan, tuition fees at the UH Community Colleges will remain unchanged for all four academic years included in the new schedule. For undergraduate students, there will be no increase in tuition for the academic years 2023-24 and 2024-25, after which a 2% increment in resident tuition rates will occur at the three 4-year UH campuses in the academic year 2025-26, followed by another 2% increase in the academic year 2026-27. Non-resident undergraduate tuition rates will see equivalent dollar increases during those two academic years. Graduate-level tuition rates will remain frozen for the entirety of the four academic years, except for the tuition at the UH-Mānoa William S. Richardson School of Law (“WSRSL”), which will experience a 2% increase in each of the three years, beginning in the academic year 2024-25, with the aim of generating revenue to support WSRSL. Supporting documentation is available on the UH Office of the Vice President for Academic Strategy: <https://www.hawaii.edu/offices/vp-academic-strategy/tuition-schedule/>.

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Research and Innovation

The University’s extramural fund awards include a mix of research and non-research programs that provide financial stability and balance to the University. About 40% to 50% of the projects are non-research in nature and are intended for training, workforce development, outreach and community services, clinical trials, and others. UH-Mānoa, the flagship campus, was ranked by National Science Foundation (“NSF”) as 99th among 648 public and private universities for research and development expenditures in fiscal year 2021.

Extramural awards totaled \$515.9 million in fiscal year 2023, marking the second time that the University exceeded the \$500 million mark, and the highest level of the past five years due to the continued hard work and dedication of our research faculty and support staff. Here are some highlights of fiscal year 2023:

- School of Ocean and Earth Science and Technology (“SOEST”), the research powerhouse of the University, received \$97.2 million in extramural awards.
- John A. Burns School of Medicine (“JABSOM”) received \$50.2 million in extramural awards.
- \$342.7million in grant awards during FY23 to programs affiliated to the UH-Mānoa campus; \$117.7 million awarded to units associated with the UH System offices; \$33.7 million awarded to the campuses of the Community College system (including UH-Maui College); \$17.8 million awarded to UH-Hilo campus; and \$4.0 million awarded to the UH-West O’ahu campus.

Facilities and Infrastructure

Improvement and modernization of the University’s physical assets is key to delivering the University’s strategic directions that strives for 21st century facilities for learning, teaching, and research. The University has continued updating its rolling six-year plan for fiscal years 2022–2027 (the “6-Year CIP Plan”) that sets forth a vision of a physical environment that supports and enables 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 modernization and improving the learning and research environment, (2) uses data and analytics on how we use our spaces and the condition of our facilities to prioritize those facilities with the highest programmatic utility and poorest conditions through upgrades to the interior/exterior structures, building roofs, mechanical and electrical systems, pedestrian pathways, roadways, and (3) focuses more on upgrading existing space, rather than expanding, to elevate the overall quality of spaces across the University in a financially responsible way.

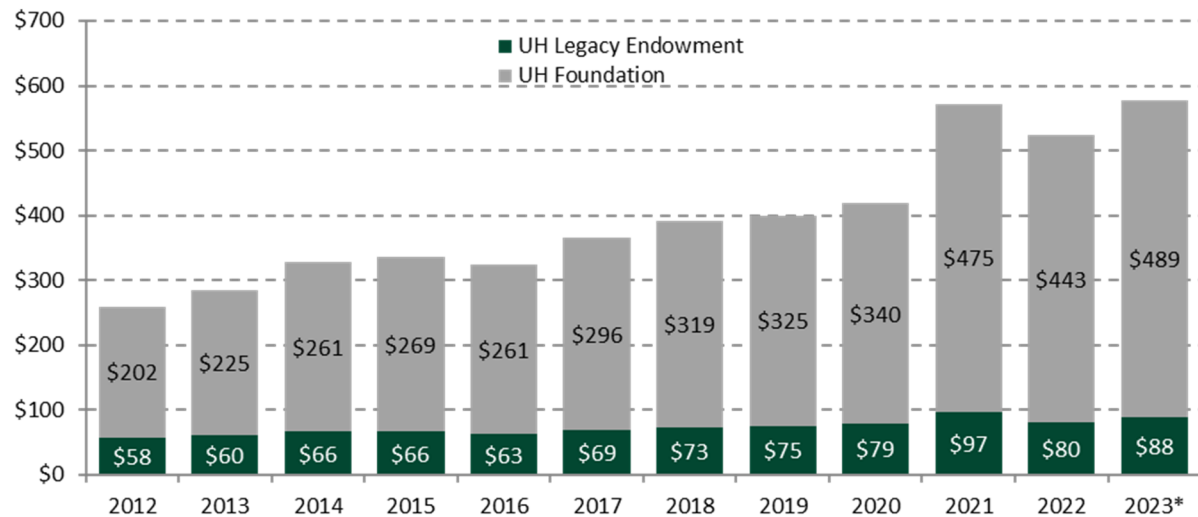
The State of Hawai‘i Legislature continued its financial support of the University’s capital improvement program in 2023 and provided a total of \$202,375,000 for fiscal year 2024 and \$182,517,000 for fiscal year 2025 through a combination of general obligation bond funds and general funds. The University also continues to strive to meet the demand for modern, university housing at a reasonable cost through P3 (Public, Private Partnership) Housing Projects. The Atherton Project (now referred to as the Residences for Innovative Student Entrepreneurs), in partnership with UH Foundation and Hunt Development Group, was developed to house over 370 students in a world-class mixed-use space that includes an innovation and entrepreneurship center. The total construction costs of the project are approximately \$75 million and the housing component was completed in time for the Fall 2023 semester. The NOAA project (now referred to as the Residences for Graduate Students) includes mixed-use family-oriented rental housing for graduate students, University faculty and staff. This project is being completed in partnership with Greystar Real Estate Partners and Collegiate Housing Foundation and will have approximately

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316 individual units/558 beds (studios, two-, three-, and four-bedroom units). The total construction costs of the project are estimated at approximately \$170 million and completion is expected by the Fall 2025 semester.

Fundraising

The UH Foundation raised \$103.6 million during FY2023, which exceeded the goal of \$95.0 million. The Foundation is launching the public phase of the \$1 billion Comprehensive Campaign for UH – which was in a quiet phase since July 1, 2018. As of June 30, 2023, the UH Foundation raised 54% of the \$1 billion goal or \$535.9 million. Both the Legacy Endowment and the UH Foundation performance recovered from the previous fiscal year as the market adjusted to the volatile macroeconomic conditions.



*estimated/unaudited

State General Fund Appropriations

The state experienced a very good economic recovery after pandemic restrictions were rescinded. In the short term, however, there will be decreased growth as a result of the wildfires in early August 2023. Concerns regarding inflation, international conflicts, and interest rates continue to temper optimism.

For the fiscal year ended June 30, 2022, State General Fund revenues were \$9.36 billion. For the fiscal year ended June 30, 2023, State General Fund revenues were \$9.20 billion, with the reduction in revenues resulting from a state-constitutionally mandated tax refund, lower estimated tax payments, and higher refunds. The Council on Revenues is currently forecasting a 1.3% growth rate for FY24, although those projections increase to 5.2% for FY25 and 3.5% annually for FY26 and beyond.

During the most recent legislative session, the Legislature increased the General Fund operating appropriation to the University by \$46.9 million for FY24, resulting in a General Fund appropriation of \$614.1 million. Tuition revenues are projected to remain relatively flat in the near future but collective bargaining (+5% in FY24 and +5% in FY25) and utilities costs are expected to increase.

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While the UH General Funds remain flat and below pre-pandemic levels, except for collective bargaining increases, UH fund balances remain strong due to pandemic-era austerity measures, substantial federal relief and stronger than expected State revenues. Efforts to proactively build fund balances in the face of widespread concerns have been extraordinarily successful, even through the pandemic. These reserve balances can be used to accommodate projected fiscal shortfalls, as well as investments in Strategic Imperatives will be prioritized through non-recurring investments and continual re-prioritization of current funding appropriations.

University of Hawai'i
State of Hawai'i
(A Component Unit of the State of Hawai'i)
Statement of Net Position – University of Hawai'i
June 30, 2023
(All dollars reported in thousands)

| | |
|---|---------------------|
| Assets and Deferred Outflows of Resources | |
| Current assets | |
| Cash and cash equivalents | \$ 156,377 |
| Operating investments | 675,449 |
| Due from State of Hawai'i | 2,227 |
| Accounts receivable, net | 123,161 |
| Due from the Research Corporation of the University of Hawai'i, net | 16,807 |
| Current portion of notes receivable, net | 409 |
| Other current assets | <u>18,460</u> |
| Total current assets | 992,890 |
| Noncurrent assets | |
| Due from State of Hawai'i | 552,117 |
| Endowment and other investments | 112,574 |
| Notes receivable, net | 3,031 |
| Capital assets, net | 2,166,345 |
| Other noncurrent assets | <u>9,902</u> |
| Total noncurrent assets | <u>2,843,969</u> |
| Total assets | <u>3,836,859</u> |
| Deferred outflows of resources | |
| Deferred outflows on net pension liability, OPEB liability and other | <u>303,600</u> |
| Total deferred outflows of resources | <u>303,600</u> |
| Total assets and deferred outflows of resources | <u>\$ 4,140,459</u> |
| Liabilities, Deferred Inflows of Resources, and Net Position | |
| Current liabilities | |
| Accounts payable | \$ 62,258 |
| Accrued payroll and fringe benefits | 57,940 |
| Advances from sponsors | 38,701 |
| Unearned revenue | 31,141 |
| Due to State of Hawai'i | 6,116 |
| Current portion of long-term liabilities | 57,637 |
| Other current liabilities | <u>4,834</u> |
| Total current liabilities | <u>258,627</u> |
| Noncurrent liabilities | |
| Accrued vacation | 54,248 |
| Accrued workers' compensation | 10,372 |
| Revenue bonds payable | 395,610 |
| Premium on bonds payable | 30,327 |
| Equipment financing obligations | 1,564 |
| Net pension liability | 1,529,823 |
| Other postemployment benefits | 1,543,369 |
| Other noncurrent liabilities | <u>11,040</u> |
| Total noncurrent liabilities | <u>3,576,353</u> |
| Total liabilities | <u>3,834,980</u> |
| Deferred inflows of resources | |
| Deferred inflows on net pension, OPEB liability and other | <u>456,916</u> |
| Total deferred inflows of resources | <u>456,916</u> |
| Commitments and contingencies | |
| Net position | |
| Net investment in capital assets | 1,736,520 |
| Restricted | |
| Nonexpendable | 10,493 |
| Expendable | 580,639 |
| Unrestricted | <u>(2,479,089)</u> |
| Total net position | <u>(151,437)</u> |
| Total liabilities, deferred inflows of resources, and net position | <u>\$ 4,140,459</u> |

