WR Committee

From: Eva Blumenstein <Eva.Blumenstein@co.maui.hi.us>
Sent: Thursday, April 20, 2017 1:55 PM
To: WR Committee
Cc: Dave Taylor; Gladys Baisa
Subject: Re: WR-5 Watershed Management and Protection

Aloha:

Please find annual financial statements for watershed partnerships grants for the past 3 years for download here:
https://www.dropbox.com/sh/vsiglo6wtcajhl8/AACuB-WAudniEC5jlrnjvXq_a?dl=0

DWS requires that all watershed protection grant applicants submit financial statements for the last 3 years with at least one year audited. Since we begin our application process over a year prior to awarding of a grant, current year (2017)financials are generally not available yet.

To date, we fund 9 grant subsidies through 4 main administrative entities that accept and account for awarded funds. Financial statements are organized by administrator and consolidated for the entities that administer multiple grants:
The Hawaii Agricultural Research Center (HARC)
The University of Hawaii Office of Research Services (ORS)
Tri-Isle RC&D Council, Inc. (Tri-Isle)
The Nature Conservancy (TNC)

As requested, hard copies are submitted to the Office of Council Services.

Mahalo,

Eva

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>>> WR Committee <WR.Committee@mauicounty.us> 4/19/2017 9:53 AM >>>
Aloha,

On behalf of Water Resources Committee Chair Atay, may I please request copies of the profit and loss statements for the watershed partnerships grants funded by the Department of Water Supply for FY's 2015-2017.

Mahalo,

Kimberley Willenbrink
Water Resources Committee Staff
Office of Council Services
200 South High Street
Wailuku, Hawaii 96793
(808)270-7761

HAWAII AGRICULTURE RESEARCH CENTER AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2015
With Prior Year Comparative Information
And Independent Auditor's Report

CW Associates
A Hawaii Certified Public Accounting Corporation

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A Hawaii Certified Public Accounting Corporation

INDEPENDENT AUDITOR'S REPORT

Hawaii Agriculture Research Center and affiliates:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Hawaii Agriculture Research Center and affiliates (Organization), which comprise the consolidated statement of financial position as of June 30, 2015, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

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Opinion on the Consolidated Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of June 30, 2015, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Prior Year Comparative Information

We have previously audited the Organization's consolidated financial statements as of and for the year ended June 30, 2014, and in our report dated February 11, 2015, expressed an unmodified opinion on those consolidated financial statements. In our opinion, the accompanying prior year comparative information is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

CW Associates, CPAs

Honolulu, Hawaii
February 8, 2016

HAWAII AGRICULTURE RESEARCH CENTER AND AFFILIATES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of June 30, 2015
(With Prior Year Comparative Information)

	2015	2014
ASSETS		
CURRENT ASSETS		
Cash (including interest-bearing accounts)	$ 206,693	$ 221,179
Contracts, grants, and other receivables – net	336,158	154,790
Investments in marketable securities – current	7,002,687	7,329,648
Prepaid expenses and other current assets	155,191	145,913
Total current assets	7,700,729	7,851,530
PROPERTY AND EQUIPMENT – Net	14,495,028	14,829,195
INVESTMENTS IN MARKETABLE SECURITIES – Noncurrent	4,199,963	5,344,698
INVESTMENT IN CARDAX PHARMACEUTICALS, INC.	16,200	16,200
TOTAL ASSETS	$26,411,920	$28,041,623
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Advances on line-of-credit	$ 7,002,687	$ 7,329,648
Accounts payable and accrued liabilities	431,818	371,926
Note payable – current	-	982,672
Total current liabilities	7,434,505	8,684,246
NOTE PAYABLE – Noncurrent	1,319,232	-
NET POSTRETIREMENT LIABILITY	86,064	58,492
NET PENSION LIABILITY	2,881,676	2,586,723
TOTAL LIABILITIES	11,721,477	11,329,461
NET ASSETS		
Unrestricted	14,690,443	16,712,162
Total net assets	14,690,443	16,712,162
TOTAL LIABILITIES AND NET ASSETS	$26,411,920	$28,041,623

See accompanying notes to the consolidated financial statements.

HAWAII AGRICULTURE RESEARCH CENTER AND AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2015
(With Prior Year Comparative Information)

	2015	2014
CHANGES IN UNRESTRICTED NET ASSETS		
Revenue and support		
Agricultural consulting services	$ 512,770	$ 598,967
Federal government grants	511,113	459,932
Other project revenue	293,260	250,732
Rental income – net	248,479	283,911
State government grants	192,288	154,139
Other revenue and support	191,812	45,772
Total revenue and support	1,949,722	1,793,453
Expenses		
Program services		
Federal government grants	641,505	734,899
Agriculture and forestry projects	421,159	397,196
Sugar projects	350,222	357,790
Other program services	678,080	1,122,539
Total program services	2,090,966	2,612,424
Supporting services		
Management and general	956,129	744,153
Fundraising	63,533	61,857
Total supporting services	1,019,662	806,010
Total expenses	3,110,628	3,418,434
Revenue and support less expenses	(1,160,906)	(1,624,981)
Net earnings (losses) on investments in marketable securities	(138,288)	1,396,376
Pension and postretirement credit (cost)	(722,525)	508,039
Increase (decrease) in unrestricted net assets	(2,021,719)	279,434
INCREASE (DECREASE) IN NET ASSETS	(2,021,719)	279,434
NET ASSETS – Beginning of year	16,712,162	16,432,728
NET ASSETS – End of year	$14,690,443	$16,712,162

See accompanying notes to the consolidated financial statements.

HAWAII AGRICULTURE RESEARCH
CENTER AND AFFILIATES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2015
(With Prior Year Comparative Information)

	Program Services					Supporting Services				
	Federal Government Grants	Agriculture and Forestry Projects	Sugar Projects	Other Program Services	Total Program Services	Management and General	Fund-Raising	Total Supporting Services	2015 Totals	2014 Totals
Salaries and benefits	$389,689	$279,423	$232,515	$273,551	$1,175,178	$316,310	$42,382	$ 358,692	$1,533,870	$1,537,336
Depreciation	56,601	40,747	32,449	37,428	167,225	175,099	6,757	181,856	349,081	342,987
Telephone and utilities	36,256	26,100	20,785	23,974	107,115	78,377	4,328	82,705	189,820	227,038
Project costs	74,638	14,186	16,131	77,681	182,636	-	-	-	182,636	201,296
Professional fees	13,596	9,788	7,795	8,991	40,170	135,015	1,623	136,638	176,808	84,116
Interest	-	-	-	72,303	72,303	98,401	-	98,401	170,704	126,659
Insurance	27,142	19,539	15,560	17,948	80,189	58,675	3,240	61,915	142,104	150,545
Predevelopment costs	-	-	-	137,384	137,384	-	-	-	137,384	561,031
Office and administrative	17,990	12,951	10,314	11,896	53,151	38,892	2,148	41,040	94,191	69,180
Lease rent	4,413	3,177	2,530	2,918	13,038	9,540	527	10,067	23,105	35,451
Uncollectable accounts	1,550	1,116	889	1,025	4,580	3,352	185	3,537	8,117	3,030
Other expenses	19,630	14,132	11,254	12,981	57,997	42,468	2,343	44,811	102,808	79,765
Total expenses	$641,505	$421,159	$350,222	$678,080	$2,090,966	$956,129	$63,533	$1,019,662	$3,110,628	$3,418,434

See accompanying notes to the consolidated financial statements.

HAWAII AGRICULTURE RESEARCH CENTER AND AFFILIATES

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2015
(With Prior Year Comparative Information)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	$ (2,021,719)	$ 279,434
Adjustments to reconcile increase (decrease) in net assets to net cash used by operating activities:		
Depreciation of property and equipment	349,081	342,987
Depreciation of rental property	285,708	285,708
(Gain) loss on investments in marketable securities	332,915	(1,268,837)
Increase in:		
Contracts, grants, and other receivables – net	(181,368)	(24,006)
Prepaid expenses and other current assets	(9,278)	(7,829)
Increase (decrease) in:		
Accounts payable and accrued liabilities	59,892	(6,560)
Net postretirement liability	27,572	4,378
Net pension liability	294,953	(1,152,417)
Net cash used by operating activities	(862,244)	(1,547,142)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(300,622)	(25,000)
Proceeds from sales of marketable securities	1,443,838	805,912
Purchases of marketable securities	(305,057)	(210,102)
Net cash provided by investing activities	838,159	570,810
CASH FLOWS FROM FINANCING ACTIVITIES		
Additions to note payable	336,560	532,438
Increase (decrease) in advances on line-of-credit	(326,961)	443,866
Net cash provided by financing activities	9,599	976,304
NET DECREASE IN CASH	(14,486)	(28)
CASH – Beginning of year	221,179	221,207
CASH – End of year	$ 206,693	$ 221,179
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid during the year for interest	$ 98,401	$ 87,703

See accompanying notes to the consolidated financial statements.

HAWAII AGRICULTURE RESEARCH CENTER AND AFFILIATES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2015 (With Prior Year Comparative Information)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Activity

Hawaii Agriculture Research Center and affiliates (Organization) consists of Hawaii Agriculture Research Center (Center), Hawaii Foundation for Agriculture Research (Foundation), Kunia Village Title Holding Corporation (Corporation), and Kunia Village Development Corporation (Development Corporation).

The Center was incorporated in the State of Hawaii in August 1978 as *Hawaiian Sugar Planters' Association.* The name was changed to *Hawaii Agriculture Research Center* in March 1996. The Center is a nonprofit corporation exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and under applicable State of Hawaii tax statutes, that was organized to support agriculture in Hawaii.

The Foundation was incorporated in the State of Hawaii in February 2008. The Foundation is also a nonprofit corporation exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and under applicable State of Hawaii tax statutes, to carry out the charitable educational or scientific purposes of the Center as a supporting organization under Section 509(a)(3) of the U.S. Internal Revenue Code.

The Corporation, which is owned by the Center, was incorporated in the State of Hawaii in March 2010 as a tax exempt title holding corporation under Section 501(c)(2) of the U.S. Internal Revenue Code and under applicable State of Hawaii tax statutes, to collect and remit to the Center the entire net income from real and personal property it holds. The Corporation's expenses exceeded its revenue for the years ended June 30, 2015 and 2014.

The Development Corporation, incorporated in the State of Hawaii in June 2010, is a nonprofit corporation exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and under applicable State of Hawaii tax statutes. It was established to provide low-income rental housing for agricultural workers.

The accompanying consolidated financial statements include the accounts of the Center, Foundation, Corporation, and Development Corporation, except that all significant intercompany transactions and balances have been eliminated in consolidation.

Basis of Accounting

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets (none in 2015 and 2014), and permanently restricted net assets (none in 2015 and 2014). Support is recognized when pledged and is considered to be available for unrestricted use unless restricted by the donor. Donor restricted support is recognized when pledged as an increase in temporarily restricted or permanently restricted net assets, depending on the nature of the restriction. When a temporary restriction is satisfied or expires, temporarily restricted net assets are reclassified to unrestricted net assets.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

Revenue from government grants and contracts is recognized to the extent of expenditures made in accordance with the related agreements (including expenditures for property and equipment, which may be capitalized and depreciated for financial reporting purposes). Revenue from agricultural consulting services and rental operations is recognized when earned. Other revenue and support is also recognized when earned.

Expenses are recognized when the related liability is incurred. Expenses are allocated on a functional basis among program services and supporting services based on estimates by management. Expenses that can be identified with a specific program or supporting service are charged directly to the program or supporting service using natural expense classifications. Other expenses that are common to several functions are allocated by various bases.

Donated services are recognized as contributions if the services create or enhance nonfinancial assets, or require specialized skills that are performed by people with those skills and would otherwise be purchased by the Organization. A substantial number of unpaid volunteers have made contributions of their time to the Organization. The value of this time is not reflected in these consolidated financial statements because it did not meet the criteria for recognition.

Use of Estimates

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of financial statements in accordance with such generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates, and it is at least reasonably possible that such differences will occur in the near term.

Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to credit risk include cash, unsecured receivables due primarily from federal and state government agencies and from member entities, and investments in marketable securities. Cash on deposit with financial institutions exceeded the related federal insurance by approximately $65,300 and $134,900 at June 30, 2015 and 2014, respectively.

The Organization is custodian for the bank accounts of the International Consortium of Sugar Biotechnologies, included in prepaid expenses and other current assets and in accounts payable and accrued liabilities, which amounted to $140,675 and $128,763 as of June 30, 2015 and 2014, respectively.

Contracts, grants, and other receivables have been adjusted for all known doubtful accounts, estimated to be $0 at June 30, 2015 and 2014. Such receivables are determined to be collectible or uncollectible based on management's assessment of the facts and circumstances of individual accounts.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments in marketable securities are stated at fair value, are fully insured by federal and private insurance, as represented by the custodians, and are classified as noncurrent to the extent they exceed the amount used as collateral for the line-of-credit. Net realized and unrealized gains and losses, determined using the specific identification method, are included in net earnings (losses) on investments in marketable securities. Future changes in market prices may make such investments less valuable. The Organization's investment in 596,000 shares, or 6.512%, of the common stock of Cardax Pharmaceuticals, Inc., is stated at cost and is not available for operations. Investments are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable.

Property and Equipment

Property and equipment is stated at cost or, if donated, at the estimated fair market value at the date of donation. Depreciation is computed using the straight-line method over estimated useful lives of 5 to 40 years for building and improvements, 3 to 18 years for leasehold improvements, 3 to 20 years for research equipment, 5 to 10 years for the reference library, 3 to 20 years for office furniture and equipment, and 5 years for vehicles. Property and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Major improvements are capitalized. Repairs and maintenance are expensed.

Hawaii General Excise Tax

The State of Hawaii imposes a general excise tax of 4% on the Organization's gross receipts from rental operations within Hawaii, plus an additional 0.5% for such gross receipts within the City & County of Honolulu. Hawaii general excise tax included in rental revenue – net, amounted to $38,673 and $27,650 for the years ended June 30, 2015 and 2014, respectively.

Income Taxes

The Corporation is exempt from income taxes under Section 501(c)(2) of the U.S. Internal Revenue Code. The Center, Foundation, and Development Corporation are exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code, except as to their unrelated business income. The Center has loss carryforwards from unrelated business income that expire at various dates through June 2034. Estimated deferred income tax benefits relating to the loss carryforwards of $227,333 and $228,234 at June 30, 2015 and 2014, respectively, have been reduced by valuation allowances in the same amount.

Accounting principles generally accepted in the United States of America require uncertain tax positions to be recognized in the financial statements if they are more likely than not to fail upon regulatory examination. Management has evaluated the Organization's tax positions as of June 30, 2015 and 2014 and for the years then ended by reviewing its income tax returns and conferring with its tax advisors, and determined that the Organization had no uncertain tax positions required to be reported in accordance with such generally accepted accounting principles. With few exceptions, the Organization is no longer subject to examination by taxing authorities for tax years ended on or before June 30, 2011, due to the expiration of the statutes of limitations.

NOTE B – PROPERTY AND EQUIPMENT

At June 30, 2015 and 2014, property and equipment consisted of the following:

	2015	2014
Land	$ 7,401,449	$ 7,401,449
Buildings and improvements	9,514,926	9,233,572
Leasehold improvements	1,248,338	1,248,338
Research equipment	3,177,968	3,173,020
Reference library	798,546	798,546
Office furniture and equipment	423,589	409,269
Vehicles	298,928	298,928
Total	22,863,744	22,563,122
Accumulated depreciation	(8,368,716)	(7,733,927)
Property and equipment – net	$ 14,495,028	$ 14,829,195

Land consisting of 119.086 acres received from James Campbell Company, LLC, is subject to reservations on use, including a minimum of 90 residential units for affordable rental housing, and water and waterline easements. James Campbell Company, LLC, reserves the rights to all housing credits issued by the City and County of Honolulu.

NOTE C – INVESTMENTS IN MARKETABLE SECURITIES

At June 30, 2015 and 2014, investments in marketable securities consisted of the following:

	2015		2014	
	Cost	Fair Value	Cost	Fair Value
Mutual funds	$ 4,513,356	$ 4,360,960	$ 955,376	$ 979,890
Common stock	3,589,180	3,878,521	7,625,403	8,637,875
Corporate bonds	1,960,160	1,960,939	1,117,859	1,126,664
U.S. Government securities	705,361	714,075	1,356,626	1,361,197
Money market funds	288,155	288,155	568,720	568,720
Total marketable securities	$ 11,056,212	$ 11,202,650	$ 11,623,984	$ 12,674,346

NOTE C – INVESTMENTS IN MARKETABLE SECURITIES (Continued)

At June 30, 2015 and 2014, fair value exceeded cost by $146,438 and $1,050,362, respectively. For the years ended June 30, 2015 and 2014, net earnings (losses) on investments in marketable securities consisted of the following:

	2015	2014
Realized gain	$ 571,009	$ 687,165
Unrealized gains (losses)	(903,924)	581,672
Total gains (losses)	(332,915)	1,268,837
Interest and dividends	302,110	210,103
Investment fees	(107,483)	(82,564)
Net earnings (losses) on investments in marketable securities	$ (138,288)	$ 1,396,376

NOTE D – FAIR VALUE MEASUREMENTS

The established framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to the valuation methodologies used to measure fair value. There are three levels of inputs to the valuation methodology. Level 1 inputs consist of unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means. Level 3 inputs are unobservable and significant to the fair value measurement. The fair value measurement level of an asset or liability within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation methodologies used need to maximize the use of observable inputs and minimize unobservable inputs.

The Organization values mutual funds and common stock (equity securities) at quoted market prices, and money market funds at stated value; all of which are Level 1 inputs. It values investments in U.S. government securities and corporate bonds (fixed income securities) by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuer, a Level 2 input. The Organization has no investments requiring Level 3 inputs.

The valuation methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. The use of different methodologies or assumptions to determine the fair value of certain investments could result in a different fair value measurement at the reporting date.