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

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State of Hawai‘i
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Statement of Financial Position – University of Hawai‘i Foundation
June 30, 2023
(All dollars reported in thousands)

| | |
|--|-------------------|
| Assets | |
| Cash and cash equivalents | \$ 13,066 |
| Assets whose use is limited or restricted | 15,782 |
| Contributions receivable, net | 78,973 |
| Prepaid expenses and other receivables | 4,798 |
| Property and equipment, at cost, net of accumulated depreciation and amortization of \$2,246 | 79,198 |
| Other assets, at cost | 1,880 |
| Investments | 671,151 |
| Beneficial interest in trusts held by others | 28,674 |
| Total assets | <u>\$ 893,522</u> |
| Liabilities and Net Assets | |
| Accounts payable | \$ 21,049 |
| Liabilities under split-interest agreements | 11,539 |
| Amounts held for others | 3,386 |
| Long-term debt | 92,866 |
| Other liabilities | 1,616 |
| Total liabilities | <u>130,456</u> |
| Commitments and contingencies | |
| Net assets | |
| Without donor restrictions | 6,497 |
| With donor restrictions | 756,569 |
| Total net assets | <u>763,066</u> |
| Total liabilities and net assets | <u>\$ 893,522</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)
Statement of Revenues, Expenses, and Changes in Net Position – University of Hawai‘i
Year Ended June 30, 2023
(All dollars reported in thousands)

| | |
|--|---------------------|
| Operating revenues | |
| Student tuition and fees | \$ 403,207 |
| Less: Scholarship allowances | <u>130,472</u> |
| Net student tuition and fees | 272,735 |
| Federal appropriations, grants and contracts | 381,727 |
| State and local grants and contracts | 39,550 |
| Nongovernmental sponsored programs | 47,877 |
| Sales and services of educational departments, other | 16,323 |
| Auxiliary enterprises | |
| Bookstores | 11,496 |
| Student housing, net of scholarship allowances of \$1,281 | 29,000 |
| Other auxiliary enterprises revenues | 37,885 |
| Other operating revenues | <u>185</u> |
| Total operating revenues | <u>836,778</u> |
| Operating expenses | |
| Compensation and benefits | 1,086,895 |
| Supplies, services, and cost of goods sold | 215,189 |
| Depreciation and amortization | 146,281 |
| Telephone and utilities | 82,077 |
| Scholarships and fellowships | 34,101 |
| Travel expenses | 26,652 |
| Repairs and maintenance | 38,498 |
| Rental expenses | 7,353 |
| Other operating expenses | <u>30,717</u> |
| Total operating expenses | <u>1,667,763</u> |
| Operating loss | <u>(830,985)</u> |
| Nonoperating revenues (expenses) | |
| State appropriations | 580,768 |
| Federal Pell grants | 46,187 |
| Federal nonoperating revenues (coronavirus) | 113,848 |
| Private gifts | 2,323 |
| Net investment income | 22,537 |
| Interest expense | (13,467) |
| Net transfers from State of Hawai‘i | 252,033 |
| Loss on disposal of capital assets | (2,051) |
| Other, net | <u>565</u> |
| Net nonoperating revenues before capital and endowment additions | <u>1,002,743</u> |
| Capital – state appropriations | 156,078 |
| Capital – federal grants/subsidies | 5,205 |
| Capital – gifts and grants | 1,488 |
| Net transfers to State of Hawai‘i for capital assets | (1,428) |
| Transfers from State of Hawai‘i, Tobacco settlement | 9,921 |
| Transfers from State of Hawai‘i, University of Hawai‘i Cancer Center | 6,917 |
| Net transfers from other State agencies | <u>137</u> |
| Total other revenues | <u>178,318</u> |
| Net nonoperating revenues | <u>1,181,061</u> |
| Change in net position | 350,076 |
| Net position | |
| Beginning of year | <u>(501,513)</u> |
| End of year | <u>\$ (151,437)</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)
Statement of Activities – University of Hawai‘i Foundation
Year Ended June 30, 2023
(All dollars reported in thousands)

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|-------------------------------|----------------------------|-------------------|
| Revenue | | | |
| Contributions | \$ 398 | \$ 73,811 | \$ 74,209 |
| Fees, honoraria, royalties and other | 3,758 | 509 | 4,267 |
| Investment gain, net | 4,022 | 36,764 | 40,786 |
| Administrative fees | 9,357 | (9,357) | - |
| Fundraising events and projects | 800 | 1,261 | 2,061 |
| Net assets released from restrictions | <u>53,295</u> | <u>(53,295)</u> | <u>-</u> |
| Total revenue | <u>71,630</u> | <u>49,693</u> | <u>121,323</u> |
| Expenses | | | |
| Program services | | | |
| Extension and public services | 901 | - | 901 |
| Academic support | 7,811 | - | 7,811 |
| Research | 11,643 | - | 11,643 |
| Student aid and services | 15,309 | - | 15,309 |
| Faculty and staff support | 2,777 | - | 2,777 |
| Capital projects | 1,308 | - | 1,308 |
| Athletics | 4,486 | - | 4,486 |
| Special programs | 8,704 | - | 8,704 |
| Other | 356 | - | 356 |
| Total program services | <u>53,295</u> | <u>-</u> | <u>53,295</u> |
| Supporting services | | | |
| Administrative, management, and fiscal services | 5,713 | - | 5,713 |
| Development | <u>9,070</u> | <u>-</u> | <u>9,070</u> |
| Total supporting services | <u>14,783</u> | <u>-</u> | <u>14,783</u> |
| Total expenses | <u>68,078</u> | <u>-</u> | <u>68,078</u> |
| Change in net assets | 3,552 | 49,693 | 53,245 |
| Net assets at beginning of year | <u>2,945</u> | <u>706,876</u> | <u>709,821</u> |
| Net assets at end of year | <u>\$ 6,497</u> | <u>\$ 756,569</u> | <u>\$ 763,066</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)
Statement of Cash Flows – University of Hawai‘i
Year Ended June 30, 2023
(All dollars reported in thousands)

| | |
|---|-------------------|
| Cash flows from operating activities | |
| Student tuition and fees | \$ 261,004 |
| Grants and contracts | 459,905 |
| Other revenues | 92,881 |
| Payments to employees | (912,502) |
| Payments to suppliers and other | (389,195) |
| Payments for scholarships and fellowships | (34,099) |
| Net cash used in operating activities | <u>(522,006)</u> |
| Cash flows from noncapital financing activities | |
| State appropriations | 581,388 |
| Gifts and grants for other than capital purposes | 161,358 |
| Net transfers from State of Hawai‘i | 5,895 |
| Other disbursements | (1) |
| Net cash provided by noncapital financing activities | <u>748,640</u> |
| Cash flows from capital and related financing activities | |
| Capital appropriations | 113,242 |
| Capital gifts and grants | 6,189 |
| Purchases of capital assets | (160,092) |
| Proceeds from sale of capital assets | 113 |
| Principal paid on capital debt and equipment financing arrangements | (44,879) |
| Interest paid on capital debt and equipment financing arrangements | (17,741) |
| Transfer from State of Hawai‘i for | |
| Tobacco Settlement | 9,921 |
| University of Hawai‘i Cancer Center | 6,917 |
| Net cash used in capital and related financing activities | <u>(86,330)</u> |
| Cash flows from investing activities | |
| Interest and dividends on investments, net | 14,982 |
| Proceeds from sales and maturities of investments | 467,293 |
| Purchase of investments | (586,722) |
| Net cash used in investing activities | <u>(104,447)</u> |
| Net increase in cash and cash equivalents | 35,857 |
| Cash and cash equivalents | |
| Beginning of year | 120,520 |
| End of year | <u>\$ 156,377</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)
Statement of Cash Flows – University of Hawai‘i
Year Ended June 30, 2023
(All dollars reported in thousands)

| | |
|--|---------------------|
| Reconciliation of operating loss to net cash used in operating activities | |
| Operating loss | \$ (830,985) |
| Adjustments to reconcile operating loss to net cash used in operating activities | |
| On behalf payments by State for fringe benefits | 246,138 |
| Depreciation and amortization expense | 146,281 |
| Pension and other postretirement healthcare benefit expense | (72,414) |
| Bad debt expense, net | 4,399 |
| Changes in operating assets and liabilities | |
| Accounts receivable | (18,525) |
| Due from the Research Corporation of the University of Hawai‘i, net | 2,360 |
| Notes receivable | 274 |
| Prepaid expenses and other assets | 2,106 |
| Accounts payable | 6,316 |
| Accrued payroll and fringe benefits | 776 |
| Accrued workers’ compensation liability | (5,596) |
| Advances from sponsors | (181) |
| Other, net | <u>(2,955)</u> |
| Net cash used in operating activities | <u>\$ (522,006)</u> |
| Supplemental information of noncash transactions | |
| Net transfers from other State agencies | \$ 137 |
| Accounts payable for capital assets | 25,347 |
| Escrow funds used to fund capital asset additions | 143 |

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

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June 30, 2023
(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 (“UH-Mānoa”), University of Hawai‘i at Hilo (“UH-Hilo”), University of Hawai‘i at West O‘ahu (“UH-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, 2023, the net position of the Research Corporation was \$10,969. 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 materiality.

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 relationship 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 16.

The Foundation’s accounting policies conform to accounting principles generally accepted in the United States of America (“GAAP”) applicable to not-for-profit organizations as promulgated by the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”). No modifications have been made to the Foundation’s 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.

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.

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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 annual comprehensive financial report (“ACFR”).

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 Statement 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

Cash and time certificates of deposits included in investments 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 Statement 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 U.S. 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.

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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 University’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 Level 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 Statement 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 of the University of Hawaii, 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.

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Leases

Lessee

The University has a policy to recognize a lease liability and a right-to-use (“ROU”) lease asset (“ROU asset”) in its financial statements. The University recognizes lease liabilities with an initial, individual value of \$100 or more for land and building leases and \$25 or more for equipment and others, with a lease term greater than one year. Variable payments based on future performance of the lessee or usage of the underlying asset are not included in the measurement of the lease liability.

At the commencement of a lease, the University initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made.

ROU assets are recorded at the amount of the initial measurement of the lease liabilities and modified by any lease payments made to the lessor at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term along with any initial direct costs that are ancillary charges necessary to place the ROU assets into service. ROU assets are amortized using the straight-line method over the shorter of the lease term or the useful life of the underlying asset, unless the lease contains a purchase option that the University has determined is reasonably certain of being exercised. In this case, the ROU asset is amortized over the useful life of the underlying asset.

Key estimates and judgments related to leases include how the University determines: (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The University uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the University generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the University is reasonably certain to exercise.

The University monitors changes in circumstances that would require a remeasurement of its lease and will remeasure any ROU asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

ROU assets are reported as right-to-use along with other capital assets and lease liabilities are reported with long-term liabilities on the Statement of Net Position.

Lessor

The University is a lessor for leases of special purpose facilities, office and commercial space, and land. The University recognizes leases receivable and deferred inflows of resources in the financial statements.

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Variable payments based on future performance of the lessee or usage of the underlying asset should not be included in the measurement of the lease receivable.

At the commencement of a lease, the University initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflows of resources are initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflows of resources are recognized as revenue over the life of the lease term in a systematic and rational method.

Key estimates and judgments include how the University determines: (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The University uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable are composed of fixed payments from the lessee.

The University monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

Subscription Based Information Technology Arrangements (SBITA)

The University has a policy to recognize a subscription liability and a right-to-use subscription asset (subscription asset) in the Statement of Net Position. The University recognizes subscription liabilities with an initial, individual value of \$500 or more with a subscription term greater than one year. Variable payments based on future performance of the University, or usage of the underlying IT asset, or number of user seats are not included in the measurement of the subscription liability, rather, those variable payments are recognized as outflows of resources (expenses) in the period the obligation for those payments is incurred.

At the commencement of a SBITA, the University initially measures the subscription liability at the present value of payments expected to be made during the subscription term. Subsequently, the subscription liability is reduced by the principal portion of subscription payments made.

Subscription assets are recorded at the amount of the initial measurement of the subscription liabilities, plus any payments made to the SBITA vendor before the commencement of the subscription term and capitalizable initial implementation costs, less any incentives received from the SBITA vendor at or before the commencement of the subscription term.