NOTE D – FAIR VALUE MEASUREMENTS (Continued)

The following sets forth by level, within the fair value hierarchy, the Organization's investments in marketable securities at fair value as of June 30, 2015:

	Level 1	Level 2	Level 3	Total
Equity securities				
Industrials and materials	$ 1,703,442	$ -	$ -	$ 1,703,442
Consumer staples and discretionary	1,659,504	-	-	1,659,504
Utilities and energy	1,542,444	-	-	1,542,444
Financials	1,523,926	-	-	1,523,926
Healthcare	918,542	-	-	918,542
Technology	732,000	-	-	732,000
Other mutual funds	159,623	-	-	159,623
Total equity securities	8,239,481	-	-	8,239,481
Money market funds	288,155	-	-	288,155
Fixed income securities				
Long term bond	-	982,990	-	982,990
Short term bond	-	840,261	-	840,261
Intermediate term bond	-	761,228	-	761,228
Fixed income blend	-	90,535	-	90,535
Total fixed income securities	-	2,675,014	-	2,675,014
Total marketable securities	$ 8,527,636	$2,675,014	$ -	$11,202,650

The following sets forth by level, within the fair value hierarchy, the Organization's investments in marketable securities at fair value as of June 30, 2014:

	Level 1	Level 2	Level 3	Total
Equity securities				
Consumer staples and discretionary	$ 1,978,545	$ -	$ -	$ 1,978,545
Industrials and materials	1,683,009	-	-	1,683,009
Technology	1,611,944	-	-	1,611,944
Financials	1,467,614	-	-	1,467,614
Utilities and energy	1,351,557	-	-	1,351,557
Healthcare	1,049,859	-	-	1,049,859
Other mutual funds	475,237	-	-	475,237
Total equity securities	9,617,765	-	-	9,617,765
Money market funds	568,720	-	-	568,720
Fixed income securities				
Intermediate term bond	-	800,941	-	800,941
Short term bond	-	796,812	-	796,812
Long term bond	-	666,191	-	666,191
Fixed income blend	-	223,917	-	223,917
Total fixed income securities	-	2,487,861	-	2,487,861
Total marketable securities	$10,186,485	$2,487,861	$ -	$12,674,346

NOTE E – EMPLOYEE BENEFIT PLANS

The Organization sponsors a defined benefit pension plan and a postretirement plan. Pension and postretirement cost for the year ended June 30, 2015 of $722,525 consisted of net periodic pension cost of $115,226, a cost of $579,727 for changes in components of net periodic pension cost not yet recognized, net periodic postretirement credit of $547, and a cost of $28,119 for changes in components of net periodic postretirement cost not yet recognized. Pension and postretirement credit for the year ended June 30, 2014 of $508,039, consisted of net periodic pension cost of $260,286, a credit of $772,703 for changes in components of net periodic pension cost not yet recognized, net periodic postretirement credit of $717, and a cost of $5,095 for changes in components of net periodic postretirement cost not yet recognized.

Defined Benefit Pension Plan

The Organization sponsors a defined benefit pension plan covering all of its employees who meet certain requirements, except bargaining unit employees who joined the Organization after June 1998, to which it contributes the minimum funding required under the Employee Retirement Income Security Act of 1974 (ERISA). Benefits under the Plan are based on years of service and compensation. The Plan was amended in September 2010 to include three bargaining unit participants that were transferred to Hawaiian Commercial & Sugar Company (HC&S). The participants will receive benefit accruals and vesting services until the earlier of their normal retirement date or termination of employment from HC&S. The funded status of this Plan and amounts recognized in the consolidated financial statements as of and for the years ended June 30, 2015 and 2014 were as follows:

	2015	2014
Fair value of plan assets	$10,438,668	$10,912,621
Projected benefit obligation	(13,320,344)	(13,499,344)
Net pension liability	$ (2,881,676)	$ (2,586,723)
Net periodic pension expense	$ 115,226	$ 260,286

At June 30, 2015 and 2014, items not yet recognized as a component of net periodic pension cost for this Plan consisted of the following:

	2015	2014
Prior service cost	$ 2,841	$ 3,215
Net loss	5,526,518	4,946,417
Total	$5,529,359	$4,949,632

NOTE E – EMPLOYEE BENEFIT PLANS (Continued)

The measurement dates used to determine the pension benefit measurements were June 30, 2015 and 2014. Plan assets at June 30, 2015 and 2014 were invested in equity securities (39.6% in 2015 and 52.2% in 2014), debt securities (45.2% in 2015 and 41.8% in 2014), cash (15.2% in 2015), and real estate (6.0% in 2014), the objective of which is to preserve capital while providing a return that is adequate to meet the Plan's obligations as estimated by the Plan's actuary, in accordance with the Plan's weighted-average expected return. For the year ended June 30, 2015, the excess of the expected return over the actual return for the Plan was $537,874. For the year ended June 30, 2014 the excess of the actual return over the expected return for the Plan was $634,843. As of June 30, 2015 and 2014, the accumulated benefit obligation was $13,219,119 and $13,370,184, respectively, and the reclassified amounts of net periodic pension expenses previously recognized as changes in unrestricted net assets but not included in net periodic benefit cost when they arose was $242,955 and $321,834, respectively.

For the years ended June 30, 2015 and 2014, the weighted-average actuarial assumptions used to determine the net periodic pension cost included a rate of compensation increase of 1%, a discount rate of 4.07%, and a benefit credit for an expected return on plan assets of 7.00%. For the years ended June 30, 2015 and 2014, employer contributions amounted to $400,000 and $640,000, respectively. The Plan paid pension benefits of $1,076,236 and $1,037,636 for the years ended June 30, 2015 and 2014, respectively.

At June 30, 2015, estimated future benefits payments from the pension plan were as follows:

Years ending June 30th:	
2016	$1,082,663
2017	$1,074,564
2018	$1,044,175
2019	$1,020,182
2020	$1,006,407
Thereafter (cumulative for the years 2021 to 2025)	$4,385,820

The Organization expects to contribute $263,000 to the Plan during the year ending June 30, 2016.

At June 30, 2015 and 2014, components of the net periodic pension cost projected for this Plan consisted of the following:

	2015	2014
Service cost	$ 63,643	$ 84,940
Interest cost	520,106	527,488
Expected return on assets	(698,337)	(740,157)
Amortization of prior service cost	374	374
Amortization of deferred losses	269,271	242,581
Projected net periodic pension cost	$155,057	$115,226

The Plan invests in mutual funds, which it values at quoted market values, a Level 1 measurement. The Plan has no investments requiring Level 2 or Level 3 inputs.

NOTE E – EMPLOYEE BENEFIT PLANS (Continued)

The following sets forth by level, within the fair value hierarchy, the Plan's investments at fair value as of June 30, 2015:

	Level 1	Level 2	Level 3	Total
Mutual Funds				
Fixed income	$ 4,719,275	$ -	$ -	$ 4,719,275
Large cap	3,102,777	-	-	3,102,777
Small cap	523,913	-	-	523,913
International	507,349	-	-	507,349
Total mutual funds	8,853,314	-	-	8,853,314
Money market	1,585,354	-	-	1,585,354
Total Plan investments	$10,438,668	$ -	$ -	$10,438,668

The following sets forth by level, within the fair value hierarchy, the Plan's investments at fair value as of June 30, 2014:

	Level 1	Level 2	Level 3	Total
Mutual Funds				
Fixed income	$ 4,568,255	$ -	$ -	$ 4,568,255
Large cap	2,609,977	-	-	2,609,977
International	1,488,205	-	-	1,488,205
Small cap	956,889	-	-	956,889
Real estate	649,793	-	-	649,793
Emerging markets	639,502	-	-	639,502
Total Plan investments	$10,912,621	$ -	$ -	$10,912,621

Postretirement Plan

The Organization also sponsors a postretirement plan that provides life insurance benefits to certain employees, which it has the right to modify or terminate. The plan assets consist of deposits in an insurance company general account, the contract value of which approximates fair value. The funded status of this Plan and amounts recognized in the consolidated financial statements as of and for the years ended June 30, 2015 and 2014 were as follows:

	2015	2014
Fair value of plan assets	$337,538	$368,769
Accumulated benefit obligation	(423,602)	(427,261)
Net postretirement liability	$ (86,064)	$ (58,492)
Net periodic postretirement credit	$ 547	$ 717

NOTE E – EMPLOYEE BENEFIT PLANS (Continued)

At June 30, 2015 and 2014, items not yet recognized as a component of net periodic postretirement cost for this Plan consisted of the following:

	2015	2014
Transition amount	$ (1)	$ (7,013)
Net loss	225,638	204,531
Total	$225,637	$197,518

The weighted-average actuarial assumptions used to determine the accumulated postretirement benefit obligation at June 30, 2015 and 2014 included a discount rate of 4.07% and 4.13%, respectively. The weighted-average actuarial assumptions used to determine the net periodic postretirement cost included a discount rate of 4.07% for the years ended June 30, 2015 and 2014, and benefit credit for an expected return on plan assets for the years ended June 30, 2015 and 2014 of 6.50%. For the years ended June 30, 2015 and 2014, this Plan paid postretirement benefits of $17,169 and $25,658, respectively.

At June 30, 2015, estimated future benefits payments for the postretirement plan were expected to approximate the following:

Years ending June 30th:	
2016	$ 39,255
2017	$ 38,045
2018	$ 36,652
2019	$ 35,288
2020	$ 33,605
Thereafter (cumulative for the years 2021 to 2025)	$141,385

For the years ended June 30, 2015 and 2014, the reclassified amounts of net periodic postretirement credits previously recognized as changes in unrestricted net assets but not included in net periodic benefit credits when they arose was $3,862 and $3,966, respectively.

At June 30, 2015 and 2014, components of the net periodic postretirement cost projected for this plan consisted of the following:

	2015	2014
Service cost	$ 1,304	$ 1,703
Interest cost	16,442	16,605
Expected return on assets	(20,664)	(22,717)
Amortization of transition amount	(1)	(7,013)
Amortization of deferred losses	11,743	10,875
Projected net periodic postretirement cost (credit)	$ 8,824	$ (547)

NOTE E – EMPLOYEE BENEFIT PLANS (Continued)

Defined Contribution Pension Plan

The Organization also sponsors a retirement savings plan to which each participant may contribute up to the lesser of 15% of their annual salary or the amount provided under Section 401(k) of the Internal Revenue Code. The Organization does not contribute to the defined contribution pension plan.

NOTE F – ADVANCES ON LINE-OF-CREDIT

The Organization has a revolving line-of-credit with Bank of America. Advances are payable on demand, collateralized by its investments in marketable securities, and bear interest at 1.1% above the 30-day London Inter-Bank Offered Rate (LIBOR). At June 30, 2015 and 2014, the 30-day LIBOR was 0.19%. At June 30, 2015 and 2014, advances on the revolving line-of-credit amounted to $7,002,687 and $7,329,648, respectively.

On July 1, 2014, the Corporation entered into a $200,000 revolving line-of-credit with Central Pacific Bank available through July 1, 2016, advances on which bear interest payable monthly at the Bank's lending base rate plus 1%. The Bank's base rate was 4.5% at June 30, 2015. Advances on the line-of-credit are collateralized by substantial all of the Corporation's assets. Advances on the revolving line-of-credit amounted to $200,000 at June 30, 2015.

NOTE G – NOTE PAYABLE

The Organization has a loan with the Rural Community Assistance Corporation Project of up to $1,319,479 to finance the predevelopment costs for a 41 unit farm worker housing community in Kunia Village Phase 1, which is collateralized by certain real estate. In December 2015, the loan amount increased to $1,841,583. Principal and unpaid accrued interest are due upon maturity in August 2016. At June 30, 2015 and 2014, outstanding drawings on the loan amounted to $1,319,232 and $982,672, respectively. For the years ended June 30, 2015 and 2014, related expenditures of $336,560 and $532,438, respectively, have been recognized as expenses in accordance with accounting principles generally accepted in the United States of America.

NOTE H – LEASES

As Lessee

The Organization leases land from the State of Hawaii, Department of Agriculture, in the Maunawili area of Honolulu under an operating lease that expires in August 2036 for which it pays minimum lease rent of $25,000 per year for the first 15-year period. Under the terms of the lease agreement, the Organization may offset the value of certain of its agricultural research and education services against the annual lease rent obligation. Percentage rent at 3% of gross proceeds, as defined, may also be due annually. Lease rent expense was $25,000 for the years ended June 30, 2015 and 2014. At June 30, 2015, expected future minimum lease payments approximated the following:

Years ending June 30th:	
2016	$ 25,000
2017	$ 25,000
2018	$ 25,000
2019	$ 25,000
2020	$ 25,000
Thereafter (cumulative)	$404,200

As Lessor

The Organization leases land and facilities to others under operating leases that expire through December 2032, some of which have five-year options to extend. Certain of the leases allow for an increase in rent based on the Producer Price Index (PPI). The Organization also leases retail space for which the tenant pays 2% of gross sales or a minimum of $30,000 per year and contains an early termination clause if annual thresholds are not met. The Organization also leases housing to agriculture workers and retired Del Monte Foods Corporation employees on an annual basis. At June 30, 2015, future minimum rent income by years ending June 30 approximated to the following:

Years ending June 30th:	
2016	$ 1,002,800
2017	$ 878,500
2018	$ 887,500
2019	$ 853,300
2020	$ 847,200
Thereafter (cumulative)	$ 7,063,100

NOTE H – LEASES (Continued)

For the years ended June 30, 2015 and 2014, rental income and expenses as lessor consisted of the following:

	2015	2014
Rental income		
Residential	$ 1,003,555	$ 1,122,866
Commercial	963,012	804,548
Total rental income	1,966,567	1,927,414
Rental expenses		
Facilities and rental management	803,410	795,042
Depreciation	285,708	285,708
Repairs and maintenance	258,123	193,233
Taxes and other expenses	171,842	166,697
Utilities	146,912	139,397
Insurance	52,093	63,426
Total rental expenses	1,718,088	1,643,503
Rental income – net	$ 248,479	$ 283,911

NOTE I – COMMITMENTS AND CONTINGENCIES

Certain revenue is derived from federal, state, and private grants and contracts for agricultural consulting services, the loss of which could have a material adverse effect on the Organization. The Organization may be subject to legal proceedings, claims, or litigation arising in the course of business for which it may seek the advice of legal counsel. Management estimates, on the advice of legal counsel and consultants, that the cost to resolve these matters would not be material to the consolidated financial statements. However, it is at least reasonably possible that such estimates may change within the near term.

The Organization operates in the State of Hawaii. National and international events can have severe, adverse effects on economic conditions in Hawaii. The effects, if any, on the consolidated financial statements of the Organization from such changes in economic conditions are not presently determinable.

NOTE J – PARTNERSHIP WITH RURAL COMMUNITY ASSISTANCE CORPORATION

In June 2013, the Development Corporation entered into a joint development agreement with Rural Quality, LLC, an entity specifically created by the Rural Community Assistance Corporation (RCAC) to jointly rehabilitate or replace improvements on property held by the Kunia Village Title Holding Corporation. The intent of this arrangement is to renovate the existing agricultural worker housing community through the formation of a Hawaii limited partnership and use of tax credits for affordable housing developments. The formation of the partnership was completed in December 2013.

NOTE K – FINANCIAL STATEMENT PRESENTATION

The consolidated financial statements include certain prior year comparative information. Such information does not include sufficient detail to constitute a complete presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the consolidated financial statements of the Organization as of and for the year ended June 30, 2014, from which the information was derived.

NOTE L – SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date of the independent auditor's report, which is the date the consolidated financial statements were available to be issued, and determined that the Organization did not have any subsequent events requiring adjustment to the consolidated financial statements or disclosure in the notes to the consolidated financial statements.

HAWAII AGRICULTURE RESEARCH CENTER AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Year Ended June 30, 2016
With Prior Year Comparative Information
And Independent Auditor's Report

CW Associates
A Hawaii Certified Public Accounting Corporation

CW Associates
A Hawaii Certified Public Accounting Corporation

INDEPENDENT AUDITOR'S REPORT

Hawaii Agriculture Research Center and affiliates:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Hawaii Agriculture Research Center and affiliates (Organization), which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Topa Financial Center
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Honolulu, Hawaii 96813
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Facsimile (808) 531-1041
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Opinion on the Consolidated Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of June 30, 2016, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Prior Year Comparative Information

We have previously audited the Organization's consolidated financial statements as of and for the year ended June 30, 2015, and in our report dated February 8, 2016, expressed an unmodified opinion on those consolidated financial statements. In our opinion, the accompanying prior year comparative information is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

CW Associates, CPAs

Honolulu, Hawaii
March 14, 2017

HAWAII AGRICULTURE RESEARCH CENTER AND AFFILIATES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of June 30, 2016
(With Prior Year Comparative Information)

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash (including interest-bearing accounts)	$ 212,412	$ 206,693
Contracts, grants, and other receivables – net	294,391	336,158
Investments in marketable securities – current	6,770,187	7,002,687
Prepaid expenses and other current assets	94,992	155,191
Total current assets	7,371,982	7,700,729
PROPERTY AND EQUIPMENT – Net	14,134,445	14,495,028
INVESTMENTS IN MARKETABLE SECURITIES – Noncurrent	3,779,788	4,199,963
INVESTMENT IN CARDAX PHARMACEUTICALS, INC.	16,200	16,200
TOTAL ASSETS	$25,302,415	$26,411,920
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Advances on line-of-credit	$ 6,770,187	$ 7,002,687
Accounts payable and accrued liabilities	361,763	431,818
Total current liabilities	7,131,950	7,434,505
NOTE PAYABLE – Noncurrent	-	1,319,232
NET POSTRETIREMENT LIABILITY	124,002	86,064
NET PENSION LIABILITY	3,268,631	2,881,676
TOTAL LIABILITIES	10,524,583	11,721,477
NET ASSETS		
Unrestricted	14,777,832	14,690,443
Total net assets	14,777,832	14,690,443
TOTAL LIABILITIES AND NET ASSETS	$25,302,415	$26,411,920

See accompanying notes to the consolidated financial statements.

HAWAII AGRICULTURE RESEARCH CENTER AND AFFILIATES

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2016
(With Prior Year Comparative Information)

	2016	2015
CHANGES IN UNRESTRICTED NET ASSETS		
Revenue and support		
Federal government grants	$ 503,657	$ 633,028
Rental income – net	440,766	248,479
Agricultural consulting services	420,441	512,770
Gain on sale of land	308,125	-
Other project revenue	298,748	293,260
State government grants	191,556	192,288
Other revenue and support	85,293	69,897
Total revenue and support	2,248,586	1,949,722
Expenses		
Program services		
Federal government grants	563,113	641,505
Agriculture and forestry projects	378,924	421,159
Sugar projects	300,322	350,222
Other program services	779,895	678,080
Total program services	2,022,254	2,090,966
Supporting services		
Management and general	969,345	956,129
Fundraising	54,276	63,533
Total supporting services	1,023,621	1,019,662
Total expenses	3,045,875	3,110,628
Revenue and support less expenses	(797,289)	(1,160,906)
Net losses on investments in marketable securities	(28,828)	(138,288)
Pension and postretirement cost	(794,893)	(722,525)
Gain due to reduction of note payable and land transfer	1,708,399	-
Increase (decrease) in unrestricted net assets	87,389	(2,021,719)
INCREASE (DECREASE) IN NET ASSETS	87,389	(2,021,719)
NET ASSETS – Beginning of year	14,690,443	16,712,162
NET ASSETS – End of year	$14,777,832	$14,690,443

See accompanying notes to the consolidated financial statements.

HAWAII AGRICULTURE RESEARCH CENTER AND AFFILIATES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2016
(With Prior Year Comparative Information)

	Program Services					Supporting Services				
	Federal Government Grants	Agriculture and Forestry Projects	Sugar Projects	Other Program Services	Total Program Services	Management and General	Fund-Raising	Total Supporting Services	2016 Totals	2015 Totals
Salaries and benefits	$334,348	$228,751	$205,722	$270,580	$1,039,401	$362,327	$37,222	$ 399,549	$1,438,950	$1,533,870
Depreciation	50,726	33,247	23,874	36,902	144,749	232,055	5,777	237,832	382,581	349,081
Predevelopment costs	-	-	-	332,834	332,834	-	-	-	332,834	137,384
Project costs	79,013	52,021	24,118	67,538	222,690	-	-	-	222,690	182,636
Telephone and utilities	26,431	17,324	12,440	19,228	75,423	75,146	3,010	78,156	153,579	189,820
Insurance	24,510	16,065	11,536	17,831	69,942	69,684	2,791	72,475	142,417	142,104
Interest	-	-	-	-	-	91,324	-	91,324	91,324	170,704
Office and administrative	14,542	9,531	6,844	10,579	41,496	41,346	1,656	43,002	84,498	94,191
Professional fees	9,033	5,921	4,252	6,572	25,778	27,779	1,029	28,808	54,586	176,808
Other expenses	24,510	16,064	11,536	17,831	69,941	69,684	2,791	72,475	142,416	134,030
Total expenses	$563,113	$378,924	$300,322	$779,895	$2,022,254	$969,345	$54,276	$1,023,621	$3,045,875	$3,110,628

See accompanying notes to the consolidated financial statements.

HAWAII AGRICULTURE RESEARCH CENTER AND AFFILIATES

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2016
(With Prior Year Comparative Information)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	$ 87,389	$ (2,021,719)
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Gain on sale of land	(308,125)	-
Depreciation of property and equipment	382,581	349,081
Depreciation of rental property	285,708	285,708
Loss on disposal of property and equipment	12,000	-
Loss on investments in marketable securities	235,844	332,915
(Increase) decrease in:		
Contracts, grants, and other receivables – net	41,767	(181,368)
Prepaid expenses and other current assets	60,199	(9,278)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(70,055)	59,892
Net postretirement liability	37,938	27,572
Net pension liability	386,955	294,953
Net cash provided (used) by operating activities	1,152,201	(862,244)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of land	308,125	-
Purchases of property and equipment	(319,706)	(300,622)
Proceeds from sales of marketable securities	714,982	1,443,838
Purchases of marketable securities	(298,151)	(305,057)
Net cash provided by investing activities	405,250	838,159
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in advances on line-of-credit	(232,500)	(326,961)
Additions (deductions) to note payable	(1,319,232)	336,560
Net cash provided (used) by financing activities	(1,551,732)	9,599
NET INCREASE (DECREASE) IN CASH	5,719	(14,486)
CASH – Beginning of year	206,693	221,179
CASH – End of year	$ 212,412	$ 206,693
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid during the year for interest	$ 91,324	$ 98,401
Noncash financing activities		
Decrease in note payable for transfer of property	$ 1,319,232	$ -

See accompanying notes to the consolidated financial statements.

HAWAII AGRICULTURE RESEARCH CENTER AND AFFILIATES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2016 (With Prior Year Comparative Information)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Activity

Hawaii Agriculture Research Center and affiliates (Organization) consists of Hawaii Agriculture Research Center (Center), Hawaii Foundation for Agriculture Research (Foundation), Kunia Village Title Holding Corporation (Corporation), and Kunia Village Development Corporation (Development Corporation).

The Center was organized in the State of Hawaii in August 1978 as *Hawaiian Sugar Planters' Association.* The name was changed to *Hawaii Agriculture Research Center* in March 1996. The Center is a nonprofit corporation exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code, that was organized to support agriculture in Hawaii.

The Foundation was organized in the State of Hawaii in February 2008. The Foundation is also a nonprofit corporation exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code, to carry out the charitable educational or scientific purposes of the Center as a supporting organization under Section 509(a)(3) of the U.S. Internal Revenue Code.

The Corporation, which is owned by the Center, was incorporated in the State of Hawaii in March 2010 as a tax exempt title holding corporation under Section 501(c)(2) of the U.S. Internal Revenue Code, to collect and remit to the Center the entire net income from real and personal property it holds. The Corporation's expenses exceeded its revenue for the years ended June 30, 2016 and 2015.

The Development Corporation, organized in the State of Hawaii in June 2010, is a nonprofit corporation exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. It was established to provide low-income rental housing for agricultural workers.

The accompanying consolidated financial statements include the accounts of the Center, Foundation, Corporation, and Development Corporation, except that all significant intercompany transactions and balances have been eliminated in consolidation.

Basis of Accounting

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets (none in 2016 and 2015), and permanently restricted net assets (none in 2016 and 2015). Support is recognized when pledged and is considered to be available for unrestricted use unless restricted by the donor. Donor restricted support is recognized when pledged as an increase in temporarily restricted or permanently restricted net assets, depending on the nature of the restriction. When a temporary restriction is satisfied or expires, temporarily restricted net assets are reclassified to unrestricted net assets.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

Revenue from government grants and contracts is recognized to the extent of expenditures made in accordance with the related agreements (including expenditures for property and equipment, which may be capitalized and depreciated for financial reporting purposes). Revenue from agricultural consulting services and rental operations is recognized when earned. Other revenue and support is also recognized when earned.

Expenses are recognized when the related liability is incurred. Expenses are allocated on a functional basis among program and supporting services based on estimates by management. Expenses that can be identified with a specific program or supporting service are charged directly to the program or supporting service using natural expense classifications. Other expenses that are common to several functions are allocated by various bases.

Donated services are recognized as contributions if the services create or enhance nonfinancial assets, or require specialized skills that are performed by people with those skills and would otherwise be purchased by the Organization. A substantial number of unpaid volunteers have made contributions of their time to the Organization. The value of this time is not reflected in these consolidated financial statements because it did not meet the criteria for recognition.

Use of Estimates

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of financial statements in accordance with such generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates, and it is at least reasonably possible that such differences will occur in the near term.

Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to credit risk include cash, unsecured receivables due primarily from federal and state government agencies and from member entities, and investments in marketable securities. Cash on deposit with financial institutions, which was fully insured at June 30, 2016, exceeded the related federal deposit insurance by approximately $65,300 at June 30, 2015.

The Organization is custodian for the bank accounts of the International Consortium of Sugar Biotechnologies, included in prepaid expenses and other current assets and in accounts payable and accrued liabilities, which amounted to $95,166 and $140,675 as of June 30, 2016 and 2015, respectively.

Contracts, grants, and other receivables have been adjusted for all known doubtful accounts, estimated to be $0 at June 30, 2016 and 2015. Such receivables are determined to be collectible or uncollectible based on management's assessment of the facts and circumstances of individual accounts.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments in marketable securities are stated at fair value, are fully insured by federal and private insurance, as represented by the custodians, and are classified as noncurrent to the extent they exceed the amount used as collateral for the line-of-credit. Net realized and unrealized gains and losses, determined using the specific identification method, are included in net losses on investments in marketable securities. Future changes in market prices may make such investments less valuable. The Organization's investment in 596,000 shares, or 6.512%, of the common stock of Cardax Pharmaceuticals, Inc., is stated at cost and is not available for operations. Investments are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable.

Fair Value Measurements

The established framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to the valuation methodologies used to measure fair value. There are three levels of inputs to the valuation methodology. Level 1 inputs consist of unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means. Level 3 inputs are unobservable and significant to the fair value measurement. The fair value measurement level of an asset or liability within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation methodologies used need to maximize the use of observable inputs and minimize unobservable inputs.

The valuation methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. The use of different methodologies or assumptions to determine the fair value of certain investments could result in a different fair value measurement at the reporting date.

Property and Equipment

Property and equipment is stated at cost or, if donated, at the estimated fair market value at the date of donation. Depreciation is computed using the straight-line method over estimated useful lives of 5 to 40 years for building and improvements, 3 to 18 years for leasehold improvements, 3 to 20 years for research equipment, 5 to 10 years for the reference library, 3 to 20 years for office furniture and equipment, and 5 years for vehicles. Property and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Major improvements are capitalized. Repairs and maintenance are expensed as incurred.

Hawaii General Excise Tax

The State of Hawaii imposes a general excise tax of 4% on the Organization's gross receipts from rental operations within Hawaii, plus an additional 0.5% for such gross receipts within the City & County of Honolulu. Hawaii general excise tax included in rental revenue – net, amounted to $44,561 and $38,673 for the years ended June 30, 2016 and 2015, respectively.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Corporation is exempt from income taxes under Section 501(c)(2) of the U.S. Internal Revenue Code. The Center, Foundation, and Development Corporation are exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code, except as to their unrelated business income. The Center has loss carryforwards from unrelated business income that expire at various dates through June 2034. Estimated deferred income tax benefits relating to the loss carryforwards of $227,333 at June 30, 2016 and 2015 have been reduced by valuation allowances in the same amount.

Accounting principles generally accepted in the United States of America require uncertain tax positions to be recognized in the financial statements if they are more likely than not to fail upon regulatory examination. Management has evaluated the Organization's tax positions as of June 30, 2016 and 2015 and for the years then ended by reviewing their income tax returns and conferring with their tax advisors, and determined that the Organization had no uncertain tax positions required to be reported in accordance with such generally accepted accounting principles. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any open tax periods.

NOTE B – INVESTMENTS IN MARKETABLE SECURITIES

At June 30, 2016 and 2015, investments in marketable securities consisted of the following:

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Mutual funds	$ 3,930,828	$ 4,114,032	$ 4,513,356	$ 4,360,960
Common stock	3,679,443	3,816,226	3,589,180	3,878,521
Corporate bonds	1,480,125	1,528,209	1,960,160	1,960,939
U.S. Government securities	719,211	755,607	705,361	714,075
Money market funds	335,901	335,901	288,155	288,155
Total marketable securities	$10,145,508	$10,549,975	$11,056,212	$11,202,650

At June 30, 2016 and 2015, fair value exceeded cost by $404,467 and $146,438, respectively. For the years ended June 30, 2016 and 2015, net losses on investments in marketable securities consisted of the following:

	2016	2015
Realized gains (losses)	$ (493,873)	$ 571,009
Unrealized gains (losses)	258,029	(903,924)
Total gains (losses)	(235,844)	(332,915)
Interest and dividends	313,843	302,110
Investment fees	(106,827)	(107,483)
Net losses on investments in marketable securities	$ (28,828)	$ (138,288)

NOTE C – PROPERTY AND EQUIPMENT

At June 30, 2016 and 2015, property and equipment consisted of the following:

	2016	2015
Land	$ 7,401,449	$ 7,401,449
Buildings and improvements	9,829,633	9,514,926
Leasehold improvements	1,248,338	1,248,338
Research equipment	3,182,968	3,177,968
Reference library	798,546	798,546
Office furniture and equipment	423,589	423,589
Vehicles	280,428	298,928
Total	23,164,951	22,863,744
Accumulated depreciation	(9,030,506)	(8,368,716)
Property and equipment – net	$14,134,445	$14,495,028

Land consisting of 119.086 acres received from James Campbell Company, LLC, is subject to restrictions as to use, including a minimum of 90 residential units for affordable rental housing, and water and waterline easements. James Campbell Company, LLC, reserves the rights to all housing credits issued by the City and County of Honolulu.

NOTE D – FAIR VALUE MEASUREMENTS

The Organization values mutual funds and common stock (equity securities) at quoted market prices, and money market funds at stated value; all of which are Level 1 inputs. It values investments in U.S. government securities and corporate bonds (fixed income securities) by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuer, a Level 2 input. The Organization has no investments requiring Level 3 inputs.

NOTE D – FAIR VALUE MEASUREMENTS (Continued)

The following sets forth by level, within the fair value hierarchy, the Organization's investments in marketable securities at fair value as of June 30, 2016:

	Level 1	Level 2	Level 3	Total
Equity securities				
Consumer staples and discretionary	$1,654,410	$ -	$ -	$ 1,654,410
Industrials and materials	1,458,467	-	-	1,458,467
Utilities and energy	1,414,584	-	-	1,414,584
Financials	1,360,370	-	-	1,360,370
Technology	984,961	-	-	984,961
Healthcare	743,697	-	-	743,697
Real estate	201,160	-	-	201,160
Other mutual funds	112,609	-	-	112,609
Total equity securities	7,930,258	-	-	7,930,258
Money market funds	335,901	-	-	335,901
Fixed income securities				
Short term bond	-	809,651	-	809,651
Long term bond	-	739,686	-	739,686
Intermediate term bond	-	694,256	-	694,256
Fixed income blend	-	40,223	-	40,223
Total fixed income securities	-	2,283,816	-	2,283,816
Total marketable securities	$8,266,159	$2,283,816	$ -	$10,549,975

The following sets forth by level, within the fair value hierarchy, the Organization's investments in marketable securities at fair value as of June 30, 2015:

	Level 1	Level 2	Level 3	Total
Equity securities				
Consumer staples and discretionary	$1,703,442	$ -	$ -	$ 1,703,442
Industrials and materials	1,659,504	-	-	1,659,504
Technology	1,542,444	-	-	1,542,444
Financials	1,523,926	-	-	1,523,926
Utilities and energy	918,542	-	-	918,542
Healthcare	732,000	-	-	732,000
Other mutual funds	159,623	-	-	159,623
Total equity securities	8,239,481	-	-	8,239,481
Money market funds	288,155	-	-	288,155
Fixed income securities				
Intermediate term bond	-	982,990	-	982,990
Short term bond	-	840,261	-	840,261
Long term bond	-	761,228	-	761,228
Fixed income blend	-	90,535	-	90,535
Total fixed income securities	-	2,675,014	-	2,675,014
Total marketable securities	$8,527,636	$2,675,014	$ -	$11,202,650

NOTE E – EMPLOYEE BENEFIT PLANS

The Center sponsors a defined benefit pension plan (Plan) and a postretirement plan. Pension and postretirement cost for the year ended June 30, 2016 of $794,893 consisted of net periodic pension cost of $155,057, a cost of $601,898 for changes in components of net periodic pension cost not yet recognized, net periodic postretirement cost of $8,824, and a cost of $29,114 for changes in components of net periodic postretirement cost not yet recognized. Pension and postretirement cost for the year ended June 30, 2015 of $722,525, consisted of net periodic pension cost of $115,226, a cost of $579,727 for changes in components of net periodic pension cost not yet recognized, net periodic postretirement credit of $547, and a cost of $28,119 for changes in components of net periodic postretirement cost not yet recognized.

Defined Benefit Pension Plan

The Center sponsors a defined benefit pension plan covering all of its employees who meet certain requirements, except bargaining unit employees who joined the Center after June 1998, to which it contributes the minimum funding required under the Employee Retirement Income Security Act of 1974 (ERISA). Benefits under the Plan are based on years of service and compensation. The Plan was amended in September 2010 to include three bargaining unit participants that were transferred to Hawaiian Commercial & Sugar Company (HC&S). The participants will receive benefit accruals and vesting services until the earlier of their normal retirement date or termination of employment from HC&S. The funded status of this Plan and amounts recognized in the consolidated financial statements as of and for the years ended June 30, 2016 and 2015 were as follows:

	2016	2015
Fair value of plan assets	$ 9,916,277	$10,438,668
Projected benefit obligation	(13,184,908)	(13,320,344)
Net pension liability	$ (3,268,631)	$ (2,881,676)
Net periodic pension expense	$ 155,057	$ 115,226

At June 30, 2016 and 2015, items not yet recognized as a component of net periodic pension cost for this Plan consisted of the following:

	2016	2015
Prior service cost	$ 2,467	$ 2,841
Net loss	6,128,790	5,526,518
Total	$6,131,257	$5,529,359

The measurement dates used to determine the pension benefit measurements were June 30, 2016 and 2015. Plan assets at June 30, 2016 and 2015 were invested in equity securities (48.9% in 2016 and 39.6% in 2015), debt securities (41.2% in 2016 and 45.2% in 2015), and cash (9.9% in 2016 and 15.2% in 2015), the objective of which is to preserve capital while providing a return that is adequate to meet the Plan's obligations as estimated by the Plan's actuary, in accordance with the Plan's weighted-average expected return. For the year ended June 30, 2016, the excess of the expected return over the actual return for the Plan was $534,745. For the year ended June 30, 2015 the excess of the actual return over the expected return for the Plan was $537,874. As of June 30, 2016 and 2015, the accumulated benefit obligation was $13,082,821 and $13,219,119, respectively, and the reclassified amounts of net periodic pension expenses previously recognized as changes in unrestricted net assets but not included in net periodic benefit cost when they arose was $269,645 and $242,955, respectively.

NOTE E – EMPLOYEE BENEFIT PLANS (Continued)

Defined Benefit Pension Plan (Continued)

For the years ended June 30, 2016 and 2015, the weighted-average actuarial assumptions used to determine the net periodic pension cost included a rate of compensation increase of 1%, a discount rate of 3.91% and 4.07%, respectively, and a benefit credit for an expected return on plan assets of 7.00%. For the years ended June 30, 2016 and 2015, employer contributions amounted to $370,000 and $400,000, respectively. The Plan paid pension benefits of $1,055,983 and $1,076,236 for the years ended June 30, 2016 and 2015, respectively.

At June 30, 2016, estimated future benefits payments from the pension plan were as follows:

Years ending June 30th:	
2017	$1,097,107
2018	$1,065,066
2019	$1,036,684
2020	$1,021,451
2021	$ 977,302
Thereafter (cumulative for the years 2022 to 2026)	$4,217,441

The Organization expects to contribute $875,000 to the Plan during the year ending June 30, 2017.

At June 30, 2016 and 2015, components of the net periodic pension cost projected for this Plan consisted of the following:

	2016	2015
Service cost	$ 70,496	$ 63,643
Interest cost	494,081	520,106
Expected return on assets	(686,366)	(698,337)
Amortization of prior service cost	374	374
Amortization of deferred losses	314,748	269,271
Projected net periodic pension cost	$193,333	$155,057

The Plan invests in mutual funds, which it values at quoted market values, a Level 1 measurement. The Plan has no investments requiring Level 2 or Level 3 inputs.