Costs associated with a SBITA, other than the subscription payments, are accounted for as follows:

- **Preliminary Project Stage:** Outlays are expensed as incurred.
- **Initial Implementation Stage:** Outlays are capitalized as an addition to the subscription asset.

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- **Operation and Additional Implementation Stage:** Outlays are expensed as incurred unless they meet specific capitalization criteria.

Upon adoption, the University elected to exclude capitalizable outlays associated with the initial implementation stage and the operation and additional implementation stage that were incurred prior to the implementation of GASB Statement No. 96 in the measurement of subscription assets as of July 1, 2022.

Subscription assets are reported in capital assets and subscription liabilities are reported with long-term liabilities on the Statement of Net Position.

Subscription assets are amortized using the straight-line method over the shorter of the subscription term or the useful life of the underlying IT asset, unless the subscription contains a purchase option that the University has determined is reasonably certain of being exercised. In this case, the subscription asset is amortized over the useful life of the underlying IT asset.

Key estimates and judgements related to SBITA include how the University determines: (1) the discount rate it uses to discount the expected subscription payments to present value, (2) subscription term, and (3) subscription payments.

- The University uses the interest rate charged by the SBITA vendor as the discount rate. When the interest rate charged by the SBITA vendor is not provided, the University generally uses its estimated incremental borrowing rate as the discount rate for the SBITA.
- The subscription term includes the noncancellable period of the SBITA. Subscription payments included in the measurement of the subscription liability are composed of fixed payments and the purchase option price that the University is reasonably certain to exercise.

The University monitors changes in circumstances that would require a remeasurement of its subscription liability.

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.

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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 and Deferred Inflows of Resources

Deferred outflows (inflows) of resources represent a consumption of (benefit to) net assets 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 and deferred inflow of resources related to pensions resulted from differences between expected and actual experiences on pension plan investments, changes in assumptions, and changes in proportion on pension plan investments, which will be amortized over the estimated average remaining service life of the plan members. The deferred outflow of resources and deferred inflow of resources related to postemployment benefits other than pension (“OPEB”) resulted from differences between expected and actual experiences and changes in assumptions which will be amortized over the estimated remaining service life of the plan members. The net difference between projected and actual earnings on plan investments for both pension and OPEB resulted in a deferred outflow of resources which is amortized over five years. 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 which will be recognized as a reduction of the net pension liability 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. The deferred inflow of resources related to leases was initially measured as the amount of the lease receivable. Subsequently, the deferred inflows of resources related to leases are recognized as revenue over the lease term.

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 Employees’ Retirement System of the State of Hawai‘i (“ERS”), and additions to/deductions from the ERS’s fiduciary net position have been determined on the same basis as they are reported by the ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at their fair value.

Postemployment Benefits Other Than Pensions

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense, information about the fiduciary net position of the Hawai‘i Employer-Union Health Benefits Trust Fund (“EUTF”), and additions to/deductions from the

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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 financing.

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 13 for more information.

Net Position

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

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

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

Net Position Restricted by Enabling Legislation

GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34*, requires that limitations on the use of net position imposed by enabling legislation to 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

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reevaluated. Restricted net position at June 30, 2023 amounted to \$591,132, of which \$525,414 were restricted by enabling legislation for capital activity.

Operating and Nonoperating Activities

The University’s policies for defining operating activities, as reported on the Statement 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 had been prorated between fiscal years, the difference would not be material.

Federal economic relief received as a result of the Higher Education on Emergency Relief Funds (“HEERF”), which includes the Coronavirus Aid, Relief, and Economic Security Act (“CARES”), Coronavirus Response and Relief Supplemental Appropriations Act (“CRRSAA”), and American Rescue Plan (“ARP”) represent nonexchange transactions that are reported as Federal nonoperating revenues (coronavirus).

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, AROs, allowances for uncollectible receivables, the useful lives of capital assets, the valuation of investments, and the current versus noncurrent classification of assets and liabilities.

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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 Statement of Net Position (see Note 9).

The University records its estimated pension liability and 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 11 and 12.

The University records its estimated liability for certain costs associated with the future retirement of their telescopes. The assumptions used to determine the liabilities are described in Note 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.

Recently Issued Accounting Pronouncements

GASB Statement No. 94

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. This statement did not have a material effect on the University's financial statements.

GASB Statement No. 96

During fiscal year 2023, the University implemented GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for SBITAs for government end users. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022. This statement did not have a material effect on the University's financial statements.

GASB Statement No. 99

The GASB issued Statement No. 99, *Omnibus*. The primary objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative

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literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. Certain requirements of this Statement are effective immediately while other requirements are effective for fiscal years beginning after June 15, 2022 and June 15, 2023, respectively. The requirements that were effective immediately and beginning after June 15, 2022 did not have a material effect on the University’s financial statements. For the remaining requirements, the University has not determined the effect this Statement will have on its financial statements.

GASB Statement No. 100

The GASB issued Statement No. 100, *Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent and comparable information for making decisions or assessing accountability. The requirements of this Statement are effective for reporting periods beginning after June 15, 2023. The University has not determined the effect this Statement will have on its financial statements.

GASB Statement No. 101

The GASB issued Statement No. 101, *Compensated Absences*. The primary objective of the Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. The requirements of this Statement are effective for reporting periods beginning after December 15, 2023. The University has not determined the effect this Statement will have on its financial statements.

2. Cash and Investments

The carrying amount of cash and cash equivalents and time certificates of deposit held outside of the State Treasury as of June 30, 2023, classified as cash and cash equivalents and operating investments, was \$166,313, with corresponding bank balances of \$118,503. The portion of bank balances covered by the Federal Deposit Insurance Corporation (“FDIC”) or by collateral held by the State Director of Budget & Finance in the name of the University totaled \$108,503 at June 30, 2023.

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 (“FIFO”) 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, 2023.

- **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.

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

The Hawai‘i Uniform Prudent Management of Institutional Funds Act (“HUPMIFA”), established under Hawai‘i Revised Statutes (“HRS”) Section 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 year 2023, the University’s spending rate policy provided for annual distributions at 4.10% of the trailing five-year moving average of the endowment fair value.

At June 30, 2023, the University’s investments were comprised of the following:

| | Fair Value | Cost |
|------------------------------|-------------------|------------------|
| Cash and money market funds | \$ 1,296 | \$ 1,296 |
| Time certificates of deposit | 10,000 | 10,000 |
| Fixed income securities | 703,134 | 725,672 |
| Equity securities | 72,196 | 54,142 |
| Other investments | <u>1,397</u> | <u>1,397</u> |
| Total investments | 788,023 | 792,507 |
| Less: Current portion | <u>675,449</u> | <u>696,874</u> |
| Total noncurrent investments | <u>\$ 112,574</u> | <u>\$ 95,633</u> |

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Changes in the University’s investments for the year ended June 30, 2023 were as follows:

| | Fair Value | Cost Basis | Net Change in Unrealized Gain (Loss) | Net Realized Gain (Loss) |
|---|-------------------|-------------------|--|-----------------------------|
| University Endowment Pool | | | | |
| End of year | \$ 87,508 | \$ 71,876 | \$ 15,632 | |
| Beginning of year | 80,244 | 74,017 | 6,227 | |
| Net change | <u>7,264</u> | <u>(2,141)</u> | <u>9,405</u> | \$ (902) |
| Associated Students of the University of Hawai‘i | | | | |
| End of year | 10,354 | 9,091 | 1,263 | |
| Beginning of year | <u>9,443</u> | <u>8,819</u> | <u>624</u> | |
| Net change | <u>911</u> | <u>272</u> | <u>639</u> | 216 |
| School of Medicine | | | | |
| End of year | 2,270 | 2,270 | - | |
| Beginning of year | <u>2,446</u> | <u>2,446</u> | <u>-</u> | |
| Net change | <u>(176)</u> | <u>(176)</u> | <u>-</u> | - |
| University Bond System | | | | |
| End of year | 11,045 | 10,999 | 46 | |
| Beginning of year | <u>11,900</u> | <u>11,912</u> | <u>(12)</u> | |
| Net change | <u>(855)</u> | <u>(913)</u> | <u>58</u> | 49 |
| Operating investments | | | | |
| End of year | 675,449 | 696,874 | (21,425) | |
| Beginning of year | <u>557,993</u> | <u>575,157</u> | <u>(17,164)</u> | |
| Net change | <u>117,456</u> | <u>121,717</u> | <u>(4,261)</u> | 68 |
| Other | | | | |
| End of year | 1,397 | 1,397 | - | |
| Beginning of year | <u>1,297</u> | <u>1,297</u> | <u>-</u> | |
| Net change | <u>100</u> | <u>100</u> | <u>-</u> | - |
| Total investments | | | | |
| End of year | 788,023 | 792,507 | (4,484) | |
| Beginning of year | <u>663,323</u> | <u>673,648</u> | <u>(10,325)</u> | |
| Net change | <u>\$ 124,700</u> | <u>\$ 118,859</u> | <u>\$ 5,841</u> | <u>\$ (569)</u> |

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Net investment income for the year ended June 30, 2023 was as follows:

Summary of net investment income

| | |
|--|------------------|
| Net change in unrealized net gain | \$ 5,841 |
| Net realized loss | <u>(569)</u> |
| | 5,272 |
| Interest and dividend income | <u>17,803</u> |
| Investment income before management fees | 23,075 |
| Less: Management fees | 538 |
| Net investment income | <u>\$ 22,537</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, 2023 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 |
|------------------------------|-------------------|---|---|--|
| Cash and money market funds | \$ 1,296 | \$ 1,296 | \$ - | \$ - |
| Time certificates of deposit | 10,000 | - | 10,000 | - |
| Fixed income securities | 703,134 | 449,122 | 254,012 | - |
| Equity securities | 72,196 | 72,196 | - | - |
| Other investments | 1,397 | - | - | 1,397 |
| Total investments | <u>\$ 788,023</u> | <u>\$ 522,614</u> | <u>\$ 264,012</u> | <u>\$ 1,397</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 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 Statement of Net Position and is not represented by the contract or notional amounts of the instruments.

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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% of the total fixed income portion of the portfolio. Individual equities are limited to not more than 4.0% of the total market value of the stock portfolio. In addition, investment in any one stock is not to exceed 1.0% 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% of the fixed income investments may be lower than investment grade.

The composition of fixed income securities at June 30, 2023, along with credit quality ratings, is summarized below:

| | Credit Quality Rating | | | | | | |
|-------------------------------|-----------------------|-------------------|---------------|-------------------|-----------------|-----------------|---------------|
| | U.S. Govt- Exempt | AAA | AA | A | BBB | BB or Lower | Unrated |
| U.S. Treasury | \$ 448,276 | \$ 448,276 | \$ - | \$ - | \$ - | \$ - | \$ - |
| U.S. government agencies | 244,622 | 4,481 | - | 240,141 | - | - | - |
| Corporate bonds | 10,236 | - | 336 | 874 | 3,716 | 4,899 | 203 |
| Total fixed income securities | <u>\$ 703,134</u> | <u>\$ 452,757</u> | <u>\$ 336</u> | <u>\$ 241,015</u> | <u>\$ 3,716</u> | <u>\$ 4,899</u> | <u>\$ 203</u> |

Interest Rate Risk

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

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At June 30, 2023, the composition of the University’s fixed income investments and maturities is summarized below:

| | Fair Value | Investment Maturities (in Years) | | | |
|-------------------------------|-------------------|----------------------------------|-------------------|-----------------|-----------------|
| | | Less than 1 | 1 to 5 | 6 to 10 | More than 10 |
| U.S. Treasury | \$ 448,276 | \$ 273,883 | \$ 170,652 | \$ 1,009 | \$ 2,732 |
| U.S. government agencies | 244,622 | 48,092 | 191,203 | 284 | 5,043 |
| Corporate bonds | 10,236 | 1,867 | 3,841 | 2,589 | 1,939 |
| Total fixed income securities | <u>\$ 703,134</u> | <u>\$ 323,842</u> | <u>\$ 365,696</u> | <u>\$ 3,882</u> | <u>\$ 9,714</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, 2023, the University’s exposure to foreign currency risk expressed in U.S. dollars was not significant.