The following sets forth by level, within the fair value hierarchy, the Plan's investments at fair value as of June 30, 2016:

	Level 1	Level 2	Level 3	Total
Mutual funds				
Fixed income funds	$4,847,218	$ -	$ -	$4,847,218
Equity funds	4,085,931	-	-	4,085,931
Total mutual funds	8,933,149	-	-	8,933,149
Money market funds	983,128	-	-	983,128
Total Plan investments	$9,916,277	$ -	$ -	$9,916,277

NOTE E – EMPLOYEE BENEFIT PLANS (Continued)

The following sets forth by level, within the fair value hierarchy, the Plan's investments at fair value as of June 30, 2015:

	Level 1	Level 2	Level 3	Total
Mutual funds				
Fixed income funds	$ 4,719,275	$ -	$ -	$ 4,719,275
Equity funds	4,134,039	-	-	4,134,039
Total mutual funds	8,853,314	-	-	8,853,314
Money market funds	1,585,354	-	-	1,585,354
Total Plan investments	$10,438,668	$ -	$ -	$10,438,668

Postretirement Plan

The Center also sponsors a postretirement plan that provides life insurance benefits to certain employees, which it has the right to modify or terminate. The plan assets consist of deposits in an insurance company general account, the contract value of which approximates fair value, a Level 2 measurement. The Plan has no investments requiring Level 1 or Level 3 inputs. The funded status of the postretirement plan and amounts recognized in the consolidated financial statements as of and for the years ended June 30, 2016 and 2015 were as follows:

	2016	2015
Fair value of plan assets	$ 281,047	$337,538
Accumulated benefit obligation	(405,049)	(423,602)
Net postretirement liability	$(124,002)	$ (86,064)
Net periodic postretirement credit (cost)	$ (8,824)	$ 547

At June 30, 2016 and 2015, items not yet recognized as a component of net periodic postretirement cost for the postretirement plan consisted of the following:

	2016	2015
Transition amount	$ -	$ (1)
Net loss	254,751	225,638
Total	$254,751	$225,637

The weighted-average actuarial assumptions used to determine the accumulated postretirement benefit obligation at June 30, 2016 and 2015 included a discount rate of 4.07%. The weighted-average actuarial assumptions used to determine the net periodic postretirement cost included a discount rate of 3.91% and 4.07% for the years ended June 30, 2016 and 2015, respectively, and benefit credit for an expected return on plan assets for the years ended June 30, 2016 and 2015 of 6.50%. For the years ended June 30, 2016 and 2015, the postretirement plan paid postretirement benefits of $50,420 and $17,169, respectively.

NOTE E – EMPLOYEE BENEFIT PLANS (Continued)

Postretirement Plan (Continued)

At June 30, 2016, estimated future benefits payments for the postretirement plan were expected to approximate the following:

Years ending June 30th:	
2017	$ 38,104
2018	$ 36,564
2019	$ 35,179
2020	$ 33,390
2021	$ 31,622
Thereafter (cumulative for the years 2022 to 2026)	$132,016

For the years ended June 30, 2016 and 2015, the reclassified amounts of net periodic postretirement credits previously recognized as changes in unrestricted net assets but not included in net periodic benefit credits when they arose was $11,742 and $3,862, respectively.

At June 30, 2016 and 2015, components of the net periodic postretirement cost projected for the postretirement plan consisted of the following:

	2016	2015
Service cost	$ 1,409	$ 1,304
Interest cost	15,092	16,442
Expected return on assets	(17,030)	(20,664)
Amortization of transition amount	-	(1)
Amortization of deferred losses	14,019	11,743
Projected net periodic postretirement cost	$13,490	$ 8,824

Defined Contribution Pension Plan

The Center also sponsors a retirement savings plan to which each participant may contribute up to the lesser of 15% of their annual salary or the amount provided under Section 401(k) of the Internal Revenue Code. The Organization does not contribute to the defined contribution pension plan.

NOTE F – ADVANCES ON LINE-OF-CREDIT

The Foundation has a revolving line-of-credit with Bank of America. Advances are payable on demand, collateralized by its investments in marketable securities, and bear interest at 1.1% above the 30-day London Inter-Bank Offered Rate (LIBOR). At June 30, 2016 and 2015, the 30-day LIBOR was 0.19%. At June 30, 2016 and 2015, advances on the revolving line-of-credit amounted to $6,770,187 and $7,002,687, respectively.

On July 1, 2014, the Corporation entered into a $200,000 revolving line-of-credit with Central Pacific Bank available through July 1, 2018, advances on which bear interest payable monthly at the Bank's lending base rate plus 1%. The Bank's base rate was 4.5% at June 30, 2016. Advances on the line-of-credit are collateralized by substantial all of the Corporation's assets. There were no advances on the revolving line-of-credit at June 30, 2016 and 2015.

NOTE G – NOTE PAYABLE

The Center had a loan with the Rural Community Assistance Corporation Project of up to $1,319,479 to finance the predevelopment costs for a 41 unit farm worker housing community in Kunia Village Phase 1, which was collateralized by certain real estate. In December 2015, the loan amount increased to $1,841,583. Principal and unpaid accrued interest were due upon maturity in August 2016. At June 30, 2015, the outstanding drawings on the loan amounted to $1,319,232. During the year ended June 30, 2016, the outstanding balance was forgiven by Rural Community Assistance Corporation as part of the sale transaction noted in Note J. For the years ended June 30, 2016 and 2015, related loan expenditures of $239,024 and $336,560, respectively, have been recognized as expenses in accordance with accounting principles generally accepted in the United States of America.

NOTE H – LEASES

<u>As Lessee</u>

The Center leases land from the State of Hawaii, Department of Agriculture, in the Maunawili area of Honolulu under an operating lease that expires in August 2036 for which it pays minimum lease rent of $25,000 per year for the first 15-year period. Under the terms of the lease agreement, the Organization may offset the value of certain of its agricultural research and education services against the annual lease rent obligation. Percentage rent at 3% of gross proceeds, as defined, may also be due annually. Lease rent expense was $25,000 for the years ended June 30, 2016 and 2015. At June 30, 2016, expected future minimum lease payments approximated the following:

Years ending June 30th:	
2017	$ 25,000
2018	$ 25,000
2019	$ 25,000
2020	$ 25,000
2021	$ 25,000
Thereafter (cumulative)	$379,200

<u>As Lessor</u>

The Center and Organization lease land and facilities to others under operating leases that expire through May 2036, some of which have five-year options to extend. Certain of the leases allow for an increase in rent based on the Producer Price Index (PPI). The Center also leases retail space for which the tenant pays 2% of gross sales or a minimum of $30,000 per year and contains an early termination clause if annual thresholds are not met. The Corporation also leases housing to agriculture workers and retired Del Monte Foods Corporation employees on an annual basis. At June 30, 2016, expected future minimum rent income by years ending June 30 approximated to the following:

Years ending June 30th:	
2017	$1,155,000
2018	$1,166,200
2019	$1,156,200
2020	$1,150,100
2021	$1,040,700
Thereafter (cumulative)	$6,876,000

NOTE H – LEASES (Continued)

For the years ended June 30, 2016 and 2015, rental income and expenses as lessor consisted of the following:

	2016	2015
Rental income		
Commercial	$1,002,647	$ 963,012
Residential	736,198	1,003,555
Total rental income	1,738,845	1,966,567
Rental expenses		
Facilities and rental management	679,457	803,410
Depreciation	285,708	285,708
Utilities	103,225	146,912
Repairs and maintenance	90,871	258,123
Taxes and other expenses	79,642	171,842
Insurance	59,176	52,093
Total rental expenses	1,298,079	1,718,088
Rental income – net	$ 440,766	$ 248,479

NOTE I – COMMITMENTS AND CONTINGENCIES

Certain revenue is derived from federal, state, and private grants and contracts for agricultural consulting services, the loss of which could have a material adverse effect on the Organization. The Organization may be subject to legal proceedings, claims, or litigation arising in the course of business for which it may seek the advice of legal counsel. Management estimates, on the advice of legal counsel and consultants, that the cost to resolve these matters, if any, would not be material to the consolidated financial statements. However, it is at least reasonably possible that such estimates may change within the near term.

The Organization operates in the State of Hawaii. National and international events can have severe, adverse effects on economic conditions in Hawaii. The effects, if any, on the consolidated financial statements of the Organization from such changes in economic conditions are not presently determinable.

NOTE J – PARTNERSHIP WITH RURAL COMMUNITY ASSISTANCE CORPORATION

In June 2013, the Development Corporation entered into a joint development agreement with Rural Quality, LLC, an entity specifically created by the Rural Community Assistance Corporation (RCAC) to jointly rehabilitate or replace improvements on property held by the Kunia Village Title Holding Corporation. The intent of this arrangement is to renovate the existing agricultural worker housing community through the formation of a Hawaii limited partnership and use of tax credits for affordable housing developments. The formation of the partnership was completed in December 2013.

On February 26, 2016, the Corporation sold property to Kunia Village Housing Partners LLP (buyer) (a joint venture between the Corporation and the Rural Community Assistance Corporation) for $2,948,510. The property sold by the Corporation had a zero basis. The buyer paid for the real property taxes of $13,274, paid cash of $308,125, and signed an unsecured promissory note of $2,653,659 to the Corporation. This note bears interest at 2.62%, with principal and interest payments beginning upon completion of the development of the property, which is estimated to be no sooner than January 1, 2030. The note matures in March 2071.

NOTE J – PARTNERSHIP WITH RURAL COMMUNITY ASSISTANCE CORPORATION (Continued)

In accordance with Financial Accounting Standards Board, Accounting Standards Codification 360-20-40-3, real estate sales under the full accrual method must meet the following two conditions in order for the full gain on the sale to be recognized: 1) the profit is determinable, that is, the collectability of the sales price is reasonably assured or the amount that will not be collectible can be estimated, and 2) the earnings process is virtually complete, that is, the seller is not obligated to perform significant activities after the sale to earn the profit. Unless both conditions exist, recognition of all or part of the profit shall be postponed. As the collectability of this note cannot be reasonably assured, the gain on the sale and corresponding promissory note are not recognized in the financial statements. When a payment on the promissory note is received by the Corporation, the amount received will be recognized as a gain on sale.

NOTE K – FINANCIAL STATEMENT PRESENTATION

Certain amounts in the 2015 consolidated financial statement presentation have been reclassified to conform to the 2016 presentation. The consolidated financial statements include certain prior year comparative information. Such information does not include sufficient detail to constitute a complete presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the consolidated financial statements of the Organization as of and for the year ended June 30, 2015, from which the information was derived.

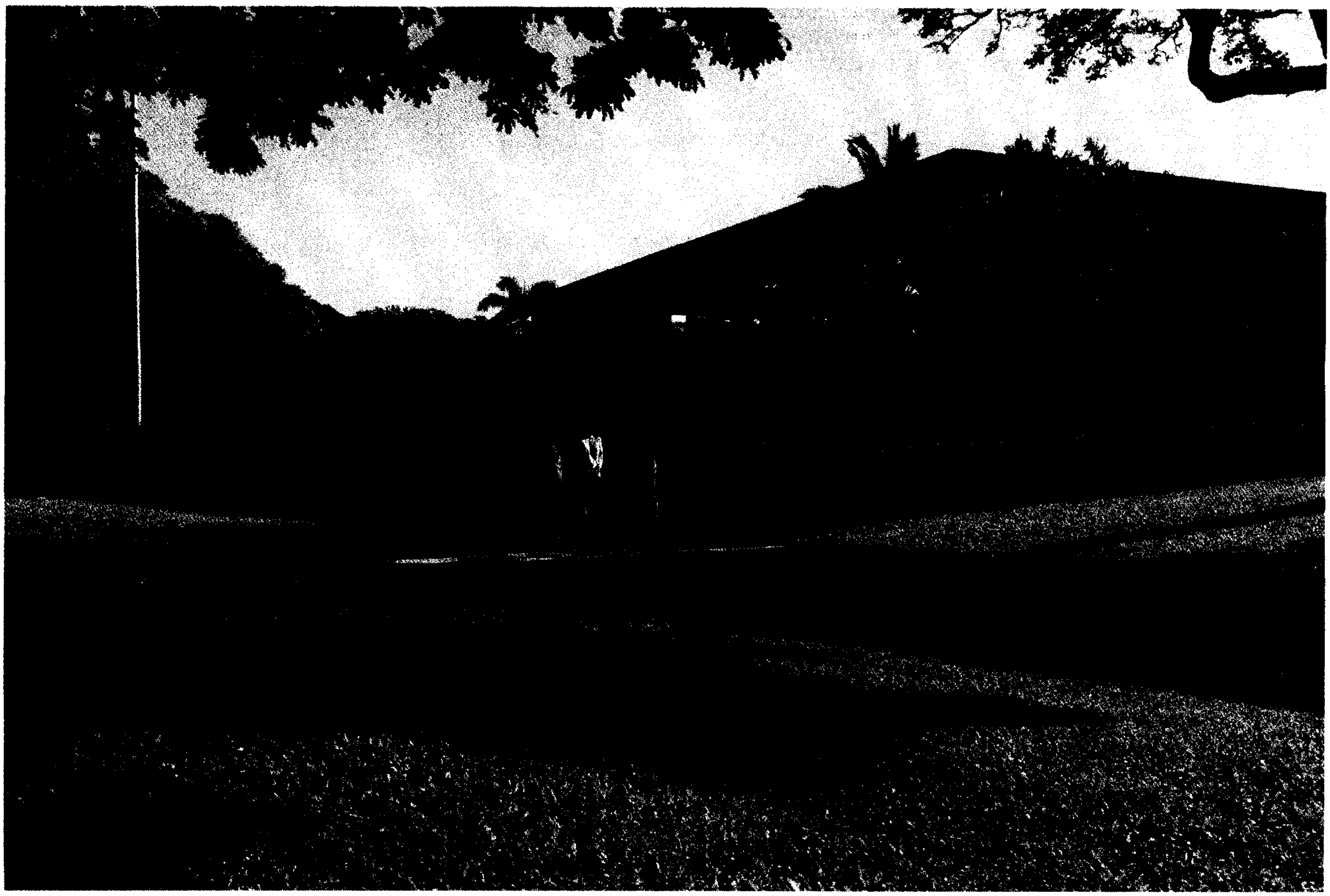
NOTE L – SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date of the independent auditor's report, which is the date the consolidated financial statements were available to be issued, and determined that the Organization did not have any subsequent events requiring adjustment to the consolidated financial statements or disclosure in the notes to the consolidated financial statements.

UNIVERSITY *of* HAWAI'I®

SYSTEM

2014 Annual Financial Report,
Required supplementary Information
and Other Supplemental Information
University of Hawaii
State of Hawaii



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Acuity LLP

CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the University of Hawai'i (the "University"), a component unit of the State of Hawai'i, as of and for the years ended June 30, 2014 and 2013, and the related notes to the consolidated financial statements, which collectively comprise the University's basic financial statements as listed in the accompanying index.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of the University of Hawai'i Foundation (the "Foundation"), which represent 13.0 percent and 11.0 percent, respectively, of the total assets and deferred outflows of resources and 1.0 percent and 1.0 percent, respectively, of the total operating revenues of the University as of and for the years ended June 30, 2014 and 2013. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the Foundation as of and for the years ended June 30, 2014 and 2013, are based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

999 Bishop Street, Suite 1900
Honolulu, Hawaii 96813
Telephone: 808 531 3400 Facsimile: 808 531 3433

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University of Hawai'i, as of June 30, 2014 and 2013, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

Accuity LLP

Honolulu, Hawai'i
February 12, 2015

Introduction

The following discussion and analysis provides an overview of the consolidated financial position and activities of the University of Hawai'i (the "University") for the years ended June 30, 2014 and 2013, with selected information for the year ended June 30, 2012. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Founded in 1907 under the auspices of the Morrill Act, the University is a land-grant, sea-grant and space-grant institution. The University system distinguishes itself through its Hawaiian, Asian and Pacific orientation and its position as one of the world's foremost multicultural centers for global and indigenous studies. Students are members of a population in which no one ethnic group constitutes a majority, and the educational experience is enriched by the diversity of cultures represented.

The University is Hawai'i's sole public higher education system and is governed by a Board of Regents consisting of fifteen members appointed by the Governor of the State of Hawai'i. The University system is comprised of ten campuses with approximately 60,000 students and 10,000 faculty and staff. The University provides a broad range of 385 degree (baccalaureate to post-doctoral level) programs, through a framework of sixteen colleges and nine professional schools. Through its seven community colleges on O'ahu, Hawai'i, Maui and Kaua'i, the University offers more than 279 certificate and associate degree programs and in certain areas, baccalaureate degrees. In addition to organized research institutes and administrative service and distance learning centers, the University system houses more than a hundred centers with a research, instruction or public service purpose. The University is also engaged in instructional research and service activities at hundreds of Hawai'i schools, hospitals and community sites, and carries out these activities across the Pacific Islands and in foreign countries.

Using the Financial Statements

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

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

- **Statements of Revenues, Expenses and Changes in Net Position** – The Consolidated Statements of Revenues, Expenses and Changes in Net Position present the University's revenues and expenses and illustrate how current year activities improve or weaken the University's financial condition. Changes in net position are reported when the underlying event occurs (accrual basis of accounting), which may be different from actual cash flows. The Consolidated Statements of Revenues, Expenses and Changes in Net Position also distinguish operating from non-operating revenues and expenses. Tuition and fees revenue and student housing fees revenue are reported net of scholarships and fellowships, including tuition and fee waivers applied to student accounts. Sales and services revenue is primarily comprised of bookstores, student and faculty housing, food services, parking and athletics. It is anticipated that the University will consistently report an operating loss since certain significant revenue sources relied upon for core operational needs, including state appropriations, private gifts and investment income, are considered non-operating revenues.

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

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

Related Entities

The University maintains close relationships with two other entities, considered to be component units, whose financial information is blended into the University's accompanying consolidated financial statements. The University of Hawai'i Foundation (the "Foundation") is a not-for-profit organization established to solicit and manage funds for the benefit of the University. The Research Corporation of the University of Hawai'i (the "Research Corporation") provides administrative support services for research and training programs of the University. Both of the University's component units prepare stand-alone financial statements with footnotes, which are audited by independent auditors. Summarized information of the individual components of the University's consolidated financial position, results of operations and cash flows for the years ended June 30, 2014 and 2013 is presented in Note 18 to the consolidated financial statements.

Financial Position

The Consolidated Statements of Net Position present the financial position of the University at the end of the fiscal year and display all assets and liabilities of the University. Assets and liabilities are presented using fair and current values, respectively. Two notable exceptions are receivables and capital assets, which are stated at historical cost less an allowance for doubtful accounts and accumulated depreciation, respectively. The difference between assets and liabilities is net position, representing a measurement of the current financial condition of the University. The University's assets, liabilities and net position at June 30, 2014, 2013 and 2012 are summarized as follows (in thousands):

	2014	Percentage of Total Assets and Deferred Outflows	2013	Percentage of Total Assets and Deferred Outflows	2012	Percentage of Total Assets and Deferred Outflows	FY 14 vs 13 Change	FY 13 vs 12 Change
Current assets								
Cash and operating investments	$ 342,353	10%	$ 377,545	11%	$ 448,346	13%	$ (35,192)	$ (70,801)
Receivables, net	108,463	3%	112,384	3%	95,112	3%	(3,921)	17,272
Other current assets	23,597	1%	36,301	1%	23,107	1%	(12,704)	13,194
Total current assets	474,413	14%	526,230	15%	566,565	17%	(51,817)	(40,335)
Noncurrent assets								
Endowment and other investments	499,460	14%	468,120	14%	526,663	16%	31,340	(58,543)
Capital assets, net	2,071,850	60%	2,027,120	60%	1,826,937	54%	44,730	200,183
Other noncurrent assets	418,903	12%	379,184	11%	443,259	13%	39,719	(64,075)
Total assets	3,464,626	100%	3,400,654	100%	3,363,424	100%	63,972	37,230
Deferred outflows of resources								
Deferred loss on refunding	5,576	0%	5,883	0%	6,180	0%	(307)	(297)
Total deferred outflows of resources	5,576	0%	5,883	0%	6,180	0%	(307)	(297)
Total assets and deferred outflows of resources	3,470,202	100%	3,406,537	100%	3,369,604	100%	63,665	36,933
Current liabilities	263,583	8%	269,754	8%	290,210	8%	(6,171)	(20,456)
Noncurrent liabilities								
Long-term debt	578,585	17%	593,930	17%	608,670	18%	(15,345)	(14,740)
Other noncurrent liabilities	666,508	19%	605,956	18%	499,530	14%	60,552	106,426
Total liabilities	1,508,676	43%	1,469,640	43%	1,398,410	42%	39,036	71,230
Net position								
Net investment in capital assets	1,519,669	44%	1,482,274	44%	1,336,377	41%	37,395	145,897
Restricted								
Nonexpendable	218,133	6%	207,338	6%	191,532	6%	10,795	15,806
Expendable	598,070	17%	530,130	16%	574,344	17%	67,940	(44,214)
Unrestricted	(374,346)	-11%	(282,845)	-8%	(131,059)	-4%	(91,501)	(151,786)
Total net position	$ 1,961,526	57%	$ 1,936,897	57%	$ 1,971,194	60%	$ 24,629	$ (34,297)

Current Assets and Liabilities

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

At June 30, 2014, 2013 and 2012, working capital amounted to $210.8 million, $256.5 million and $276.4 million, respectively. The University is working toward maintaining a prudent level of working capital to fund operations, including pre-funding its approximately $420 million in extramural grants which are on a cost reimbursement basis and to provide for uncertainties such as possible cuts to federal programs and the fiscal economic situation in the United States ("US") and Asia. Based on the $1,550 million of operating expenses (excluding depreciation) for the fiscal year ended June 30, 2014, the working capital at year end represents approximately 55 days of operating funds.

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

- Current assets consist primarily of cash and cash equivalents, operating investments and net receivables. Total current assets were $474.4 million, $526.2 million and $566.6 million at June 30, 2014, 2013 and 2012, respectively. Total current assets decreased by $51.8 million, or 9.8% percent, at June 30, 2014 compared to June 30, 2013, primarily due to a $35.2 million decrease in cash and operating investments. Operating investments decreased by $20.8 million primarily due to a $21.0 million decrease in time certificates of deposits ("TCDs"), which were used to fund construction, repairs and maintenance and payroll in the current year. Total current assets decreased by $40.3 million, or 7.1 percent, at June 30, 2013 compared to June 30, 2012, primarily due to decreases in operating investments offset by increases in cash and cash equivalents and accounts receivable. Operating investments decreased by $93.9 million primarily due to a decrease of $68 million in time certificates of deposit ("TCDs"), which were used to fund construction, repairs and maintenance and payroll. Increases in accounts receivable of $18.5 million were primarily due to timing of collections of Federal accounts receivable.

- Current liabilities consist primarily of accounts payable, accrued payroll and fringe benefits, advances from sponsors and deferred 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 $263.6 million, $269.8 million and $290.2 million at June 30, 2014, 2013 and 2012, respectively. Total current liabilities decreased by $6.2 million, or 2.3 percent, at June 30, 2014 compared to June 30, 2013, and by $20.5 million, or 7.1 percent, at June 30, 2013 compared to June 30, 2012, primarily due to decreases in accounts payable.

Endowment and Other Investments

The University's endowment and other investments, including endowments held with the Foundation, increased by $31.3 million to $499.5 million at June 30, 2014 and decreased by $58.5 million to $468.1 million at June 30, 2013. Endowments and other investments held with the Foundation amounted to $365.8 million at June 30, 2014 and $311.8 million at June 30, 2013. The fiscal year 2014 increase was primarily due to an increase in the fair value of investments.

In fiscal year 2012, the University's auction rate securities portfolio decreased by $22.9 million due to redemptions at par value, in accordance and under the terms of the agreement with Citigroup Global Markets Inc. In July 2012, the University fully liquidated the remaining $25.5 million auction rate securities portfolio, at par.

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

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

The University's spending rate policy is to limit the immediate impact that significant changes in the fair value of the endowment portfolio have on annual distributions. The spending rate policy provides for an annual distribution, ranging between three percent and five percent of the five-year moving average of the endowment portfolio's fair value. In fiscal years 2014 and 2013, the University instituted a 4.5 percent distribution rate on restricted and unrestricted endowments. The total restricted and unrestricted distributions available to the University amounted to $2.4 million and $2.3 million in fiscal years 2014 and 2013.

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, 2014, 2013 and 2012, total capital assets, net of accumulated depreciation amounted to $2.1 billion, $2.0 billion and $1.8 billion, respectively, which represented 60 percent, 60 percent and 54 percent, respectively, of the University's total assets. Capital asset additions totaled $186.5 million, $313.7 million and $416.8 million in fiscal years 2014, 2013 and 2012, respectively, while depreciable capital asset disposals, net of accumulated depreciation, amounted to $32.3 million, $6.8 million and $15.6 million, respectively. The decrease of the additions was due to the completion of many strategic capital projects. In fiscal year 2014, the University transferred $19 million capital asset to the State and Federal governments.

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

Significant capital projects completed during fiscal years 2014, 2013 and 2012 or in progress as of June 30, 2014, 2013 and 2012 included:

- **University of Hawai'i at West O'ahu** ("UH-West O'ahu") - The new $177 million UH-West O'ahu Kapolei campus opened to over 2,000 students on August 20, 2012. The current campus consists of approximately 220,000 square feet of building floor area, which includes a state-of-the-art high-tech classroom building, laboratory building, campus center, library and resource center, and maintenance and mechanical plant building. The architectural design of the new campus incorporates the latest trends in environmental sustainability and achieved LEED gold certification. The construction of the entire campus and adjacent business and retail community will span several decades. When completed, UH-West O'ahu will accommodate 7,600 students and 1,000 faculty and staff.

- **University of Hawai'i Cancer Center** – Construction of the 156,000 square foot building for the University of Hawai'i Cancer Center was completed in September 2012. The $120 million center that is part of the University of Hawai'i at Mānoa, is adjacent to the UH Mānoa John A Burns School of Medicine in Kaka'ako. Under a partnership agreement with The Queen's Medical Center, Hawai'i Pacific Health, and Kuakini Health Systems, the center will lead research efforts, including clinical trials while the hospitals continue to deliver care to patients, making use of the latest research. The UH Cancer Center is one of 65 National Cancer Institute centers across the United States, a designation that brings grant funding needed to further research in epidemiology, natural products and cancer biology, and prevention and control of carcinogenesis.

- **University of Hawai'i at Mānoa Center for Life Science Research and Teaching** – This $55 million project includes the renovation of Edmondson Hall for the Biology department, Snyder Hall for the Microbiology department, and a new building with stairs and elevators that will be used by both Edmondson and Snyder. The renovation of Edmondson Hall was completed on July 10, 2013. Edmonson Hall's first two floors consist of biology laboratories, while floors three and four are for graduate and faculty research.

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

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

- **Community College Energy Conservation Project** – The $40 million project taking place on the University of Hawai'i Community College campuses statewide is designed to reduce electricity and water consumption. The Community Colleges will also incorporate photovoltaic energy systems on each campus through new projects, such as 'Ike Le'a (UHMC), Hale Aloha (Hawai'i CC), and Hale La'akea (WCC). Other components of the project include solar water heaters, energy efficient HVAC and lighting systems, and electric car charging stations.

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

- **Hawai'i Community College Pālamanui Campus** – The groundbreaking ceremony for the $25 million Hawai'i Community College Pālamanui Campus took place on May 28, 2013. The community of Pālamanui, "A Place of Enlightenment", will consist of parks, a University Village Town Center, a University Inn, and placed in the middle will be the Hawai'i Community College Pālamanui Campus. The first phase includes a 24,000 square foot structure with classrooms, science labs, library, and culinary arts kitchens, which will be powered by a large photovoltaic system.

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

- **University of Hawai'i at Hilo Student Services** – The new $22 million three-story, 35,000 square foot Student Services building was placed into service in May 2014. Students will now be able to attend to their financial, registration and counseling needs in one central location. The project included photovoltaic panels for the Library, College of Business Economics, Performing Arts Center, and the Student Services Buildings.

- **University of Hawai'i at Mānoa Gartley Hall Renovation** – The blessing for the recently renovated University of Hawai'i at Mānoa Gartley Hall took place on November 6, 2014. Gartley Hall is the second oldest building on the Mānoa campus and is home to the School of Social Work. The $17.7 million renovation corrected structural issues in the building, preserved the historic features of the building, and installed photovoltaic panels for energy efficiency.

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

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

General obligation bonds have also been issued by the State of Hawai'i that included financing for University projects. These bonds are carried as liabilities of the State. In fiscal year 2014, 2013 and 2012, 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 year 2014, 2013 and 2012, $101.0 million, $97.8 million and $82.5 million was appropriated in each year, respectively.

The University also uses revenue bond financing for major capital projects. In February 2012, the University issued $8.6 million in Series 2012A(R) revenue bonds to constructively retire $9.0 million of the outstanding Series 2001B revenue bonds. The proceeds of the Series 2012A(R) revenue bonds were deposited into a trust account with an escrow agent to fully defease the outstanding principal of the Series 2001B bonds. The defeasance resulted in an accounting gain of $0.9 million and an immaterial economic loss (difference between the present values of the debt service payments on the old and new debt).

In October 2010, the University issued $292.7 million in Series 2010A-1 ($111.3 million), 2010A-2 ($27.4 million), 2010B-1 ($127.5 million), and 2010B-2 ($26.6 million) bonds (collectively, the "Series 2010 Bonds") for the purpose of financing the costs of certain University projects. The Series 2010A-1 and Series 2010B-1 bonds are designated as "Build America Bonds" under the provisions of the American Recovery and Reinvestment Act of 2009. These University projects include the construction and maintenance of the University's Cancer Center, renovations and additions to the Mānoa Campus Center, construction and equipment for an Information Technology Building, renovations to the Sinclair Library basement on the Mānoa campus, further development of the UH-West O'ahu Kapolei campus, various energy conservation/efficiency projects on the community college campuses on O'ahu, Kaua'i and Maui, land acquisition for the Leeward Community College Wai'anae Education Center, construction of the Kapi'olani Community College Culinary Institute of the Pacific, and renovation of the observatory for the Panoramic Survey Telescope & Rapid Response System 2 telescope. The Series 2010 revenue bonds was assigned municipal bond ratings of "A+", "Aa3", and "AA-" by Standard & Poor's, Moody's Investors Service and Fitch Ratings, respectively. The interest rates for the Series 2010 Bonds range from 2.50% – 6.03% (first interest payment due on April 1, 2011) and mature on October 1, 2030 and 2040.

At June 30, 2014, 2013 and 2012, revenue bonds payable amounted to $593.9 million, $608.7 million and $622.9 million, respectively. Debt service in fiscal year 2014 amounted to $45.2 million, consisting of $14.7 million of principal and $30.5 million of interest. Debt service in fiscal year 2013 amounted to $45.2 million, consisting of $14.2 million of principal and $31.0 million of interest. Debt service in fiscal year 2012 amounted to $45.1 million, consisting of $13.8 million of principal and $31.3 million of interest. Principal reductions during fiscal year 2014, 2013 and 2012 were in accordance with scheduled debt service payments.

In June 2002, the University issued $150 million in Series 2002A revenue bonds to finance the construction of the new John A. Burns School of Medicine campus. In October 2006, the University issued $133.8 million in Refunding Series 2006A bonds to refinance a portion of the University's outstanding Series 2002A revenue bonds. The bond offering was structured to match the timing of receipt of projected State of Hawai'i Tobacco Settlement funds. While all unrestricted revenues of the University, excluding those revenues pledged under the University Bond System, are pledged as collateral, the University anticipates that State of Hawai'i Tobacco Settlement funds will be the primary source of support for debt service payments on these revenue bonds. The University received State of Hawai'i Tobacco Settlement funds in the amount of $9.9 million in fiscal years 2014, 2013 and 2012 to cover the debt service due.

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

The Note bears interest at the rate of 1.5% per annum, which is due and payable semi-annually to the Lender on January 1 and July 1 each year until the Note has been paid in full. Under the terms of the Note, repayment each fiscal year is limited and subject to specific appropriations by the State to make such payments. The Note matures on July 16, 2017, at which time the unpaid principal will be due. As of June 30, 2014, $17,000 remains outstanding.

Net Position

Net position represents the residual interest in the University's assets after liabilities are deducted. At June 30, 2014, 2013 and 2012, total net position amounted to $2 billion, $1.9 billion and $2 billion, respectively. Net position is reported in four major categories: net investment in capital assets, restricted nonexpendable, restricted expendable and unrestricted.

Net investment in capital assets, net of accumulated depreciation and the related outstanding debt used to finance the acquisition, construction or improvement of those assets, amounted to $1.5 billion, $1.5 billion and $1.3 billion at June 30, 2014, 2013 and 2012, respectively. The $37.4 million increase in fiscal year 2014, as compared to fiscal year 2013, was primarily attributable to $186.5 million of capital asset additions, offset by $109.5 million of depreciation expense, $32.3 million in net disposals, and $15.3 million decrease in related debt. The $145.9 million increase in fiscal year 2013, as compared to fiscal year 2012, was primarily attributable to $313.7 million of capital asset additions, offset by $106.6 million of depreciation expense, $6.8 million in net disposals, and $14.7 million decrease in related debt.

Restricted nonexpendable net position primarily represents the University's and Foundation's permanent endowment funds, which are required to be maintained in perpetuity, amounted to $218.1 million, $207.3 million and $191.5 million at June 30, 2014, 2013 and 2012, respectively. The increases of $10.8 million and $15.8 million in fiscal years 2014 and 2013, respectively, were primarily attributable to new permanent endowment gifts received.

Restricted expendable net position is subject to externally imposed restrictions governing their use. Net position was restricted for the following purposes at June 30, 2014, 2013 and 2012 (in thousands):

	2014	2013	2012
Plant facilities	$ 310,195	$ 304,397	$ 375,821
Donor-restricted activities	234,200	178,018	157,600
Loan activities	41,172	35,353	25,020
External sponsor activities	12,502	12,362	15,903
	$ 598,070	$ 530,130	$ 574,344

In fiscal year 2014, the overall increase of $67.9 million in restricted expendable net position was primarily attributable to an increase of approximately $56.2 million in donor-restricted activities, which was a direct result of an increase in donations received through the Foundation. In fiscal year 2013, the overall decrease of $44.2 million in restricted expendable net position was primarily attributable to a decrease of approximately $71.4 million in plant facilities, which is a direct result of the decrease in unspent capital appropriations.

Net position that is not subject to externally imposed restrictions governing their use is classified as unrestricted for financial reporting purposes. At June 30, 2014, 2013 and 2012, unrestricted net position amounted to deficits of $374.3 million, $282.8 million and $131.1 million, respectively. Although unrestricted net position is not subject to externally imposed restrictions, all of the University's unrestricted net position has been internally designated for various academic and research programs and initiatives, contractual commitments, and capital projects. In addition, unrestricted net position of $46.7 million, $36.0 million and $31.1 million were designated for endowment activities at June 30, 2014, 2013 and 2012, respectively.

The reduction in unrestricted net position for the fiscal years ended June 30, 2014, 2013 and 2012 is primarily attributable to the University's required accounting and recognition for the University's allocated share of the State of Hawai'i actuarial determined total other post-employment benefits ("OPEB") liability. Similar to other state and local governments, the State of Hawai'i ("State") plan has been paid on a "pay as you go" basis, which resulted in the OPEB liability growing substantially each year. As a result, despite total assets of the University growing each year, unrestricted net position continues to decline due to recognition of the OPEB liability. The University's share of the OPEB liability as of June 30, 2014, 2013 and 2012 was $579.2 million, $514.4 million and $413.5 million, respectively. Annual required OPEB contribution payments, on a "pay as you go" basis, towards this liability were paid directly by the State Department of Budget and Finance from its general fund appropriation and not out of the University's operating budget appropriation. The University makes contributions calculated as part of the State's total contribution requirements and are reimbursed to the State's General Fund as part of the fringe benefit rate on University employees' actual salaries.