3. Accounts Receivable

The composition of accounts receivable, net of allowance for uncollectible receivables, of \$39,971 at June 30, 2023 is summarized as follows:

| | |
|----------------------------|-------------------|
| | 2023 |
| U.S. government | \$ 80,573 |
| State and local government | 10,404 |
| Private agencies | 14,424 |
| Student tuition and fees | 8,508 |
| Other | 9,252 |
| | <u>\$ 123,161</u> |

At June 30, 2023, private agency receivables from the Foundation were \$6,646. Private grant revenue from the Foundation approximated \$14,274 during fiscal year 2023.

The University has an agreement with the Foundation to receive fundraising and alumni services through June 30, 2023. The annual compensation under this agreement amounted to \$3,000 for fiscal year 2023. The service expense was paid in full as of the year ended June 30, 2023, and is reported in supplies, services, and cost of goods sold in the Statement of Revenues, Expenses, and Changes in Net Position.

4. U.S. Government Funding

The federal government reimburses the University for certain overhead costs (e.g., facilities and administrative costs) incurred in support of federally-sponsored programs based on cost reimbursement rates negotiated with the University’s cognizant agency, the U.S. Department of Health and Human Services. The reimbursement amounted to approximately \$65,828 in 2023 and is reported in federal appropriations, grants and contracts revenue.

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

5. Direct Loan Programs

During the year ended June 30, 2023, the University awarded \$112,502 in Direct Loan programs. These awards 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.

6. Other Current Assets

Other current assets at June 30, 2023 were comprised of:

| | 2023 |
|-----------------------------|------------------|
| Accrued interest receivable | \$ 3,798 |
| Inventories | 5,086 |
| Short term lease receivable | 979 |
| Prepaid expenses | 8,597 |
| | <u>\$ 18,460</u> |

The inventories and the methods of valuation at June 30, 2023 are summarized below:

| | | 2023 |
|---|---|-----------------|
| University of Hawai‘i Bookstore merchandise inventory | | \$ 1,990 |
| University of Hawai‘i Chemistry Stockroom | Cost applied on the first-in, first-out basis. | 1,238 |
| University of Hawai‘i Facilities Management Warehouse | Cost applied on the first-in, first-out basis. | 879 |
| 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. | 855 |
| University of Hawai‘i other inventory | Lower of cost or market using the weighted average cost method. | 124 |
| | | <u>\$ 5,086</u> |

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7. Capital Assets

A summary of capital assets, including ROU assets, at June 30, 2023 is as follows:

| | Beginning Balance | Additions | Deductions | Transfers | Ending Balance |
|---|------------------------------|------------------|-------------------|------------------|---------------------------|
| Nondepreciable capital assets | | | | | |
| Land | \$ 74,784 | \$ - | \$ - | \$ - | \$ 74,784 |
| Construction in progress | 134,414 | 134,012 | 932 | (75,745) | 191,749 |
| Total capital assets not being depreciated | <u>209,198</u> | <u>134,012</u> | <u>932</u> | <u>(75,745)</u> | <u>266,533</u> |
| Depreciable capital assets | | | | | |
| Land improvements | 179,395 | 170 | - | 475 | 180,040 |
| Infrastructure | 301,952 | 1,614 | - | 7,809 | 311,375 |
| Buildings | 2,934,638 | 7,793 | 6,745 | 62,871 | 2,998,557 |
| Equipment | 409,750 | 22,576 | 12,136 | 4,590 | 424,780 |
| Library materials | 181,666 | 1,170 | - | - | 182,836 |
| Total capital assets being depreciated | <u>4,007,401</u> | <u>33,323</u> | <u>18,881</u> | <u>75,745</u> | <u>4,097,588</u> |
| Less: Accumulated depreciation | <u>2,071,069</u> | <u>144,720</u> | <u>17,649</u> | <u>-</u> | <u>2,198,140</u> |
| Leased assets | | | | | |
| Buildings | 2,469 | - | - | - | 2,469 |
| Total leased assets | <u>2,469</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>2,469</u> |
| Less: Accumulated amortization | | | | | |
| Buildings | 989 | 1,116 | - | - | 2,105 |
| Capital assets, net | <u>\$ 2,147,010</u> | <u>\$ 21,499</u> | <u>\$ 2,164</u> | <u>\$ -</u> | <u>\$ 2,166,345</u> |

Capital assets consist of land, land improvements, infrastructure, buildings, equipment, library materials, and construction in progress (“CIP”). 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 \$145,836 during fiscal year 2023.

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8. Due from and Due to the State of Hawai‘i

Amounts due from and due to the State of Hawai‘i at June 30, 2023 were as follows:

| | 2023 | |
|---|-------------------|-----------------|
| | Due from | Due to |
| State appropriations for current operations | \$ 2,227 | |
| State capital appropriations – noncurrent | 552,117 | |
| Total due from State of Hawai‘i | <u>\$ 554,344</u> | |
| Imprest/petty cash advances | | \$ 65 |
| Advance | | 6,000 |
| Employee fringe adjustments | | 51 |
| Total due to State of Hawai‘i | | <u>\$ 6,116</u> |

9. Long-Term Liabilities

Long-term liability activities at June 30, 2023 are summarized as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|--|------------------------------|-------------------|-------------------|---------------------------|----------------------------|
| Bonds payable | | | | | |
| Revenue bonds payable | \$ 436,965 | \$ - | \$ 20,200 | \$ 416,765 | \$ 21,155 |
| Other liabilities | | | | | |
| Workers’ compensation | 14,185 | 3,267 | 3,373 | 14,079 | 3,707 |
| Accrued vacation | 85,579 | 30,164 | 28,797 | 86,946 | 32,698 |
| Net pension liability (Note 11) | 1,476,618 | 191,824 | 138,619 | 1,529,823 | - |
| Postemployment health care/life insurance benefits (Note 12) | 1,635,611 | 46,981 | 139,223 | 1,543,369 | - |
| Equipment financing obligations | 26,319 | - | 24,678 | 1,641 | 77 |
| Total other liabilities | <u>3,238,312</u> | <u>272,236</u> | <u>334,690</u> | <u>3,175,858</u> | <u>36,482</u> |
| Total long-term liabilities | <u>\$3,675,277</u> | <u>\$ 272,236</u> | <u>\$ 354,890</u> | <u>\$3,592,623</u> | <u>\$ 57,637</u> |

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Revenue Bonds Payable

The University’s revenue bonds payable at June 30, 2023 is as follows:

| | Series | Date Issued | Authorized | 2023 |
|--|---------------|--------------------|-------------------|-------------------|
| Hilo College of Pharmacy and Law School Expansion and Modernization (interest rate, 1.05% to 4.69%) | 2015A | September 24, 2015 | \$ 8,575 | \$ 7,270 |
| Frear Hall Construction, Student Housing System at Mānoa, Food Service System and Student Housing System at Hilo (interest rate, 3.00% to 5.00%) | 2015B(R) | September 24, 2015 | 47,010 | 44,880 |
| Frear Hall Construction, Student Housing System at Mānoa, Food Service System and Student Housing System at Hilo (interest rate, 0.81% to 3.04%) | 2015C(R) | September 24, 2015 | 17,585 | - |
| University Health & Wellness Center (interest rate, 5.00%) | 2015E(R) | April 20, 2016 | 67,400 | 60,260 |
| Sinclair Library Basement Renovation (interest rate, 2.00% to 5.00%) | 2017A | December 28, 2017 | 3,990 | 2,925 |
| University Health & Wellness Center (interest rate, 3.00%) | 2017B | December 28, 2017 | 12,040 | 12,040 |
| University Health & Wellness Center (interest rate, 3.28% to 3.38%) | 2017C | December 28, 2017 | 4,110 | 4,110 |
| Frear Hall Construction, Student Housing System at Mānoa, Student Housing System at Hilo (interest rate, 3.00%) | 2017D | December 28, 2017 | 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 |
| Various acquisition and construction projects (interest rate, 5.00%) | 2017F | December 28, 2017 | 52,275 | 45,395 |
| Various acquisition and construction projects (interest rate, 2.10% to 3.85%) | 2017G | December 28, 2017 | 20,745 | 17,330 |
| Parking facilities at Mānoa (interest rate, 0.54% to 3.20%) | 2020A | October 28, 2020 | 10,045 | 9,195 |
| University of Hawai‘i Cancer Center (interest rate, 3.00% to 5.00%) | 2020B | October 28, 2020 | 44,555 | 38,795 |
| University of Hawai‘i Cancer Center (interest rate, 2.27% to 3.20%) | 2020C | October 28, 2020 | 54,300 | 54,300 |
| Various acquisition and construction projects (interest rate, 3.00% to 5.00%) | 2020D | October 28, 2020 | 77,135 | 71,500 |
| Various acquisition and construction projects (interest rate, 3.20%) | 2020E | October 28, 2020 | 31,130 | 31,130 |
| | | | <u>\$ 468,530</u> | <u>\$ 416,765</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 a University project and refunding previously issued bonds. All Series 2020 bonds were delivered on October 28, 2020. Total premium for the Series 2020 Bonds approximated

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\$25,710. The proceeds of the Series 2020A Bonds will be used to renovate and repair parking facilities at the University’s Mānoa campus.

The proceeds of the Series 2020B, 2020C, 2020D and 2020E Bonds were used to prepay and redeem the Series 2010A-1 and 2010B-1 University Revenue Bonds. During the year ended June 30, 2021, \$230,955 of bonds outstanding from the Series 2010A-1 and 2010B-1 University Revenue Bonds were considered defeased. The defeasance resulted in an accounting gain of \$44,017 and an economic gain (difference between the present values of the debt service payment on the old and new debt) of \$35,207. Deferred loss on refunding for Series 2020 Bonds amounted to \$533 at June 30, 2023. The coupon interest rates of the Series 2020 Bonds range from 0.54% to 5.00% (the first interest payment was paid on April 1, 2021) with the last maturity on October 1, 2040.

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 \$3,764 at June 30, 2023. The coupon interest rates for the Series 2017 Bonds range from 2.00% to 5.00% (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), 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 \$4,110 at June 30, 2023. The University projects include the UH-Mānoa Law School Expansion and Modernization Project and the UH-Hilo College of Pharmacy Project.

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The proceeds of the Series 2015B(R), 2015C(R) 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 0.81% to 5.00% (first interest payment due on April 1, 2016) with the last maturity on October 1, 2044.

The University receives funds from the State of Hawai‘i Tobacco Settlement Special Fund for the payment of principal and interest on the Series 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 \$9,921 in 2023.

The revenue bonds are paid from certain unrestricted revenues in annual installments, including semi-annual interest payments ranging from \$12 to \$8,634 with the final payment due in October 2044. Interest on the Series 2015, 2017 and 2020 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 2015, 2017 and 2020 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% 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.

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At June 30, 2023, future maturities of revenue bonds are as follows:

| | Principal | Interest |
|------------------------------|-------------------|-------------------|
| Years ending June 30, | | |
| 2024 | \$ 21,155 | \$ 16,778 |
| 2025 | 22,150 | 15,772 |
| 2026 | 23,210 | 14,701 |
| 2027 | 23,320 | 13,584 |
| 2028 | 25,280 | 12,526 |
| 2029–2033 | 140,235 | 45,381 |
| 2034–2038 | 109,605 | 19,076 |
| 2039–2043 | 50,810 | 2,733 |
| 2044–2045 | 1,000 | 47 |
| | <u>\$ 416,765</u> | <u>\$ 140,598</u> |

Bond Premiums

Activity related to the premiums on revenue bonds for the year ended June 30, 2023 is as follows:

| | | Beginning | | | Ending |
|--------------------------------------|---------------|------------------|------------------|-------------------|------------------|
| | Series | Balance | Additions | Reductions | Balance |
| Student Housing | 2015B(R) | \$ 3,620 | \$ - | \$ 319 | \$ 3,301 |
| John A. Burns School of Medicine | 2015E(R) | 4,239 | - | 648 | 3,591 |
| Sinclair Library basement renovation | 2017A | 311 | - | 44 | 267 |
| John A. Burns School of Medicine | 2017B | 166 | - | 26 | 140 |
| Student Housing | 2017D | 72 | - | 9 | 63 |
| Student Housing | 2017F | 6,486 | - | 659 | 5,827 |
| University of Hawai‘i Cancer Center | 2020B | 7,151 | - | 1,360 | 5,791 |
| Various construction projects | 2020D | 13,065 | - | 1,718 | 11,347 |
| Total bond premiums | | <u>\$ 35,110</u> | <u>\$ -</u> | <u>\$ 4,783</u> | <u>\$ 30,327</u> |

10. Leases

The University leases certain properties to other users. Such property includes special purpose facilities, office space, and commercial space. The lease receivable consists of agreements with others for the right to use the underlying assets at various locations owned by the University. The terms of the arrangements range from 2 to 20 years. The calculated interest rates used vary depending on the length of the lease. For the year ended June 30, 2023, the University recognized \$1,244 in lease revenue and \$383 in interest revenue.

A summary of changes in lease receivable for the year ended June 30, 2023 is as follows:

| Beginning | | | Ending | Due Within | Due in |
|------------------|------------------|-----------------|----------------|-------------------|------------------|
| Balance | Additions | Deletion | Balance | One Year | More Than |
| \$ 7,235 | \$ 3,414 | \$ - | \$ 10,649 | \$ 980 | \$ 9,669 |

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Lease receivable is due as follows:

| Years ending June 30, | Principal |
|------------------------------|------------------|
| 2024 | \$ 980 |
| 2025 | 634 |
| 2026 | 626 |
| 2027 | 636 |
| 2028–2032 | 3,393 |
| 2033–2037 | 1,760 |
| 2038–2042 | 1,088 |
| 2043–2047 | 1,147 |
| 2048–2049 | 385 |
| | <u>\$ 10,649</u> |

11. 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>.

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% to 2.25%) 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.

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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 2.50% increase each year of their original retirement allowance without a ceiling. Retirees first hired as members after June 30, 2012 receive a 1.50% 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% 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% of their average final compensation. Ten years of credited service are 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 12.50% of average final compensation.
- Death Benefits – For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a monthly benefit of 30% 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% joint and survivor lifetime pension and the surviving dependent children receive a percentage of the member’s accrued maximum allowance unreduced for age.

Contributory Class for Members Hired Prior to July 1, 2012

- Retirement Benefits – General employees’ retirement benefits are determined as 2% 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% of their average final compensation. Ten years of credited service are required for ordinary disability. Ordinary disability benefits are determined as 1.75% 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% of average final compensation.

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- 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% 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% 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% 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% 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% of their average final compensation plus refund of contributions and accrued interest. Ten years of credited service are required for ordinary disability.

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

Hybrid Class for Members Hired Prior to July 1, 2012

- Retirement Benefits – General employees’ retirement benefits are determined as 2% 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% of their average final compensation plus refund of their contributions and accrued interest. Ten years of credited service are 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% of average final compensation.

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- 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% 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%, or 50% 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% 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% 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% 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% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Contributions

Contributions are governed by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rate was 24.10% for fiscal year 2023. Contributions to the pension plan for the University for the year ended June 30, 2023 were \$144,995.

The University is required to make all contributions for noncontributory members. Contributory members hired prior to July 1, 2012 are required to contribute 7.80% of their salary. Contributory members hired after June 30, 2012 are required to contribute 9.80% of their salary. Hybrid members hired prior to July 1, 2012 are required to contribute 6% of their salary. Hybrid members hired after June 30, 2012 are required to contribute 8% of their salary.

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

At June 30, 2023, the University reported a liability of \$1,529,823 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, 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, 2022, the University’s proportion was 11.80%, which was a decrease of 0.30% from its proportion at June 30, 2021.

The following changes were made to the actuarial assumptions as of June 30, 2021 to June 30, 2022:

- The administrative expenses assumption was increased from 0.35% to 0.40%.
- The general wage inflation assumption represents the average increase in wages in the general economy and is used to index salaries for each cohort of new entrants in projections. The general productivity component of the general wage inflation assumption for general employees decreased from 1.00% to 0.50%, that now yields a nominal assumption of 3.00%.
- The assumed salary increase schedules increased for all employees. These schedules include an ultimate component for general wage inflation that may add on an additional increase for individual merit (which would include promotions) and then an additional component for step rates based on service. The schedules of assumed salary increase, that are the same for general employees, increased to 4.66% from 4.41%.
- Retiree mortality was updated to the 2022 Public Retirees of Hawaii mortality tables. The rates are projected on a fully generational basis by the long-term rates of scale UMP from the year 2022 and with multiplier and setbacks based on plan and group experience.

There were no changes between the measurement date, June 30, 2022, and the reporting date, June 30, 2023, that are expected to have a significant effect on the proportionate share of the net pension liability.

For the year ended June 30, 2023, the University recognized pension expense of \$84,601.

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At June 30, 2023, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Difference between expected and actual experience | \$ 27,453 | \$ 22,147 |
| Net difference between projected and actual investment earnings on pension plan investments | - | 66,213 |
| Change in assumptions | 2,245 | 19,404 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | - | 93,559 |
| Contributions subsequent to the measurement date | <u>144,995</u> | <u>-</u> |
| Total deferred inflows and outflows of resources | <u>\$ 174,693</u> | <u>\$ 201,323</u> |

At June 30, 2023, the \$174,693 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, 2024.

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

| Years ending June 30, | |
|------------------------------|---------------------|
| 2024 | \$ (48,946) |
| 2025 | (57,612) |
| 2026 | (73,332) |
| 2027 | 9,542 |
| 2028 | <u>(1,277)</u> |
| | <u>\$ (171,625)</u> |

Actuarial Assumptions

The total pension liability in the June 30, 2022 actuarial valuation was determined using the following actuarial assumptions adopted by the ERS’s Board of Trustees on August 8, 2022, based on the 2021 experience study for the five-year period from July 1, 2016 through June 30, 2021:

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

There were no changes to ad hoc postemployment benefits including cost of living allowances.

Post-retirement mortality rates are based on the 2022 Public Retirees of Hawaii mortality table with full generational projections in future years.

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Pre-retirement mortality rates are based on multiples of the Pub-2010 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 rate of returns based on ERS’s investment consultant as of June 30, 2022 are summarized in the following table:

| Classes | Strategic Class Weights | Long-Term Expected Geometric Rate of Return |
|-----------------------------------|--------------------------------|--|
| Broad growth | | |
| Private equity | 13.50 % | 11.00 % |
| Global equity | 20.00 % | 8.50 % |
| Low volatility equity | 4.00 % | 7.80 % |
| Global options | 4.00 % | 6.40 % |
| Credit | 6.00 % | 7.70 % |
| Core real estate | 6.00 % | 6.40 % |
| Non-core real estate | 4.50 % | 9.50 % |
| Timber/agriculture/infrastructure | 5.00 % | 8.30 % |
| Diversifying strategies | | |
| TIPS | 2.00 % | 3.30 % |
| Global macro | 4.00 % | 5.40 % |
| Reinsurance | 4.00 % | 6.40 % |
| Alternative risk premia | 8.00 % | 5.40 % |
| Long treasuries | 5.00 % | 3.80 % |
| Intermediate government | 4.00 % | 3.20 % |
| Systematic trend following | 10.00 % | 6.20 % |
| Total investments | <u>100.00 %</u> | |

Discount Rate

The discount rate used to measure the net pension liability was 7.00%, 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.

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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%, for the measurement date, June 30, 2022, 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%) or one percentage point higher (8.00%) than the current rate:

| | 1% Decrease (6.00%) | Discount Rate (7.00%) | 1% Increase (8.00%) |
|---|------------------------------------|--------------------------------------|------------------------------------|
| The University’s proportionate share of the net pension liability | <u>\$ 2,049,956</u> | <u>\$ 1,529,823</u> | <u>\$ 1,099,253</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 year 2023 was paid by June 30, 2023. Excess payments of \$40,020 are being applied to amounts due in fiscal year 2023.

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 \$246,138 for fiscal year 2023.

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

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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, 2023, accumulated sick leave approximated \$506,810.

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 \$1,958 for fiscal year 2023.

12. 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:

Hawaii Employer-Union Health Benefits Trust Fund
P.O. Box 2121
Honolulu, Hawaii 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% 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.

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% of the base monthly contribution. For employees retiring with at least 15 years, but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For employees retiring with at least 25 years of service, the State pays 100% 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% of the base monthly contribution. For those retiring with at least 15 years, but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage, but must pay the difference.

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Employees Covered by Benefit Terms

At July 1, 2022, the following number of plan members was covered by the benefit terms:

| | |
|---|---------------|
| Inactive plan members or beneficiaries currently receiving benefits | 39,326 |
| Inactive plan members entitled to but not yet receiving benefits | 7,564 |
| Active plan members | <u>48,678</u> |
| Total plan members | <u>95,568</u> |

Contributions

Contributions are governed by HRS Chapter 87A and may be amended through legislation. Contributions to the OPEB plan for the University were \$63,192 the year ended June 30, 2023. 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, 2023, the University reported a net OPEB liability of \$1,543,369 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of July 1, 2022 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, 2022, and the reporting date, June 30, 2023, that are expected to have a significant effect on the net OPEB liability.

For the year ended June 30, 2023, the University recognized OPEB expense of approximately \$41,946. At June 30, 2023, 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 |
|---|---|--|
| Changes in assumptions | \$ 13,145 | \$ 34,146 |
| Net difference between projected and actual earnings on OPEB plan investments | 39,066 | - |
| Difference between expected and actual experience | - | 211,224 |
| Contributions subsequent to the measurement date | <u>65,347</u> | <u>-</u> |
| Total deferred inflows and outflows of resources | <u>\$ 117,558</u> | <u>\$ 245,370</u> |

At June 30, 2023, the approximate \$65,347 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, 2024.