Results of Operations

The Consolidated Statements of Revenues, Expenses and Changes in Net Position are a presentation of the University's results of operations for the year. It indicates whether the financial condition of the University improved or deteriorated. For financial reporting purposes, certain significant revenues, including state appropriations, private gifts and investment income, which are relied upon and budgeted to support the University's core operations, are required to be reported as nonoperating revenues. The University's results of operations for the years ended June 30, 2014, 2013 and 2012, summarized to match revenues supporting core activities with expenses associated with core activities, are as follows (in thousands of dollars):

	2014		2013		2012		Increase (Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	FY 14 vs 13 Change	FY 13 vs 12 Change
Revenues								
Operating								
Tuition and fees	$ 377,550	27.4%	$ 362,175	27.8%	$ 349,421	27.5%	$ 15,375	$ 12,754
Less: Scholarship allowances	(129,173)	-9.3%	(120,364)	-9.2%	(112,350)	-8.8%	(8,809)	(8,014)
Grants and contracts	427,056	30.8%	414,793	31.9%	409,974	32.3%	12,263	4,819
Sales and services	130,879	9.5%	133,211	10.2%	136,899	10.8%	(2,332)	(3,688)
Other revenue	2,935	0.2%	2,989	0.2%	3,107	0.3%	(54)	(118)
Total operating revenues	809,247	58.7%	792,804	60.9%	787,051	62.1%	16,443	5,753
Non-operating								
State appropriations	391,266	28.3%	374,280	28.7%	375,754	29.5%	16,986	(1,474)
Federal Pell grant	67,265	4.9%	67,826	5.2%	66,257	5.2%	(561)	1,569
Net investment income (expense)	51,520	3.7%	32,206	2.5%	1,272	0.1%	19,314	30,934
Private gifts	61,127	4.5%	35,206	2.7%	40,031	3.1%	25,921	(4,825)
Total non-operating revenues	571,178	41.5%	509,518	39.1%	483,314	37.9%	61,660	26,204
Total revenues supporting core activities	1,380,425	100.0%	1,302,322	100.0%	1,270,365	100.0%	78,103	31,957
Expenses								
Operating								
Compensation and benefits	1,070,419	71.0%	1,049,129	70.3%	1,027,243	70.9%	21,290	21,886
Supplies, services and cost of goods sold	238,687	15.8%	243,893	16.3%	235,678	16.3%	(5,206)	8,215
Telecom and utilities	79,860	5.3%	79,787	5.4%	80,852	5.6%	73	(1,065)
Scholarships and fellowships	50,835	3.4%	51,414	3.4%	51,760	3.6%	(579)	(346)
Other expense	110,597	7.3%	110,928	7.4%	117,922	8.1%	(331)	(6,994)
Total operating expenses	1,550,398	102.8%	1,535,151	102.9%	1,513,455	104.5%	15,247	21,696
Non-operating (revenues) expenses								
Transfers (from) to State, net	(183,460)	-12.2%	(172,757)	-11.6%	(179,495)	-12.4%	(10,703)	6,738
Transfers (from) to Federal – capital assets	4,156	0.3%	-	0.0%	-	0.0%	4,156	-
Interest expense	26,690	1.8%	23,452	1.6%	22,500	1.6%	3,238	952
Total non-operating (revenues) expenses	(152,614)	-10.0%	(149,305)	-9.8%	(156,995)	-10.8%	(3,309)	7,690
Expenses associated with core activities before depreciation	1,397,784	-	1,385,846	-	1,356,460	-	11,938	29,386
Income (loss) from core activities before depreciation	(17,359)	-	(83,524)	-	(86,095)	-	66,165	2,571
Depreciation	109,458	7.4%	106,631	7.1%	91,933	6.3%	2,827	14,698
Expenses associated with core activities including depreciation	1,507,242	100.0%	1,492,477	100.1%	1,448,393	100.0%	14,765	44,084
Loss from core activities	(126,817)		(190,155)		(178,028)		$ 63,338	$ (12,127)
Other nonoperating activity								
Capital gifts and grants	146,068		147,772		169,291			
Permanent endowment	9,502		14,670		8,754			
Other revenue (expenses) net	(4,124)		(6,584)		(13,539)			
Other nonoperating income, net	151,446		155,858		164,506			
Increase (decrease) in net position	24,629		(34,297)		(13,522)			
Net position								
Beginning of year	1,936,897		1,971,194		1,984,716			
End of year	$ 1,961,526		$ 1,936,897		$ 1,971,194			

Revenues Supporting Core Activities

The University has a diversified stream of revenues to support its operations. State appropriations and tuition and fees are the core components that support the University's instructional and academic programs. Government and nongovernmental grants and contracts provide opportunities for undergraduate and graduate students to participate in basic research with renowned researchers. Private gifts contribute toward the support of the University's instructional and academic initiatives. Sales and services revenues include revenues from educational departments and auxiliary enterprises, including bookstores, student and faculty housing, food services, parking and athletics.

Tuition and fees revenue, net of scholarship allowances, increased by $6.6 million, or 2.7 percent, to $248.4 million in fiscal year 2014, and increased by $4.7 million, or 2.0 percent, to $241.8 million in fiscal year 2013. Scholarship allowances amounted to $129.2 million, $120.4 million and $112.4 million in fiscal years 2014, 2013 and 2012, respectively. For fiscal year 2014 and 2013, the increase in tuition and fees revenue and scholarship allowances are primarily attributable to increase in tuition and fee rate increases.

Revenues from federal, state and local grants and contracts and nongovernmental sponsored programs increased by $12.3 million, or 3.0 percent to $427.1 million in fiscal year 2014, and increased by $4.8 million, or 1.2 percent to $414.8 million in fiscal year 2013. The fiscal year 2014 net increase was attributable to a $4.4 million increase in federal grants and contracts, a net increase of $6.8 million in nongovernmental sponsored programs and a $1.1 million increase in state and local grants. The fiscal year 2013 net increase was attributable to a $0.8 million decrease in federal grants and contracts, a net decrease of $2.0 million in nongovernmental sponsored programs and offset by a $7.6 million increase in state and local grants.

Sales and services revenues, which are mainly comprised of bookstores, student and faculty housing, food services, parking and athletics, decreased by $2.3 million, or 1.8 percent, to $130.9 million in fiscal year 2014, and decreased by $3.7 million, or 2.7 percent, to $133.2 million in fiscal year 2013.

General state appropriations increased by $17.0 million, or 5 percent, to $391.3 million in fiscal year 2014 and decreased by $1.5 million, or 0.4 percent, to $374.3 million in fiscal year 2013. The decrease in fiscal year 2013 was mainly attributable to a decrease of $8.8 million in the University's general funds from legislative appropriations and gubernational restrictions offset by a $7.0 million reduction in executive restrictions.

The University's net investment income for fiscal year 2014, as compared to fiscal year 2013, increased by $19.3 million, resulting in net investment income of $51.5 million. The fiscal year 2014 increase was mainly due to the increase in realized gain of $17.0 million. The University's net investment income for fiscal year 2013, as compared to fiscal year 2012, increased by $30.9 million, resulting in net investment income of $32.2 million. The fiscal year 2013 increase was mainly due to the change in unrealized gain of $31.6 million.

The components of net investment income for the years ended June 30, 2014, 2013 and 2012 were as follows (in thousands):

				Increase (Decrease)	
	2014	**2013**	**2012**	**FY 14-13 Change**	**FY 13-12 Change**
Interest and dividend income	$ 7,621	$ 9,011	$ 9,408	$ (1,390)	$ (397)
Net realized gains (losses)	21,904	4,878	7,052	17,026	(2,174)
Net unrealized gains (losses)	22,826	19,102	(12,494)	3,724	31,596
Other, net	(831)	(785)	(2,694)	(46)	1,909
	$ 51,520	$ 32,206	$ 1,272	$ 19,314	$ 30,934

Private gifts, most of which are restricted as to use, increased by $25.9 million, or 74 percent, to $61.1 million in fiscal year 2014 when compared to $35.2 million in fiscal year 2013. The fiscal year 2014 increase was primarily attributable to an increase in unrealized gains. Private gifts, most of which are restricted as to use, decreased by $4.8 million, or 12.0 percent, to $35.2 million in fiscal year 2013 when compared to $40.0 million in fiscal year 2012. The fiscal year 2013 decrease was primarily attributable to a decrease in unrealized gains. The University will continue to aggressively develop private revenue sources and cultivate the increasing trend in private gifts received.

Expenses Associated with Core Activities

The University is committed to recruiting and retaining outstanding faculty and staff, and providing compensation equivalent to peer institutions and nonacademic employers. Of the University's operating expenses, approximately 69.0 percent during fiscal year 2014, 68.3 percent during fiscal year 2013, and 67.9 percent during fiscal year 2012 were related to compensation and benefits.

Compensation and benefits increased by $21.3 million, or 2.0 percent, to $1,070.4 million in fiscal year 2014 as compared to fiscal year 2013, and increased by $21.9 million, or 2.1 percent, to $1,049.1 million in fiscal year 2013 as compared to fiscal year 2012.

This fiscal year 2014 increase was attributable to three factors: pay increases and an increase in the number of employees offset by a decrease of postretirment health and life insurance benefits during the year. The University recognized $106.8 million, $142.6 million and $136.1 million related to postretirement health and life insurance benefits in fiscal year 2014, 2013 and 2012, respectively. The decrease was due to enacted Act 268, SLH 2013 during the 2013 legislative session. The Act requires the State and the University to establish a phased annual contribution schedule starting in fiscal year 2015 to fully fund the Annual Required Contribution as determined by an actuary within 30 years. As a result, the discount rate used to calculate the liability has changed from 4% to 7%, which resulted in a lower cost in fiscal year 2014.

Supplies, services and cost of goods sold expense includes service fees, printing and binding, advertising, dues and subscriptions, controlled property acquisitions, cost of goods sold for resale items and other miscellaneous operating costs. In fiscal year 2014, such expenses decreased by $5.2 million, or 2.1 percent, to $238.7 million as compared to fiscal year 2013. In fiscal year 2013, such expenses increased by $8.2 million, or 3.5 percent, to $243.9 million as compared to fiscal year 2012. The increase was primarily attributable to increases in other services and supplies and materials, offset by decreases in cost of goods sold for resale items and non-capital asset acquisitions.

The University is committed to providing affordable yet quality education to its students. To accomplish this goal, student aid is provided in the form of scholarships and fellowships, including tuition and fee waivers applied to student accounts and reflected as reductions and allowances to student tuition and student housing revenues, and scholarship and fellowship payments (mostly academic and athletic) made directly to students. Total aid to students increased by $8.2 million, or 4.8 percent, to $180.0 million in fiscal year 2014 as compared to the prior fiscal year 2013. Total aid to students increased by $7.7 million, or 4.7 percent, to $171.8 million in fiscal year 2013 as compared to the prior fiscal year 2012. Increases are consistent and in line with increased enrollment and with scheduled tuition increases.

The University depreciates its capital assets over their estimated useful lives using the straight-line method. Depreciation expense increased by $2.8 million, or 2.7 percent, to $109.5 million during fiscal year 2014 as compared to fiscal year 2013, and increased by $14.7 million, or 16.0 percent, to $106.6 million during fiscal year 2013 as compared to fiscal year 2012. The increase in 2014 and 2013 was primarily attributable to building and equipment additions, and reclassifications from construction in progress.

Transfers from State amounted to $183.5 million, $172.8 million and $179.5 million in fiscal year 2014, 2013 and 2012, respectively. Transfers from State were primarily for fringe benefit expenses and the University's Cancer Center cigarette stamp tax collections.

The Cigarette Tax and Tobacco Tax Law, HRS section 245-15, effective July 1, 2006, established the Hawai'i Cancer Research Special Fund. The cigarette stamp tax, beginning October 1, 2006, provides revenues to support research and operating expenses to this fund as follows:

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

Other Nonoperating Activities

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

In fiscal year 2014, capital gifts and grants, including state capital appropriations and transfers, decreased by $1.7 million, or 1.2 percent, to $146.1 million compared to $147.8 million in fiscal year 2013. The State of Hawai'i capital appropriations increased by $13.8 million, or 10.8 percent to $142.0 million. Other capital gifts and grants during fiscal year 2014 included federal capital grants of $15.9 million and private capital gifts and grants of $5.9 million.

In fiscal year 2013, capital gifts and grants, including state capital appropriations and transfers, decreased by $21.5 million, or 12.7 percent, to $147.8 million compared to $169.3 million in fiscal year 2012. The State of Hawai'i capital appropriations decreased by $9.2 million, or 6.7 percent to $128.2 million. Other capital gifts and grants during fiscal year 2013 included federal capital grants of $18.5 million and private capital gifts and grants of $1.1 million.

Cash Flows

The Consolidated Statements of Cash Flows presents the University's significant sources and uses of cash and cash equivalents, including restricted cash balances. The University's cash is comprised primarily of cash held with the state treasury, demand deposits, and time certificates of deposit with an original maturity of three months or less. A summary of the University's cash flows for the years ended June 30, 2014, 2013 and 2012 are as follows (in thousands):

	2014	2013	2012	FY 14 vs. 13 Change	FY 13 vs. 12 Change
Cash received from operations	$ 799,092	$ 778,370	$ 787,231	$ 20,722	$ (8,861)
Cash payments for operations	(1,314,062)	(1,331,830)	(1,218,760)	17,768	(113,070)
Net cash used in operating activities	(514,970)	(553,460)	(431,529)	38,490	(121,931)
Net cash provided by noncapital financing activities	508,527	501,084	511,811	7,443	(10,727)
Net cash used in capital and related financing activities	(50,446)	(110,101)	(228,103)	59,655	118,002
Net cash provided by investing activities	42,492	185,614	131,679	(143,122)	53,935
Net (decrease) increase in cash	(14,397)	23,137	(16,142)	(37,534)	39,279
Cash					
Beginning of year	78,704	55,567	71,709	23,137	(16,142)
End of year	$ 64,307	$ 78,704	$ 55,567	$ (14,397)	$ 23,137

The University's cash and cash equivalents decreased by $14.4 million, or 18.3 percent, to $64,307 million at June 30, 2014 from $78.7 million at June 30, 2013. During fiscal year 2014, $515.0 million in cash was used for operating activities, offset by $508.5 million in cash provided by noncapital financing activities. The University's cash and cash equivalents increased by $23.1 million, or 41.6 percent, to $78.7 million at June 30, 2013 from $55.6 million at June 30, 2012. During fiscal year 2013, $553.5 million in cash was used for operating activities, offset by $501.1 million in cash provided by noncapital financing activities.

Net cash used in capital and related financing activities amounted to $50.4 million, $110.1 million and 228.1 million in fiscal years 2014, 2013 and 2012, respectively.

The $59.7 million decrease in cash used in capital and related financing activities in fiscal year 2014 as compared to fiscal year 2013 was primarily attributable to a decrease in capital asset purchased of $120.6 million, offset by a decrease in capital appropriations of $54.9 million and proceeds from notes payable. The $118.0 million decrease in cash used in capital and related financing activities in fiscal year 2013 as compared to fiscal year 2012 was primarily attributable to an increase in capital appropriations of $26.1 million and a decrease in capital asset purchases of $88.5 million.

Looking Forward

The University of Hawaii plays a vital role for the State of Hawaii as its sole provider of public higher education institution. Looking toward the future, the state economy continues to improve. The visitor and construction industries are growing, and the unemployment rate has declined to 4.2% in September 2014. While caution is being exercised in light of federal program cutbacks as well as realignment of research and development funding to improve health care and expanding coverage through the Affordable Care Act and international economic uncertainties, management believes that the University is positioned to maintain its financial condition and level of service to students, the research community, and the State of Hawai'i.

Enrollment and Tuition
System-wide enrollment decreased slightly with 57,052 students in fall 2014 as compared to 58,941 in the prior year, as the State's improving economy continues to provide employment opportunities. On October 26, 2011, the University's Board of Regents approved a new tuition increase schedule for Fall 2012 through Spring 2017 following its increase schedule for the previous six years. This new schedule continues to provide stability and predictability for the University and its students while preserving affordability and access as the sole provider of public higher education in the State of Hawai'i. The continued implementation of this schedule is under continuing review by the Board of Regents.

Extramural Funds
Funding profile uncertainties with sponsored agencies, federal sequestration and the realignment of research and development ("R&D") funding priorities have impacted the research community nationwide. Fiscal year 2014 extramural awards closed at $392 million, which represents a four percent reduction from $409 million in fiscal year 2013. However, the University made significant progress in diversifying the funding stream and received a $40 million award from the Simons Foundation, the largest private foundation gift the University has received. In addition, the University launched its first proof of concept center, XLR8UH, to create new funding opportunities and position the University's research enterprise to further the State of Hawaii's economy.

Facilities and Infrastructure
The University has a strong commitment to its core facilities and infrastructure. In the past two years, the University completed a number of major and critical projects: a new campus at West O'ahu, an innovative Cancer Research Center, an Information Technology building that serves all 10 campuses, and new buildings at the Hilo campus, Maui College and Windward Community College. The State of Hawaii legislature continues its strong support to the University's capital improvements and provided general obligation bond appropriations for capital improvement projects for the 2013–2015 and 2011–2013 fiscal biennia of approximately $347 million and $276 million, respectively.

Fundraising
The University launched a seven-year $500 million fundraising campaign and began its "quiet phase" on July 1, 2011. Since the launch of the campaign, the University has consistently exceeded its fundraising goals. In fiscal year 2014, the University raised $98.6 million as compared to $66.3 million in fiscal year 2013 and $66.9 million in fiscal year 2012.

State General Fund Appropriations
The Hawai'i Governor supported, and the State legislature appropriated, an increase of $24.5 million in general funds for the University System Fiscal Year 2015 operating budget. These funds will be allocated throughout the campuses to fund faculty salary increases that were negotiated through collective bargaining. Future general fund appropriations are dependent upon quarterly State Council on Revenues projections and priorities yet to be articulated by the newly elected Governor and State legislature. The Board of Regents has been working closely with the University leadership in reviewing the Fiscal Year 2015 campus financial operating plans, to include campus operating reserves to ensure sufficient operating funds for Academic Year 2014–2015, and beyond.

New Campuses
UH-West O'ahu's new campus in Kapolei opened in the Fall of 2012. Headcount enrollment has increased in Fall 2014, 2013 and 2012 by 12.7%, 18.2% and 20.2%, respectively, over the previous year.

The University of Hawai'i and the Hawai'i Island community broke ground on the long anticipated Hawai'i Community College Pālamanui campus in Kona on May 28, 2013. With the opening of UH-West O'ahu's Kapolei campus, West Hawai'i is the only major community without a permanent higher education facility. Pālamanui will be the first permanent, physical University of Hawai'i campus in the area. The University continues to pursue its mission to make higher education accessible to all communities in the state.

University of Hawai'i 15 to Finish Campaign
UH's Hawai'i Graduation Initiative ("HGI") is focused on increasing the number of citizens with a college degree to support a highly skilled workforce and promote the economic vitality of the State.

As part of HGI, the *15 to Finish* initiative encourages students attending or planning to attend the University's 2- or 4-year campuses to take 15 credits per semester to graduate on time in four years for a baccalaureate degree or two years for an associate degree. Across the nation, the norm has been to take 12 credits per semester and one to three additional years to complete a degree. The University of Hawai'i was the first university system in the nation to put together a comprehensive strategy to encourage students to take 15 credits. Supported by research showing that students taking 15 credits are likely to perform as well better than students taking fewer than 15 credits, the communications campaign and changes in individual campus procedures have made a significant difference. The overall strategy has been endorsed by Complete College America and adopted by 15 other states.