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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, | |
|------------------------------|---------------------|
| 2024 | \$ (47,128) |
| 2025 | (46,395) |
| 2026 | (49,823) |
| 2027 | (24,725) |
| 2028 | (25,088) |
| | <u>\$ (193,159)</u> |

Actuarial Assumptions

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

| | |
|---|-----------------|
| Actuarial valuation date | July 1, 2022 |
| Date of adoption | January 9, 2023 |
| Five-year experience study end date | June 30, 2022 |
| Inflation | 2.50% |
| Payroll growth rate (including inflation) | 3.75% to 6.75% |
| Investment rate of return | 7.00% |
| PPO* | |
| Initial rates | 6.40% |
| Rate to which the cost trend rate is assumed to decline (ultimate trend rate) | 4.25% |
| Number of years that the rate reaches the ultimate trend rate | 22 |
| HMO* | |
| Initial rates | 6.40% |
| Rate to which the cost trend rate is assumed to decline (ultimate trend rate) | 4.25% |
| Number of years that the rate reaches the ultimate trend rate | 22 |
| Medicare Part B Contribution | |
| Initial rates | 5.00% |
| Rate to which the cost trend rate is assumed to decline (ultimate trend rate) | 4.25% |
| Number of years that the rate reaches the ultimate trend rate | 22 |
| Dental | |
| Rate | 4.00% |
| Vision | |
| Rate | 2.5% |
| Life Insurance | |
| Rate | 0.00% |

* Blended rates for medical and prescription drugs.

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

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:

| | Target Allocation | Long-Term Expected Real Rate of Return |
|--|------------------------------|---|
| Strategic Allocation (risk-based classes) | | |
| Private equity | 12.50 % | 11.72 % |
| U.S. microcap | 6.00 % | 8.28 % |
| Global equity | 27.50 % | 6.62 % |
| Global options | 5.00 % | 4.45 % |
| Real assets | 10.00 % | 6.59 % |
| Private credit | 8.00 % | 6.38 % |
| TIPS | 5.00 % | 1.35 % |
| Long treasuries | 6.00 % | 2.32 % |
| Alternative risk premia | 5.00 % | 4.81 % |
| Trend following | 10.00 % | 3.74 % |
| Reinsurance | 5.00 % | 4.53 % |
| | <u>100.00 %</u> | |

Single Discount Rate

The discount rate used to measure the net OPEB liability was 7.00%, based on the expected rate of return on OPEB plan investments of 7.00%. 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 future benefit payments of current and inactive plan members. In July 2020, the Governor’s office issued the Tenth Proclamation related to the COVID-19 Emergency, allowing employers of the EUTF to suspend ACT 268 contributions for the year ending June 30, 2021 and instead limit their contribution amounts to the OPEB benefits due. This relief provision related to OPEB funding was extended to fiscal years 2022 and 2023 by ACT 229, SLH 2021. The OPEB plan’s fiduciary net position is expected to be available to make all projected future benefit payments of current 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.

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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.

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 date, July 1, 2022.

| | Total OPEB Liability | Plan Fiduciary Net Position | Net OPEB Liability |
|--|---------------------------------|--|-------------------------------|
| Beginning balance | \$ 2,141,765 | \$ 506,154 | \$ 1,635,611 |
| Service cost | 28,628 | - | 28,628 |
| Interest on the total OPEB liability | 95,645 | - | 95,645 |
| Employer contributions | - | 63,192 | (63,192) |
| Net investment income | - | (9,149) | 9,149 |
| Benefit payments | (44,095) | (44,095) | - |
| Change in assumptions | (32,983) | - | (32,983) |
| Difference between expected and actual experience in the measurement of total OPEB liability | (129,403) | - | (129,403) |
| Administrative expense | - | (38) | 38 |
| Other | - | 124 | (124) |
| Net changes | <u>(82,208)</u> | <u>10,034</u> | <u>(92,242)</u> |
| Ending balance | <u>\$ 2,059,557</u> | <u>\$ 516,188</u> | <u>\$ 1,543,369</u> |

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%, for the measurement date, July 1, 2022, 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%) or one percentage point higher (8.00%) than the current discount rate:

| | 1% Decrease (6.00%) | Discount Rate (7.00%) | 1% Increase (8.00%) |
|---|------------------------------------|--------------------------------------|------------------------------------|
| The University’s proportionate share of the net OPEB liability | <u>\$ 1,911,382</u> | <u>\$ 1,543,369</u> | <u>\$ 1,250,874</u> |

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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 |
|--|------------------------|---------------------------------------|------------------------|
| The University’s proportionate share of the net OPEB liability | <u>\$ 1,234,891</u> | <u>\$ 1,543,369</u> | <u>\$ 1,937,679</u> |

Payables to the OPEB Plan

There were no contributions payable to the EUTF as of June 30, 2023.

13. 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 GASB 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 5 to 15 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, 2023 was \$11,035 and is included in other noncurrent liabilities in the University’s Statement of Net Position. Deferred outflows of resources related to AROs amounted to \$2,943 at June 30, 2023.

14. 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

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Legislature specifies the lapse date and any other particular conditions relating to terminating the authorizations for other appropriations.

Act 248, SLH 2022 Appropriations Act of 2022, Section 3, provided \$153,299 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, 2023.

Net general and capital appropriations for the year ended June 30, 2023 were as follows:

General appropriations

| | |
|---|-------------------|
| Act 88, SLH 2021, Appropriation Warrant No. 10 | \$ 503,709 |
| Act 88, SLH 2021 as Amended by Act 248, SLH 2022 Appropriation Warrant No. 94 | 63,390 |
| Act 255, SLH 2022, Appropriation Warrant No. 153 | 350 |
| Act 262, SLH 2022, Appropriation Warrant No. 154 | <u>6,700</u> |
| | 574,149 |
| Total funds lapsed | (8,815) |
| Collective bargaining adjustment | <u>15,434</u> |
| Total general appropriations | <u>\$ 580,768</u> |

Capital appropriations

| | |
|---|-------------------|
| Section 26, Act 148, SLH 2022 | \$ 64,650 |
| Sections 26, Act 88, SLH 2021, Amended by Act 248, SLH 2022 | 95,750 |
| Total funds lapsed | <u>(4,322)</u> |
| Total capital appropriations | <u>\$ 156,078</u> |

Net transfers from the State for the year ended June 30, 2023 were as follows:

| | |
|-------------------------------------|-------------------|
| Fringe benefits | \$ 246,138 |
| Hawai‘i Barrel Tax | 1,415 |
| School of Nursing | 1,511 |
| University of Hawai‘i Cancer Center | <u>2,969</u> |
| | <u>\$ 252,033</u> |

15. Litigation, Other Contingent Liabilities, and Commitments

HRS Section 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.

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

State of Hawaii Department of Accounting and General Services
1151 Punchbowl Street
Honolulu, Hawaii 96813

Although the ultimate outcome and financial impact to the University of these OHA matters are not presently known, the University has had an understanding 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 activity in connection with this understanding. 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.

The following coverage is obtained directly from third-party insurers:

- **General Liability Insurance** – The University has general liability insurance with a loss limit of \$10,000 per occurrence, a \$10,000 aggregate, and a \$1,000 Self-Insured Retention (“SIR”). In addition, the University is covered by the State’s general liability policy of \$7,500 which sits above the University’s policy.
- **Management Liability Insurance** – The University has management liability insurance with a limit of \$10,000 per claim and a \$1,000 SIR.

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The University is covered under the State’s insurance program for the following:

- **Property Insurance** – The University has an insurance policy with various insurers for property coverage. The limit of loss per occurrence is \$200,000, except for terrorism losses, which has a \$100,000 per occurrence limit. There are two different types of deductibles for the property coverage. The deductible for losses such as windstorm, flood, tsunami, and volcanic actions are 3% of values per unit of insurance subject to a per occurrence minimum of \$1,000. The deductible for all other perils such as a fire and terrorism is \$1,000.
- **Crime Insurance** – The University also has a crime insurance policy for various types of coverages with a limit of loss of \$10,000 per occurrence with a \$500 deductible per occurrence, except for client’s property which has a \$5,000 limit per occurrence and a \$500 deductible and claims expense coverage, supplemental funds transfer coverage, and social engineering which has a \$100 limit per occurrence and a \$500 deductible. Losses under the deductible amount are paid by the Risk Management Office of the Department of Accounting and General Services (“Risk Management Office”), and losses not covered by insurance are paid from the State’s General Fund.
- **Cyber Liability Insurance** – The University is insured for various types of cyber-related activities with a loss limit of \$5,000 deductibles ranging from \$250 to \$1,000 per claim. This policy includes (with sub-limits) invoice manipulation, reputation loss, amend data recovery cost, computer hardware replacement cost, and cryptojacking.

Construction and Other Contracts

The University is committed under contracts awarded for construction and other services. These commitments amounted to approximately \$285,351 as of June 30, 2023.

Collective Bargaining Agreements

The Hawai‘i State Constitution, under Article XIII, Section 2, grants certain public employees in the State the right to organize for the purpose of collective bargaining as provided by law. HRS Chapter 89 provides 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 Section 89-6(a), 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 September 12, 2023 is as follows:

- Unit 1 (nonsupervisory employees in blue collar positions) – 483
- Unit 2 (supervisory employees in blue collar positions) – 13
- Unit 3 (nonsupervisory employees in white collar positions) – 471
- Unit 4 (supervisory employees in white collar positions) – 37

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- Unit 7 (faculty of the University and community colleges) – 4,284
- Unit 8 (personnel of the University and community colleges other than faculty) – 2,352
- Unit 9 (registered professional nurses) – 10
- Unit 10 (institutional, health, and correctional workers) – 1

The civil service employees working at the University are included in Units 1, 2, 3, 4, 9 and 10. The University’s employees who are exempt from civil service are considered Board appointees, and include faculty members, who are included in Unit 7, and administrative, professional and technical 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 Section 89-6(f), such as those 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, as applicable. Some employees (for example, 89-day contractual hires or those working less than half-time) are not parties to any bargaining unit under HRS Chapter 89.

All Units at the University have four-year CBAs that are effective from July 1, 2021 through June 30, 2025. All CBAs have a reopener for the final two years of the contract solely on the issue of the employer’s contribution to health insurance premiums (“EUTF”); as a result of the reopener, all bargaining units have a revised Employer’s monthly contribution to EUTF premiums through June 30, 2025. A summary of salary and other adjustments, and their effective dates, over the course of the CBAs for each unit is below:

| BU | 7/1/2021 | 7/1/2022 | 9/1/2022 | 10/1/2022 | 7/1/2023 | 7/1/2024 |
|-----------|-----------------------------------|-----------------|-----------------|------------------|-----------------|-----------------|
| 1 | \$1,000 (lump sum) | — | — | 3.72% | 5% | 5% |
| 2 | 1% (lump sum) | 3.72% | — | — | 5% | 5% |
| 3 | \$1,000 (lump sum) | — | — | 3.72% | 5% | 5% |
| 4 | 1% (lump sum) | 3.72% | — | — | 4.96% | 5% |
| 7 | 1% (lump sum for Faculty Members) | 3.72% | — | — | 5% | 5% |
| 8 | 1% (lump sum) | 3.72% | — | — | 5% | 5% |
| 9 | 1% (lump sum) | 3% | — | — | 4.10% | 3.40% |
| 10 | \$1,000 (lump sum) | — | 2.94% | — | 5% | 5% |

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16. Foundation Disclosures

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, 2023 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 |
|-------------------------------|-------------------|---|---|--|--|
| Domestic equities | \$ 65,750 | \$ 65,750 | \$ - | \$ - | \$ - |
| Fixed income securities | 194,314 | 142,918 | 51,396 | - | - |
| Foreign equities | 108,459 | 59,200 | - | - | 49,259 |
| Money market funds | 39,013 | 39,013 | - | - | - |
| Natural resources/real estate | 28,089 | - | - | 7,589 | 20,500 |
| Hedge funds | 172,281 | 5,328 | - | - | 166,953 |
| Private equity securities | 63,245 | - | - | 106 | 63,139 |
| Total investments | <u>\$ 671,151</u> | <u>\$ 312,209</u> | <u>\$ 51,396</u> | <u>\$ 7,695</u> | <u>\$ 299,851</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.