Overall, the percentage of first-time freshmen taking 15 or more credits at the UH four-year campuses (UH Mānoa, UH Hilo and UH West O'ahu) has increased from 36.4% to 55.5% since the *15 to Finish* initiative began.

The percentage of first-time freshmen at the UH four-year campuses taking 30 or more credits in the academic year (including the spring semester and summer session) has increased from 44.1% to 59.9%: UH Mānoa: 47.2% to 67.7%; UH Hilo: 37.7% to 44.6%; UH West O'ahu: 15.0% to 32.6%. Taking 30 credits per academic year accomplishes the same objective as 15 credits in the fall and spring semesters.

The percentage of first-time freshmen at the UH Community Colleges taking 15 or more credits, although low compared to the UH four-year campuses, has nearly doubled, from 7.5% before the initiative began to 13.0% in fall 2014. The most remarkable change has occurred at Windward CC, where the percentage has increased from 3.7% to over 22%.

At UH Mānoa, where the campus instituted a Premier Registration process that gives freshmen the option to register early with a pre-selected schedule of 15 credits, the most remarkable change has occurred. The percentage of first-time freshmen at UH Mānoa taking 15 or more credits increased in Fall 2014 to 63.2%. This figure compares to an average of 37.5% for the combined Fall 2009 to Fall 2011 cohorts, before the *15 to Finish* initiative began in fall 2012.

Hawai'i Innovation Initiative

The University of Hawai'i is working in partnership with community and business groups to build the state's research industry through the Hawai'i Innovation Initiative. The goal is to build a $1 billion research enterprise in Hawai'i. The university, in partnership with the business community, plans to create innovation clusters that link fundamental scientific discovery with applied research and economic development. The university will also provide the training required for technological innovation and economic development to enable Hawai'i's citizens to lead and participate in this sector. The Hawai'i Innovation Initiative will focus on the following hubs: astronomy, ocean sciences, health sciences and wellness, data intensive sciences and engineering, agriculture, and sustainability sciences including energy.

Impact of the University on the State of Hawai'i's Economy

In fiscal year 2012, student spending; state and federal government-funded University spending for goods and services; out-of-state visitor spending; and University-related expenditures totaled $2.32 billion, $1.84 billion of which was spent locally. Together with additional indirect and induced benefits from these activities, the University had a total impact of $3.61 billion on Hawai'i's economy.[1]

Overall, the $1.84 billion of local education related expenditures attributable to the University generated $3.61 billion in local business sales, $1.1 billion in employee earnings, $194 million in state tax revenues, and nearly 30,000 jobs in Hawai'i in fiscal year 2012. This represented approximately 4.8% of total (non-farm) jobs, 3.6% of worker earnings, and 3.2% of total state tax revenues in the economy of Hawai'i.

The University represents about 4.0% of Hawai'i GDP (estimated). By comparison, in 2011, retail trade's contribution to Hawai'i GDP was 6.9%; construction, 5.6%; the health care industry, 6.7%; hotels and other accommodations and food services, 8.1%; utilities, 2.3%; and agriculture, 0.7%. The University of Hawai'i system is a major economic sector in Hawai'i, and due to the significant proportion of spending on research, is expected to play an even larger role as the Hawai'i Innovation Initiative progresses.

[1] **Source:** http://www.uhero.hawaii.edu/assets/UHSystemImpactReport-Public.pdf

University of Hawai'i
State of Hawai'i
Consolidated Statements of Net Position
June 30, 2014 and 2013
(All dollars reported in thousands)

	2014	2013
Assets and Deferred Outflows of Resources		
Current assets		
Cash and cash equivalents	$ 64,307	$ 78,704
Operating investments	278,046	298,841
Due from State of Hawai'i	924	329
Accounts receivable, net	89,301	96,109
Current portion of notes and contributions receivable, net	17,788	15,266
Accrued interest receivable	450	680
Inventories	11,608	12,288
Prepaid expenses and other current assets	11,989	24,013
Total current assets	474,413	526,230
Noncurrent assets		
Due from State of Hawai'i	349,084	338,108
Endowment and other investments	499,460	468,120
Notes and contributions receivable, net	52,116	24,637
Capital assets, net	2,071,850	2,027,120
Other noncurrent assets	17,703	16,439
Total noncurrent assets	2,990,213	2,874,424
Total assets	3,464,626	3,400,654
Deferred outflows of resources		
Deferred loss on refunding	5,576	5,883
Total deferred outflows of resources	5,576	5,883
Total assets and deferred outflows of resources	$ 3,470,202	$ 3,406,537
Liabilities and Net Position		
Current liabilities		
Accounts payable	$ 71,078	$ 76,431
Accrued payroll and fringe benefits	57,496	54,835
Advances from sponsors	26,636	35,202
Unearned revenue	44,010	38,497
Due to State of Hawai'i	6,272	6,303
Current portion of long-term liabilities	49,186	47,369
Other current liabilities	8,905	11,117
Total current liabilities	263,583	269,754
Noncurrent liabilities		
Accrued vacation	44,341	43,550
Accrued workers' compensation	8,918	9,277
Other postemployment benefits	579,196	514,364
Due to State of Hawai'i	380	555
Revenue bonds payable	578,585	593,930
Premium on bonds payable	3,802	4,696
Note payable	17,000	16,500
Other noncurrent liabilities	12,871	17,014
Total noncurrent liabilities	1,245,093	1,199,886
Total liabilities	1,508,676	1,469,640
Commitments and contingencies		
Net position		
Net investment in capital assets	1,519,669	1,482,274
Restricted		
Nonexpendable	218,133	207,338
Expendable	598,070	530,130
Unrestricted	(374,346)	(282,845)
Total net position	1,961,526	1,936,897
Total liabilities and net position	$ 3,470,202	$ 3,406,537

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

University of Hawai'i
State of Hawai'i
Consolidated Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2014 and 2013
(All dollars reported in thousands)

	2014	2013
Operating revenues		
Student tuition and fees	$ 377,550	$ 362,175
Less: Scholarship allowances	129,173	120,364
Net student tuition and fees	248,377	241,811
Federal appropriations, grants and contracts	357,185	352,805
State and local grants and contracts	30,072	28,946
Nongovernmental sponsored programs	39,799	33,042
Sales and services of educational departments, other	32,943	39,074
Auxiliary enterprises		
Bookstores	23,638	25,097
Student housing (net of scholarship allowances of $1,503 and $1,996)	29,644	26,438
Other auxiliary enterprises revenues	44,654	42,602
Other operating revenues	2,935	2,989
Total operating revenues	809,247	792,804
Operating expenses		
Compensation and benefits	1,070,419	1,049,129
Supplies, services and cost of goods sold	238,687	243,893
Depreciation	109,458	106,631
Telephone and utilities	79,860	79,787
Scholarships and fellowships	50,835	51,414
Travel expenses	33,279	33,648
Repairs and maintenance	26,907	24,597
Rental expenses	13,043	14,096
Other operating expenses	37,368	38,587
Total operating expenses	1,659,856	1,641,782
Operating loss	(850,609)	(848,978)
Nonoperating revenues (expenses)		
State appropriations	391,266	374,280
Federal Pell grants	67,265	67,826
Private gifts	61,127	35,206
Net investment income	51,520	32,206
Interest expense	(26,690)	(23,452)
Net transfers from (to) State of Hawai'i for		
Fringe benefits	153,919	142,859
Tobacco settlement	2,644	2,736
Interest on Tobacco settlement	(5)	(10)
Hawaii Barrel Tax	201	2,776
School of Nursing	983	88
University of Hawai'i Cancer Center	7,893	6,657
Loss on disposal of capital assets	(4,486)	(6,845)
Other, net	362	261
Net nonoperating revenues before capital and endowment additions (deductions)	705,999	634,588
Capital – state appropriations	142,029	128,186
Capital – federal grants/subsidies	15,865	18,528
Capital – gifts and grants	5,901	1,126
Net transfers to State of Hawai'i for capital assets	(17,727)	(68)
Transfers from State of Hawai'i, Tobacco settlement	9,926	9,926
Transfers from State of Hawai'i, University of Hawai'i Cancer Center	7,899	7,725
Transfers to Federal – capital assets	(4,156)	-
Additions to permanent endowments	9,502	14,670
Total other revenues	169,239	180,093
Net nonoperating revenues	875,238	814,681
Change in net position	24,629	(34,297)
Net position		
Beginning of year (restated)	1,936,897	1,971,194
End of year	$ 1,961,526	$ 1,936,897

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

University of Hawai'i
State of Hawai'i
Consolidated Statements of Cash Flows
Years Ended June 30, 2014 and 2013
(All dollars reported in thousands)

	2014	2013
Cash flows from operating activities		
Student tuition and fees	$ 247,158	$ 238,851
Grants and contracts	416,854	406,691
Other revenues	135,080	132,828
Payments to employees	(847,053)	(807,843)
Payments to suppliers and other	(416,174)	(472,573)
Payments for scholarships and fellowships	(50,835)	(51,414)
Net cash used in operating activities	(514,970)	(553,460)
Cash flows from noncapital financing activities		
State appropriations	390,671	374,390
Gifts and grants for other than capital purposes	106,180	114,413
Transfer from State of Hawai'i for		
Hawaii Barrel Tax	201	2,776
School of Nursing	983	88
Tobacco Settlement	2,644	2,736
University of Hawai'i Cancer Center	7,893	6,657
Transfers to State of Hawai'i for		
Interest on Tobacco Settlement	(5)	(10)
Other receipts (disbursements)	(40)	34
Net cash provided by noncapital financing activities	508,527	501,084
Cash flows from capital and related financing activities		
Capital appropriations	131,053	185,919
Capital gifts and grants	21,748	17,889
Proceeds from note payable	500	16,500
Purchases of capital assets	(182,112)	(302,717)
Proceeds from sale of capital assets	5,912	-
Principal paid on capital debt	(14,906)	(14,399)
Interest paid on capital debt	(30,466)	(30,944)
Transfer from State of Hawai'i, Tobacco settlement	9,926	9,926
Transfer from State of Hawai'i, University of Hawai'i Cancer Center	7,899	7,725
Net cash used in capital and related financing activities	(50,446)	(110,101)
Cash flows from investing activities		
Interest and dividends on investments, net	7,888	8,743
Proceeds from sales and maturities of investments	1,239,893	1,264,619
Purchase of investments	(1,205,289)	(1,087,748)
Net cash provided by investing activities	42,492	185,614
Net increase (decrease) in cash and cash equivalents	(14,397)	23,137
Cash and cash equivalents		
Beginning of year	78,704	55,567
End of year	$ 64,307	$ 78,704

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

University of Hawai‘i
State of Hawai‘i
Consolidated Statements of Cash Flows
Years Ended June 30, 2014 and 2013
(All dollars reported in thousands)

	2014	2013
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	$ (850,609)	$ (848,978)
Adjustments to reconcile operating loss to net cash used in operating activities		
On behalf payments by State for fringe benefits	153,919	142,859
Depreciation expense	109,458	106,631
Bad debt expense, net	2,651	4,025
Changes in operating assets and liabilities		
Accounts receivable	4,458	(19,550)
Notes and contributions receivable	497	726
Inventories	680	428
Prepaid expenses and other assets	10,097	(13,555)
Accounts payable	(6,063)	(31,690)
Accrued payroll and benefits	4,743	(2,705)
Accrued workers' compensation liability	(430)	(187)
Advances from sponsors	(8,566)	2,778
Other postemployment benefits	64,832	100,902
Other, net	(637)	4,856
Net cash used in operating activities	$ (514,970)	$ (553,460)
Supplemental information of noncash transactions		
Noncash contributions	$ 1,437	$ 10,263
Net transfers to State of Hawai‘i for capital assets	(17,727)	(68)
Transfers to Federal for capital assets	(4,156)	-
Accounts payable for capital assets	29,963	29,254

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

1. Organization and Summary of Significant Accounting Policies

Financial Reporting Entity

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

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

Similarly, the University is fiscally dependent upon the State of Hawai'i (the "State") and therefore, the State is financially accountable for the University as defined by GASB Statement No. 14. Accordingly, the University's financial information is discretely presented as a component unit within the State's comprehensive annual financial report ("CAFR").

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

Basis of Presentation

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

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

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

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

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

Investments
Investments in money market funds, fixed income securities, equity securities, and mutual funds with readily determinable fair values are reported at fair value based on quoted market prices. Investments in auction rate securities are reported at par value, which approximates fair value based on successful auctions at or near fiscal year-end. Investment agreements, absolute return funds and real assets are reported at fair value, which is generally based on information provided by the respective external investment manager at the most recent valuation date and from the valuation date to fiscal year-end, if applicable. Investments in limited partnerships and real estate are not readily marketable and involve assumptions and methods that are reviewed by management. Because these investments are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investment existed. Unrealized gains and losses on investments are included in the Consolidated Statements of Revenues, Expenses and Changes in Net Position. Realized gains and losses are computed as the difference between the proceeds of the sale and the cost basis of the investment sold. The calculation of realized gains and losses is independent of the calculation of net changes in the fair value of investments.

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

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

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

Perpetual Trusts
The Foundation is the beneficiary of certain perpetual trusts held and administered by others. The fair value of the estimated future cash receipts from the trusts are recognized as assets and contribution revenues at the dates the trusts are established. Distribution revenues from the trusts are recorded as investment income and the carrying value of the assets is adjusted for changes in fair value.

Split Interest Agreements

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

Accounts Receivable

Accounts receivable are initially recorded at the amount invoiced or otherwise due and normally do not bear interest. The University maintains an allowance for doubtful accounts to reduce receivables to their estimated collectible amount. Management estimates the allowance for uncollectible receivables based on a specific review of customer balances, the overall aging of outstanding balances, historical collection experience and current business and economic conditions. Generally, accounts past due by more than 30 days are considered delinquent. Delinquent accounts in excess of two years are written off upon approval of University general counsel and when, in the judgment of management, they are deemed uncollectible based on an evaluation of the specific circumstances.

Contributions

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

Capital Assets

Capital assets are recorded at cost, or if donated, at an appraised value at the date of the gift. Depreciation of capital assets is provided for on a straight-line basis over the estimated useful lives (3 to 100 years) of the respective assets. The University's policy is to capitalize tangible, nonexpendable personal property having an estimated useful life of more than one year. Interest incurred on tax-exempt construction financing, net of investment income on any unspent financing proceeds, is capitalized as a cost of construction. When taxable debt is incurred specifically for a project, interest is capitalized on amounts expended on the project using the weighted-average cost of outstanding borrowings. The capitalization of interest ceases when the project is substantially complete or construction activity is suspended for more than a brief period. The University incurred interest cost of $29,720 and $30,311 for the years ended June 30, 2014 and 2013, respectively, of which capitalized interest as a cost of construction amounted to $3,030 and $6,758, respectively. The University does not capitalize works of art or historical treasures that are held for exhibition, education, research and public service. These collections are neither disposed of for financial gain nor encumbered. Accordingly, such collections are not recognized or capitalized for financial statement purposes. Maintenance and repairs, as well as minor replacements, renewals and betterments, are charged to operations. Major renewals, replacements and betterments are capitalized in the year incurred. Capital assets retired or otherwise disposed of are removed from the appropriate asset and related accumulated depreciation accounts. Gains and losses on disposals and the net book value of transfers of capital assets are reflected in operations.

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

Deferred Loss on Refunding
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.

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

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

Other Postemployment Benefits
The University applies the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which requires accrual-based measurement and recognition and disclosure of other postemployment benefits ("OPEB") expense, such as retiree medical and dental costs, over the employees' years of service, along with the related liability.

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

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

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

- **Restricted**:

  - Nonexpendable – Net position subject to externally imposed stipulations that they be maintained permanently by the University, which includes the University's permanent endowment funds.

  - Expendable – Net position that is restricted for specific purposes by sponsors, donors or law. Restrictions in these assets are released when the University complies with the stipulations required by the sponsor, donor or legislative act.

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

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

Net Position Restricted by Enabling Legislation
GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34*, requires that limitations on the use of net position imposed by enabling legislation be reported as restricted net position. GASB Statement No. 46 also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Restricted net position at June 30, 2014 and 2013 amounted to $816,203 and $737,468, respectively, of which $320,398 and $313,750 were restricted by enabling legislation for capital activity.

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

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

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

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

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

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

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

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

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

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

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

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

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

New Accounting Pronouncements

In 2014, the University adopted GASB Statement No.65, *Items Previously Reported as Assets and Liabilities*. This Statement provides financial reporting guidance for proper classification and recognition of previously reported assets and liabilities as deferred inflows or deferred outflows of resources. Management has adopted the new standard in the University's financial statements. Due to the adoption of GASB Statement No. 65, in fiscal year 2014, the 2013 financial statements were restated. The beginning net position as of July 1, 2013 was restated by approximately $929 from $1,972,123 to $1,971,194.

The GASB issued Statement No. 66, *Technical Corrections – 2012*. The objective of this Statement is to enhance usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The requirements of this Statement are effective for reporting periods beginning after December 15, 2012. This Statement did not have a material effect on the University's financial statements.

The GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, issued in June 2012. This Statement revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2014. The University is currently evaluating this accounting pronouncement.

The GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The Statement amends and addresses an issue regarding application of the transition provisions of GASB Statement No. 68. The requirements of this Statement are effective for reporting periods beginning after June 15, 2014. The University is currently evaluating this accounting pronouncement.

(All dollars reported in thousands)

Reclassifications

Certain amounts in the 2013 consolidated financial statements have been reclassified to conform to the 2014 presentation. Such reclassifications, excluding implementation of GASB 65, had no impact on the 2013 change in net position as previously reported, however did impact operating loss and net nonoperating revenues.