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.

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- **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 \$49,196 at June 30, 2023.
- **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.

Long-term Debt

In November 2021, the Public Finance Authority (the “Authority”) issued revenue bonds totaling \$91,915 comprising Series 2021A-1 (\$62,205 tax-exempt), Series 2021A-2 (\$14,210 taxable) and Series 2021B (\$15,500 tax-exempt). The Authority then loaned the proceeds of the bonds to the Foundation for the construction of a new student housing facility. Total premium for the Series 2021 bonds was \$3,390.

The revenue bonds are paid from project revenues and restricted cash in annual installments, including semiannual interest payments ranging from \$373 to \$1,244 with the final payment due in July 2061.

The Foundation entered a continuing disclosure agreement for the benefit of revenue bondholders, it agreed to provide certain financial information and operating data relating to the Foundation with respect to its revenue bonds to the Municipal Securities Rulemaking Board. The Foundation, based on consultation with its bond counsel and bond underwriter, has complied in all material respects with the continuing disclosure requirements. As of June 30, 2023, the Foundation is in compliance with the covenants in its debt agreements, including financial ratios and other restrictions.

The Foundation’s revenue bonds payable on June 30, 2023 is as follows:

| Series | Interest Rate | Date Issued | Amount |
|---|----------------------|--------------------|------------------|
| 2021A-1 | 4.00 % | November 1, 2021 | \$ 62,205 |
| 2021A-2 | 4.85 % | November 1, 2021 | 2,730 |
| 2021A-2 | 5.35 % | November 1, 2021 | 11,480 |
| 2021B | 5.25 % | November 1, 2021 | <u>15,500</u> |
| | | | 91,915 |
| Unamortized premium on bonds | | | 3,223 |
| Less: Unamortized debt issuance costs | | | <u>(2,272)</u> |
| Long-term debt, net unamortized debt issuance costs | | | <u>\$ 92,866</u> |

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At June 30, 2023, future maturities of revenue bonds are as follows:

| Years ending June 30, | |
|------------------------------|------------------|
| 2024 | \$ - |
| 2025 | - |
| 2026 | - |
| 2027 | 155 |
| 2028 | 260 |
| Thereafter | <u>91,500</u> |
| | <u>\$ 91,915</u> |

For the year ended June 30, 2023, the Foundation paid and capitalized interest cost of \$2,052 to CIP recorded in property and equipment, net.

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

University of Hawai‘i
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Schedule of the Proportionate Share of the Net Pension Liability (Unaudited)
Last Ten Fiscal Years
(All dollars reported in thousands)

| | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Proportionate share of the net pension liability | 11.80 % | 12.10 % | 12.34 % | 12.64 % | 12.73 % | 12.73 % | 12.75 % | 13.11 % | 13.60 % | 13.75 % |
| Proportion of the net pension liability | \$ 1,529,823 | \$ 1,476,618 | \$ 1,889,437 | \$ 1,791,098 | \$ 1,695,800 | \$ 1,648,600 | \$ 1,704,470 | \$ 1,144,564 | \$ 1,089,882 | \$ 1,227,787 |
| Covered payroll | \$ 592,534 | \$ 575,216 | \$ 606,426 | \$ 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 | 258.18 % | 256.71 % | 311.57 % | 296.99 % | 286.57 % | 280.75 % | 299.43 % | 202.67 % | 197.89 % | 235.67 % |
| Plan fiduciary net position as a percentage of total net pension liability | 62.76 % | 64.25 % | 53.18 % | 54.87 % | 55.48 % | 54.80 % | 51.28 % | 63.42 % | 63.92 % | 57.96 % |

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Schedule of Pension Contributions (Unaudited)
Last Ten Fiscal Years
(All dollars reported in thousands)

| | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|------------------|---------------|---------------|---------------|
| Statutorily required contribution | \$ 142,821 | \$ 138,619 | \$ 147,213 | \$ 133,759 | \$ 115,001 | \$ 111,436 | \$ 98,865 | \$ 97,394 | \$ 93,949 | \$ 88,381 |
| Contributions in relation to the contractually required contribution | <u>142,821</u> | <u>138,619</u> | <u>147,213</u> | <u>133,759</u> | <u>115,001</u> | <u>111,436</u> | <u>\$ 98,865</u> | <u>97,394</u> | <u>93,949</u> | <u>88,381</u> |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered payroll | \$ 592,534 | \$ 575,216 | \$ 609,194 | \$ 606,426 | \$ 603,076 | \$ 591,759 | \$ 587,203 | \$ 569,235 | \$ 564,736 | \$ 550,758 |
| Contributions as a percentage of covered payroll | 24.10 % | 24.10 % | 24.17 % | 22.06 % | 19.07 % | 18.83 % | 16.84 % | 17.11 % | 16.64 % | 16.05 % |

1. Changes of Benefit Terms

There were no changes of benefit terms in 2023 through 2014.

2. Changes of Assumptions

In fiscal year 2023, the following changes were made to the actuarial assumptions for the June 30, 2022 actuarial valuation:

- The administrative expenses assumption was increased from 0.35% to 0.40%.
- The general wage inflation assumption represents the average increase in wages in the general economy and is used to index salaries for each cohort of new entrants in projections. The general productivity component of the general wage inflation assumption for general employees decreased from 1.00% to 0.50%, that now yields a nominal assumption of 3.00%.
- The assumed salary increase schedules increased for all employees. These schedules include an ultimate component for general wage inflation that may add on an additional increase for individual merit (which would include promotions) and then an additional component for step rates based on service. The schedules of assumed salary increase, that are the same for general employees, increased to 4.66% from 4.41%.
- Retiree mortality was updated to the 2022 Public Retirees of Hawaii mortality tables. The rates are projected on a fully generational basis by the long-term rates of scale UMP from the year 2022 and with multiplier and setbacks based on plan and group experience.

There were no significant changes in actuarial assumptions in 2022, 2021, 2020, 2019 or 2018.

In fiscal year 2017, the discount rate for the June 30, 2016 actuarial valuation decreased by 0.65% from 7.65% to 7.00% 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% from 7.75% to 7.65%.

There were no significant changes in actuarial assumptions in 2015 and 2014.

University of Hawai‘i
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(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)

| | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Total OPEB liability | | | | | | |
| Service cost | \$ 28,628 | \$ 12,767 | \$ 41,952 | \$ 42,039 | \$ 40,189 | \$ 31,124 |
| Interest | 95,645 | 42,381 | 134,717 | 132,510 | 124,435 | 94,505 |
| Difference between expected and actual experience | (129,403) | (17,988) | (123,339) | (1,103) | (36,795) | - |
| Changes of assumptions | (32,983) | - | (10,099) | 10,650 | 22,269 | - |
| Benefit payments | (44,095) | (19,368) | (61,958) | (63,458) | (60,589) | (46,725) |
| Net change in total OPEB liability | (82,208) | 17,792 | (18,727) | 120,638 | 89,509 | 78,904 |
| Total OPEB liability – beginning | 2,141,765 | 2,123,973 | 2,142,700 | 2,022,062 | 1,932,553 | 1,853,649 |
| Total OPEB liability – ending | <u>\$2,059,557</u> | <u>\$2,141,765</u> | <u>\$2,123,973</u> | <u>\$2,142,700</u> | <u>\$2,022,062</u> | <u>\$1,932,553</u> |
| Plan fiduciary net position | | | | | | |
| Employer contributions | \$ 63,192 | \$ 66,555 | \$ 138,452 | \$ 139,980 | \$ 119,714 | \$ 92,918 |
| Net investment income | (9,149) | 34,889 | 7,393 | 12,727 | 13,793 | 9,303 |
| Benefit payments | (44,095) | (19,368) | (61,958) | (63,458) | (60,589) | (46,725) |
| OPEB plan administrative expense | (38) | (18) | (52) | (87) | (45) | (23) |
| Other | 124 | 7 | 46 | 29,480 | - | 747 |
| Net change in plan fiduciary net position | 10,034 | 82,065 | 83,881 | 118,642 | 72,873 | 56,220 |
| Plan fiduciary net position – beginning | 506,154 | 424,089 | 340,208 | 221,566 | 148,693 | 92,473 |
| Plan fiduciary net position – ending | 516,188 | 506,154 | 424,089 | 340,208 | 221,566 | 148,693 |
| Net OPEB liability – ending | <u>\$1,543,369</u> | <u>\$1,635,611</u> | <u>\$1,699,884</u> | <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 | 25.06 % | 23.63 % | 19.97 % | 15.88 % | 10.96 % | 7.69 % |
| Covered-employee payroll | \$ 592,534 | \$ 575,216 | \$ 609,194 | \$ 606,426 | \$ 603,076 | \$ 591,759 |
| Net OPEB liability as a percentage of covered-employee payroll | 260.47 % | 284.35 % | 279.04 % | 297.23 % | 298.55 % | 301.45 % |

* Information for 2014–2017 is unavailable.

University of Hawai‘i
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Schedule of OPEB Contributions (Unaudited)
Last Ten Fiscal Years*
(All dollars reported in thousands)

| | 2023 | 2022 | 2021 | 2020 | 2019 | 2018 |
|--|------------|------------|-------------|------------|------------|------------|
| Actuarially determined contribution | \$ 65,347 | \$ 103,889 | \$ 45,460 | \$ 144,567 | \$ 134,898 | \$ 135,072 |
| Contributions in relation to the actuarially required contribution | 65,347 | 63,192 | 66,555 | 138,452 | 139,980 | 119,714 |
| Contributions excess | \$ - | \$ 40,697 | \$ (21,095) | \$ 6,115 | \$ (5,082) | \$ 15,358 |
| University's covered-employee payroll | \$ 592,534 | \$ 575,216 | \$ 609,194 | \$ 606,426 | \$ 603,076 | \$ 591,759 |
| Contributions as a percentage of covered employee payroll | 11.03 % | 10.99 % | 10.93 % | 22.83 % | 23.21 % | 20.23 % |

1. Changes of Benefit Terms

There were no changes of benefit terms in 2023 through 2018.

2. Changes of Assumptions

Actuarial assumption changes during the fiscal year 2023 included updating the healthcare trend assumptions to better anticipate short-term premium experience and the payroll growth rate. The actuarial methods and assumptions used to calculate the actuarially determined contribution for fiscal year 2023 are as follows:

| | |
|-------------------------------|---|
| Actuarial valuation date | July 1, 2022 |
| Actuarial cost method | Entry age normal |
| Amortization method | Level percent, closed |
| Remaining amortization period | 22 years |
| Asset valuation method | 4-year smoothed market |
| Actuarial assumptions | |
| Investment rate of return | 7.00% |
| Projected salary increases | 3.50% to 7.00% |
| Healthcare inflation rates | |
| PPO** | 7.50%, declining rate of 4.70% after 13 years |
| HMO** | 7.50%, declining rate of 4.70% after 13 years |
| Dental | 5.00% for the first year, declining to 4.00% for all future years |
| Vision | 0.00 % initial rate for first year, then 2.50% for all future years |
| Medicare Part B | Initial rates of 5.00% declining to rate of 4.70% after 10 years |

* Information for 2014–2017 is unavailable.

** Blended rates for medical and prescription drug.

Other Supplementary Information



Report of Independent Auditors on Supplemental Information

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

We have audited the basic financial statements of the University of Hawai'i as of and for the year ended June 30, 2023, and our report thereon dated December 7, 2023, which expressed an unmodified opinion, appears on pages 1 to 3. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information (Schedules I, II, III, IV, V, VI, VII, VIII, IX, X and XI) included hereinafter is presented for purposes of additional analysis and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements as a whole.

accuity LLP

Honolulu, Hawai'i
December 7, 2023

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University of Hawai‘i
State of Hawai‘i
(A Component Unit of the State of Hawai‘i)
Condensed Statement of Net Position
Condensed Statement of Revenues, Expenses, and Changes in Net Position
Current Unrestricted Funds Excluding General Fund
As of and for the Year Ended June 30, 2023

(All dollars reported in thousands)

Schedule I

| | 2023 |
|---|-------------------|
| Condensed statement of net position | |
| Assets | |
| Current assets | \$ 768,349 |
| Noncurrent assets | <u>1,518</u> |
| Total assets | <u>769,867</u> |
| Deferred outflows of resources | |
| Deferred outflows on asset retirement obligation | <u>919</u> |
| Total deferred outflows of resources | <u>919</u> |
| Total assets and deferred outflows of resources | <u>\$ 770,786</u> |
| Liabilities | |
| Current liabilities | \$ 47,982 |
| Noncurrent liabilities | <u>13,117</u> |
| Total liabilities | <u>61,099</u> |
| Net position | |
| Unrestricted | <u>709,687</u> |
| Total net position | <u>709,687</u> |
| Total liabilities and net position | <u>\$ 770,786</u> |
| Condensed statement of revenues, expenses, and changes in net position | |
| Operating revenues | \$ 439,773 |
| Operating expenses | <u>272,098</u> |
| Operating income | 167,675 |
| Nonoperating revenues and transfers | 38,510 |
| Nonoperating expenses and transfers | <u>47,748</u> |
| Change in net position | 158,437 |
| Net position | |
| Beginning of year | <u>551,250</u> |
| End of year | <u>\$ 709,687</u> |

1. Basis of Presentation

The accompanying condensed statement of net position and related condensed statement 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 2015A, 2015B(R), 2015C(R), 2015E(R), 2017A, 2017B, 2017C, 2017D, 2017E, 2017F, 2017G, 2020A, 2020B, 2020C, 2020D and 2020E 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 Statement of Net Position

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

Current Unrestricted Funds Excluding General Fund

As of and for the Year Ended June 30, 2023

(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
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Schedule of Series 2002A University Bond Proceeds Activity
Year Ended June 30, 2023
(All dollars reported in thousands)

Schedule II

| | 2023 |
|--|-----------------|
| Beginning balance | \$ 2,446 |
| Additions | |
| Interest and investment income | 64 |
| Total additions | <u>64</u> |
| Deductions | |
| Payments – building, construction in progress, other | 238 |
| Management fees | <u>2</u> |
| Total deductions | <u>240</u> |
| Ending balance | <u>\$ 2,270</u> |

1. Basis of Presentation

The accompanying schedule of Series 2002A University Bond proceeds activity presents 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.

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Schedule of Series 2006A Revenue Bond Proceeds Activity
Year Ended June 30, 2023
(All dollars reported in thousands)

Schedule III

| | 2023 |
|--------------------------------|-----------------|
| Beginning balance | \$ 4,202 |
| Additions | |
| Interest and investment income | 126 |
| Total additions | <u>126</u> |
| Deductions | |
| Management fees | <u>4</u> |
| Total deductions | <u>4</u> |
| Ending balance | <u>\$ 4,324</u> |

1. Basis of Presentation

The accompanying schedule of Series 2006A revenue bond proceeds activity presents 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.

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Schedule of Series 2009A Revenue Bond Proceeds Activity
Year Ended June 30, 2023
(All dollars reported in thousands)

Schedule IV

| | 2023 |
|--------------------------------|-----------------|
| Beginning balance | \$ 1,628 |
| Additions | |
| Interest and investment income | 49 |
| Total additions | <u>49</u> |
| Deductions | |
| Management fees | <u>1</u> |
| Total deductions | <u>1</u> |
| Ending balance | <u>\$ 1,676</u> |

1. Basis of Presentation

The accompanying schedule of Series 2009A revenue bond proceeds activity presents 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.

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Schedule of Series 2010A Revenue Bond Proceeds Activity
Year Ended June 30, 2023
(All dollars reported in thousands)

Schedule V

| | 2010A-1 | 2010A-2 |
|--|----------------|----------------|
| Balance at June 30, 2022 | \$ 117 | \$ 324 |
| Additions | | |
| Interest and investment income | <u>3</u> | <u>11</u> |
| Total additions | <u>3</u> | <u>11</u> |
| Deductions | | |
| Payments – building, construction in progress, other | <u>-</u> | <u>-</u> |
| Total deductions | <u>-</u> | <u>-</u> |
| Balance at June 30, 2023 | <u>\$ 120</u> | <u>\$ 335</u> |

1. Basis of Presentation

The accompanying schedule of Series 2010A-1 and Series 2010A-2 revenue bond proceeds activity presents 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 this schedule.

2. Refinancing

In October 2020, the University refinanced the outstanding Series 2010A-1 revenue bonds through the issuance of Series 2020B and 2020C revenue bonds.

University of Hawai‘i
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Schedule of Series 2010B Revenue Bond Proceeds Activity
Year Ended June 30, 2023
(All dollars reported in thousands)

Schedule VI

| | 2010B-1 | 2010B-2 |
|---------------------------------|----------------|----------------|
| Balance at June 30, 2022 | \$ 575 | \$ 886 |
| Additions | | |
| Interest and investment income | 13 | 25 |
| Total additions | <u>13</u> | <u>25</u> |
| Deductions | | |
| Payments | <u>128</u> | <u>1</u> |
| Total deductions | <u>128</u> | <u>1</u> |
| Balance at June 30, 2023 | <u>\$ 460</u> | <u>\$ 910</u> |

1. Basis of Presentation

The accompanying schedule of Series 2010B-1 and Series 2010B-2 revenue bond proceeds activity presents 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 this schedule.

2. Refinancing

In October 2020, the University refinanced the outstanding Series 2010B-1 revenue bonds through the issuance of Series 2020D and 2020E revenue bonds.

University of Hawai‘i
State of Hawai‘i
(A Component Unit of the State of Hawai‘i)
Schedule of Series 2015A Revenue Bond Proceeds Activity
Year Ended June 30, 2023
(All dollars reported in thousands)

Schedule VII

| | 2023 |
|--|---------------|
| Beginning balance | \$ 479 |
| Additions | |
| Interest and investment income | 15 |
| Total additions | <u>15</u> |
| Deductions | |
| Payments – building, construction in progress, other | - |
| Management fees | - |
| Total deductions | <u>-</u> |
| Ending balance | <u>\$ 494</u> |

1. Basis of Presentation

The accompanying schedule of Series 2015A revenue bond proceeds activity presents 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)
Schedule of Series 2017A Revenue Bond Proceeds Activity
Year Ended June 30, 2023
(All dollars reported in thousands)

Schedule VIII

| | 2023 |
|--|-----------------|
| Beginning balance | \$ 1,908 |
| Additions | |
| Interest and investment income | 53 |
| Total additions | <u>53</u> |
| Deductions | |
| Payments – building, construction in progress, other | 29 |
| Management fees | <u>2</u> |
| Total deductions | <u>31</u> |
| Ending balance | <u>\$ 1,930</u> |

1. Basis of Presentation

The accompanying schedule of Series 2017A revenue bond proceeds activity presents 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)
Schedule of Series 2020A Revenue Bond Proceeds Activity
Year Ended June 30, 2023
(All dollars reported in thousands)

Schedule IX

| | 2023 |
|--|---------------|
| Beginning balance | \$ 1,781 |
| Additions | |
| Bond proceeds | - |
| Interest and investment income | <u>36</u> |
| Total additions | <u>36</u> |
| Deductions | |
| Payments – building, construction in progress, other | 1,020 |
| Management fees | <u>1</u> |
| Total deductions | <u>1,021</u> |
| Ending balance | <u>\$ 796</u> |

1. Basis of Presentation

The accompanying schedule of Series 2020A revenue bond proceeds activity presents the sources and uses of bond proceeds associated with the renovation and repair to the parking facilities 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 Statement of Net Position
Condensed Statement of Revenues, Expenses, and Changes in Net Position
University Bond System
As of and for the Year Ended June 30, 2023

(All dollars reported in thousands)

Schedule X

| | 2023 |
|---|-------------------|
| Condensed statement of net position | |
| Assets and deferred outflows of resources | |
| Current assets | \$ 134,238 |
| Capital assets, net | 383,736 |
| Other assets | 11,045 |
| Total assets | <u>529,019</u> |
| Deferred outflows of resources | 8,407 |
| Total deferred outflows of resources | <u>8,407</u> |
| Total assets and deferred outflows of resources | <u>\$ 537,426</u> |
| Liabilities | |
| Current liabilities | \$ 30,252 |
| Noncurrent liabilities | 425,937 |
| Total liabilities | <u>456,189</u> |
| Net position | |
| Net investment in capital assets | (44,342) |
| Restricted expendable | 1,040 |
| Unrestricted | 124,539 |
| Total net position | <u>81,237</u> |
| Total liabilities and net position | <u>\$ 537,426</u> |
| Condensed statement of revenues, expenses, and changes in net position | |
| Operating revenues | |
| Bookstores | \$ 13,552 |
| Room and other rentals | 30,052 |
| Parking | 7,487 |
| Telecommunications | 2,400 |
| Other operating revenues | 8,119 |
| Total operating revenues | <u>61,610</u> |
| Operating expenses (including \$27,845 in depreciation expense in 2023) | <u>(77,043)</u> |
| Operating loss | (15,433) |
| Nonoperating revenues | 39,275 |
| Nonoperating expenses | (13,926) |
| Change in net position | <u>9,916</u> |
| Net position | |
| Beginning of year | <u>71,321</u> |
| End of year | <u>\$ 81,237</u> |

University of Hawai‘i
State of Hawai‘i
(A Component Unit of the State of Hawai‘i)
Condensed Statement of Cash Flows
University Bond System
As of and for the Year Ended June 30, 2023
(All dollars reported in thousands)

Schedule XI

| | 2023 |
|---|------------------|
| Condensed statement of cash flows | |
| Net cash flows provided by operating activities | \$ 6,823 |
| Net cash flows provided by non-capital financing activities | 6,959 |
| Net cash flows used in capital and related financing activities | (5,237) |
| Net cash flows used in investing activities | <u>(4,933)</u> |
| Net increase in cash and cash equivalents | 3,612 |
| Cash and cash equivalents | |
| Beginning of year | <u>17,004</u> |
| End of year | <u>\$ 20,616</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. In October 2020, the University 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 Statement of Cash Flows
University Bond System
As of and for the Year Ended June 30, 2023
(All dollars reported in thousands)

Schedule XI

2. Basis of Presentation

The accompanying condensed statement of net position and related condensed statement 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.