	2013 As Previously Reported	Reclassifications	2013 Revised
Net position			
Net investment in capital assets	$ 1,492,599	$ (10,325)	$ 1,482,274
Restricted – expendable	526,584	3,546	530,130
Unrestricted	(288,796)	5,951	(282,845)
Operating revenues			
Federal appropriations, grants and contracts	420,631	(67,826)	352,805
Sales and services of educational departments, other	54,105	(15,031)	39,074
Auxiliary enterprises			
Bookstores	26,812	(1,715)	25,097
Other auxiliary enterprises revenue	32,232	10,370	42,602
Total operating revenues	867,006	(74,202)	792,804
Operating expenses			
Compensation and benefits	1,049,129	105	1,049,234
Supplies, services and cost of goods sold	252,203	(8,310)	243,893
Telephone and utilities	79,796	(9)	79,787
Travel expenses	33,653	(5)	33,648
Repairs and maintenance	24,606	(9)	24,597
Rental expenses	14,310	(214)	14,096
Other operating expenses	36,416	2,171	38,587
Total operating expenses	1,648,158	(6,376)	1,641,782
Operating loss	(781,152)	(67,826)	(848,978)
Nonoperating revenues (expenses)			
Federal Pell grants	-	67,826	67,826
Interest expense	(23,553)	101	(23,452)
Net nonoperating revenues before capital and endowment additions (deductions)	566,661	67,927	634,588
Net nonoperating revenues	746,754	67,927	814,681
Cash flows from operating activities			
Net cash used in operating activities	(485,634)	(67,826)	(553,460)
Cash flows from noncapital financing activities			
Net cash provided by noncapital financing activities	433,258	67,826	501,084

2. Cash and Investments

The carrying amounts of cash and cash equivalents and time certificates of deposit held outside of the State Treasury as of June 30, 2014 and 2013, classified as cash and cash equivalents and operating investments, were $267,023 and $302,424, with corresponding bank balances of $285,460 and $303,073, respectively. The portion of such bank balances covered by the Federal Deposit Insurance Corporation or by collateral held by the State Director of Finance in the name of the University totaled $280,632 at June 30, 2014 and $300,182 at June 30, 2013. Additional cash equivalent balances of $2,180 at June 30, 2014 and $7,478 at June 30, 2013 represent deposits with investment brokers covered by the Securities Investor Protection Corporation and additional insurance provided by the investment brokers.

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

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

As a result of market fluctuations, the fair market value of certain donor-restricted endowments was less than the historical cost of such funds by $2,099 and $5,066 at June 30, 2014 and 2013, respectively. These unrealized losses have been recorded as reductions in unrestricted net position. Future market gains will be used to restore this deficiency in unrestricted net position before any net appreciation above the historical cost value of such funds increases restricted expendable net position.

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

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

The Hawai'i Uniform Prudent Management of Institutional Funds Act ("HUPMIFA"), established under Hawai'i Revised Statute §517E, was enacted by the State of Hawai'i on July 1, 2009. HUPMIFA requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result, the University classifies as restricted nonexpendable net position (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in restricted nonexpendable net position is classified as restricted expendable net position until those amounts are expended and distributed by the University in accordance with its Board-approved spending rate policy and in a manner consistent with the standard of prudence prescribed by HUPMIFA. In fiscal years 2014 and 2013, the University's spending rate policy provided for annual distributions ranging from four percent to five percent of the trailing five-year moving average of the endowment fair value.

Investment management fees incurred by the University during fiscal years 2014 and 2013 approximated $1,500 in each year.

(All dollars reported in thousands)

At June 30, 2014 and 2013, the University's investments were comprised of the following:

	2014		2013	
	Fair Value	Cost	Fair Value	Cost
Money market funds	$ 25,406	$ 25,406	$ 65,243	$ 65,243
Fixed income securities	197,922	199,786	193,744	195,814
Equity securities	5,754	5,137	21,375	17,639
Mutual funds	159,894	149,981	111,965	107,339
Time certificates of deposit	203,014	203,014	224,011	224,011
Limited partnerships	72,645	42,392	49,639	32,104
Absolute return	26,914	22,349	19,833	16,593
Real estate	24,802	23,435	25,336	25,023
Other investments	61,155	48,525	55,815	48,540
Total investments	777,506	720,025	766,961	732,306
Less: Current portion	278,046	277,865	298,841	292,552
Total noncurrent investments	$ 499,460	$ 442,160	$ 468,120	$ 439,754

(All dollars reported in thousands)

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

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

(All dollars reported in thousands)

Changes in the University's investments for the year ended June 30, 2013 were as follows:

	Fair Value	Cost Basis	Net Unrealized Gain (Loss)	Net Realized Gain (Loss)
University Endowment Pool				
End of year	$ 60,234	$ 54,269	$ 5,965	
Beginning of year	56,282	53,993	2,289	
Net change	3,952	276	3,676	$ 1,055
Foundation Endowment Pool				
End of year	225,141	195,464	29,677	
Beginning of year	201,316	189,275	12,041	
Net change	23,825	6,189	17,636	3,008
Associated Students of the University of Hawai'i				
End of year	7,126	6,479	647	
Beginning of year	6,607	6,273	334	
Net change	519	206	313	461
School of Medicine				
End of year	5,099	5,099	-	
Beginning of year	9,087	9,084	3	
Net change	(3,988)	(3,985)	(3)	(2)
University Bond System				
End of year	83,876	83,957	(81)	
Beginning of year	171,290	171,405	(115)	
Net change	(87,414)	(87,448)	34	(158)
Operating investments				
End of year	298,841	298,862	(21)	
Beginning of year	367,279	366,904	375	
Net change	(68,438)	(68,042)	(396)	47
Auction rate securities				
End of year	-	-	-	
Beginning of year	25,500	25,500	-	
Net change	(25,500)	(25,500)	-	-
Other				
End of year	86,644	88,176	(1,532)	
Beginning of year	82,081	81,455	626	
Net change	4,563	6,721	(2,158)	467
Total Investments				
End of year	766,961	732,306	34,655	
Beginning of year	919,442	903,889	15,553	
Net change	$ (152,481)	$ (171,583)	$ 19,102	$ 4,878

(All dollars reported in thousands)

	2014	2013
Summary of net investment income		
Change in unrealized net gain	$ 22,826	$ 19,102
Net realized gain	21,904	4,878
	44,730	23,980
Interest and dividend income	7,621	9,011
Other	655	711
Investment income before management fees	53,006	33,702
Less: Management fees	1,486	1,496
Net investment income	$ 51,520	$ 32,206

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

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

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

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

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

(All dollars reported in thousands)

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

The composition of fixed income securities at June 30, 2014 and 2013, along with credit quality ratings, is summarized below:

		Credit Quality Rating					
	Fair Value	U.S. Govt-Exempt	AAA	AA	A	BBB	Not Rated
2014							
U.S. Treasury	$ 76,926	$ 76,926	$ -	$ -	$ -	$ -	$ -
U.S. government agencies	120,278	-	120,155	123	-	-	-
Corporate bonds	717			78	346	293	-
Mutual bond funds	106,418	-	-	-	-	-	106,418
Total fixed income securities	$ 304,339	$ 76,926	$ 120,155	$ 201	$ 346	$ 293	$ 106,418

		Credit Quality Rating					
	Fair Value	U.S. Govt-Exempt	AAA	AA	A	BBB	Not Rated
2013							
U.S. Treasury	$ 100,046	$ 100,046	$ -	$ -	$ -	$ -	$ -
U.S. government agencies	81,473	-	80,891	308	274	-	-
Corporate bonds	12,225	-	327	1,740	6,794	3,364	-
Mutual bond funds	112,065	-	-	-	-	-	112,065
Total fixed income securities	$ 305,809	$ 100,046	$ 81,218	$ 2,048	$ 7,068	$ 3,364	$ 112,065

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

(All dollars reported in thousands)

At June 30, 2014, the composition of the University's fixed income investments and maturities are summarized below:

		Investment Maturities (in Years)			
	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
U.S. Treasury	$ 76,926	$ 38,166	$ 36,945	$ 1,790	$ 25
U.S. government agencies	120,278	54,930	39,926	11,938	13,484
Corporate bonds	717	95	400	222	-
Mutual bond funds	106,418	32,327	51,695	16,500	5,896
Total fixed income securities	$ 304,339	$ 125,518	$ 128,966	$ 30,450	$ 19,405

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, 2014 and 2013, the University's exposure to foreign currency risk expressed in U.S. dollars was not significant.

3. Accounts Receivable

The composition of accounts receivable at June 30, 2014 and 2013 is summarized as follows:

	2014	2013
U.S. government	$ 58,485	$ 60,301
State and local government	6,403	5,793
Private agencies	7,773	6,764
Other	42,984	47,000
	115,645	119,858
Less: Allowance for uncollectible receivables	26,344	23,749
	$ 89,301	$ 96,109

4. U.S. Government Funding

The federal government reimburses the University for certain overhead costs (e.g., facilities and administrative costs) incurred in support of federally-sponsored programs based on cost reimbursement rates negotiated with the University's cognizant agency, the U.S. Department of Health and Human Services. These reimbursements amounted to approximately $44,142 in 2014 and $46,424 in 2013.

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

(All dollars reported in thousands)

5. Notes and Contributions Receivable

The composition of notes and contributions receivable at June 30, 2014 and 2013 is summarized as follows:

	2014	2013
Student notes		
Federal loan programs	$ 19,079	$ 19,178
State loan programs	8,095	8,311
University loan funds	68	69
Other notes receivable	47	71
Total student and other notes outstanding	27,289	27,629
Less: Allowance for uncollectible receivables	7,954	7,514
Total student and other notes receivable, net	19,335	20,115
Contributions receivable	52,635	20,933
Less: Allowance for uncollectible pledges	1,207	1,045
Less: Discount to present value	859	100
Total contributions receivable, net	50,569	19,788
Total student notes and contributions receivable, net	69,904	39,903
Less: Current portion, net	17,788	15,266
	$ 52,116	$ 24,637

The allowance for uncollectible receivables at June 30, 2014 and 2013 is comprised of:

	2014	2013
Federal Perkins loan program	$ 4,575	$ 4,363
State of Hawai'i Higher Education loans	3,317	3,062
Nursing/Health Profession loans	34	35
Hawai'i Educator loans	-	2
Short-term loans	28	52
	$ 7,954	$ 7,514

Payments on contributions receivable at June 30, 2014 are expected to be collected in:

Less than one year	$ 15,636
One year to five years	36,999
	$ 52,635

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

(All dollars reported in thousands)

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

During the years ended June 30, 2014 and 2013, the University distributed $2,628 and $2,456 in student loans through the U.S. Department of Education Federal Perkins Loan, respectively, and $151,730 and $153,387 in Direct Loan programs, respectively. These distributions and related funding sources are not included as expenses or revenues in the accompanying financial statements.

As discussed in Note 1 to the consolidated financial statements, pledges for permanent endowments that do not meet eligibility requirements, as defined by GASB Statement No. 33, are not recorded as assets until the related gift is received. Accordingly, permanent endowment pledges totaling approximately $9,359 and $3,259 at June 30, 2014 and 2013, respectively, were not recognized as assets in the accompanying consolidated financial statements because of uncertainties with regard to their realizability, valuation, bequest intentions and other conditional promises until the specified conditions are met.

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

6. Inventories

The inventories and the methods of valuation at June 30, 2014 and 2013 are summarized below:

		2014	2013
University of Hawai'i Bookstore merchandise inventory	Lower of cost or market using the first-in, first-out retail inventory method.	$ 8,453	$ 10,339
University of Hawai'i Chemistry Stockroom	Cost applied on the first-in, first-out basis.	1,103	1,088
University of Hawai'i Facilities Management Warehouse	Cost applied on the first-in, first-out basis.	1,034	-
University of Hawai'i Press merchandise inventory	Job order or specific identification method. Books remaining in the inventory after the first year of publication are written off on the straight-line basis over a five-year period.	676	572
University of Hawai'i other inventory	Cost applied on the first-in, first-out basis.	342	289
		$ 11,608	$ 12,288

(All dollars reported in thousands)

7. Capital Assets

A summary of capital assets at June 30, 2014 and 2013 is as follows:

	Beginning Balance	Additions	Deductions	Transfers	Ending Balance
2014					
Nondepreciable capital assets					
Land	$ 14,891	$ 87	$ -	$ 21,233	$ 36,211
Construction in progress	397,825	145,838	6,080	(306,618)	230,965
Total capital assets not being depreciated	412,716	145,925	6,080	(285,385)	267,176
Depreciable capital assets					
Land improvements	122,161	28	-	5,401	127,590
Infrastructure	149,100	552	15,290	36,070	170,432
Buildings	1,964,451	15,062	20,988	233,566	2,192,091
Equipment	366,068	22,529	15,602	10,348	383,343
Library materials	159,466	2,373	-	-	161,839
Total capital assets being depreciated	2,761,246	40,544	51,880	285,385	3,035,295
Less: Accumulated depreciation	1,146,842	109,458	25,679	-	1,230,621
Capital assets, net	$ 2,027,120	$ 77,011	$ 32,281	$ -	$ 2,071,850

	Beginning Balance	Additions	Deductions	Transfers	Ending Balance
2013					
Nondepreciable capital assets					
Land	$ 14,486	$ 405	$ -	$ -	$ 14,891
Construction in progress	545,827	277,206	98	(425,110)	397,825
Total capital assets not being depreciated	560,313	277,611	98	(425,110)	412,716
Depreciable capital assets					
Land improvements	102,014	432	-	19,715	122,161
Infrastructure	107,526	792	-	40,782	149,100
Buildings	1,608,864	14,321	13,695	354,961	1,964,451
Equipment	350,271	18,227	12,082	9,652	366,068
Library materials	157,190	2,276	-	-	159,466
Total capital assets being depreciated	2,325,865	36,048	25,777	425,110	2,761,246
Less: Accumulated depreciation	1,059,241	106,631	19,030	-	1,146,842
Capital assets, net	$ 1,826,937	$ 207,028	$ 6,845	$ -	$ 2,027,120

(All dollars reported in thousands)

Capital assets consist of land, land improvements, infrastructure, buildings, equipment, library materials, and construction in progress. Construction in progress ("CIP") additions represent costs for new projects, net of the amount of capital assets placed in service. CIP is not depreciated until the asset is placed in service. Assets acquired are recorded at cost, or if donated, at appraised value at the date of the gift. Land parcels comprising 1,581 acres, or 93 percent of the University's property, are recorded at the State's value of $1 per parcel. Assets owned by the federal government, although in the custody of the University, are not included in the capital asset total.

The State Department of Accounting and General Services ("DAGS") administers certain of the University's construction projects. Upon completion, the University records the total project cost, including amounts funded from state and federal sources. No capital assets were transferred to the University from DAGS in 2014 or 2013.

8. Other Noncurrent Assets

Other noncurrent assets at June 30, 2014 and 2013 were comprised of:

	2014	2013
Interest in beneficial trusts held by others	$ 15,159	$ 13,912
Prepaid bond insurance	337	355
Other	2,207	2,172
	$ 17,703	$ 16,439

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

Amounts due from and due to the State of Hawai'i at June 30, 2014 and 2013 were as follows:

	2014		2013	
	Due from	Due to	Due from	Due to
State appropriations for current operations	$ 924		$ 329	
State capital appropriations – noncurrent	349,084		338,108	
Total due from State of Hawai'i	$ 350,008		$ 338,437	
Imprest/petty cash advances		$ 86		$ 95
Advance		6,000		6,000
General obligation bonds – current		176		167
Employee fringe adjustments		10		41
Due to State of Hawai'i – current		6,272		6,303
General obligation bonds – noncurrent		380		555
Total due to State of Hawai'i		$ 6,652		$ 6,858

(All dollars reported in thousands)

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

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

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

Activity related to amounts due to the State of Hawai'i for general obligation bonds for the year ended June 30, 2013 is as follows:

	Original Amount	Beginning Balance	Principal Repayment	Ending Balance
Series DB (interest rate, 2.80% to 5.25%)				
Student Housing				
Mānoa	$ 731	$ 446	$ 80	$ 366
Hilo	143	87	16	71
Parking Structure Phase I	425	260	47	213
	1,299	793	143	650
Series DG (interest rate, 5.00%)				
Student Housing				
Mānoa	82	50	9	41
Hilo	16	9	2	7
Parking Structure Phase I	47	29	5	24
	145	88	16	72
	$ 1,444	$ 881	$ 159	$ 722

(All dollars reported in thousands)

General obligation bonds are payable in annual installments, including semi-annual interest payments, with final payment due in July 2017. The bonds mature in designated numerical sequence and are payable from the operations of the University. The interest and principal payments are due as follows:

	Principal	Interest
Series DB	September 1	March 1 and September 1
Series DG	July 1	January 1 and July 1

At June 30, 2014, principal and interest maturities on general obligation bonds for each of the next five years, and the next subsequent five-year period and thereafter are as follows:

	Principal	Interest
Year ending June 30,		
2015	$ 176	$ 3
2016	185	1
2017	195	-
	$ 556	$ 4

The general obligation bonds have provisions for early redemption. The premiums on bond redemption, as a percentage of the bond principal redeemed, range from 0.5 percent to 2 percent.

In June 2005, the State issued $772,600 in general obligation Series DG (refunding bonds), of which the University's portion was approximately $145, with a five percent interest rate to advance refund approximately $152 (University's portion) of outstanding general obligation Series CG bonds (refunded bonds) which have been partially defeased. The net proceeds from the issuance of the refunding bonds were placed in an irrevocable trust and were used to purchase securities of the United States government at various interest rates and maturities sufficient to meet the debt service requirements of the refunded bonds.

In September 2003, the State issued $188,700 in general obligation Series DB bonds (refunding bonds) of which the University's portion was approximately $1,299, with interest rates ranging from 2.80 percent to 5.25 percent to advance refund approximately $1,299 (University's portion) of outstanding general obligation Series CG bonds (refunded bonds) which have been partially defeased. The net proceeds from the issuance of the refunding bonds were placed in an irrevocable trust and were used to purchase securities of the United States government at various interest rates and maturities sufficient to meet the debt service requirements of the refunding bonds.

(All dollars reported in thousands)

11. Long-Term Liabilities

Long-term liability activity for the years ended June 30, 2014 and 2013 is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
2014					
Bonds payable					
Revenue bonds payable	$ 608,670	$ -	$ 14,740	$ 593,930	$ 15,345
Other liabilities					
Workers' compensation	14,698	3,866	4,296	14,268	5,350
Accrued vacation	70,758	26,843	24,769	72,832	28,491
Postretirement health care/life insurance benefits (Note 15)	514,364	106,832	42,000	579,196	-
Note payable	16,500	500	-	17,000	-
Total other liabilities	616,320	138,041	71,065	683,296	33,841
Total long-term liabilities	$ 1,224,990	$ 138,041	$ 85,805	$ 1,277,226	$ 49,186
2013					
Leases and bonds payable					
Revenue bonds payable	$ 622,910	$ -	$ 14,240	$ 608,670	$ 14,740
Other liabilities					
Workers' compensation	14,885	4,072	4,259	14,698	5,421
Accrued vacation	74,602	25,410	29,254	70,758	27,208
Postretirement health care/life insurance benefits (Note 15)	413,462	142,602	41,700	514,364	-
Note payable	-	16,500	-	16,500	-
Total other liabilities	502,949	188,584	75,213	616,320	32,629
Total long-term liabilities	$ 1,125,859	$ 188,584	$ 89,453	$ 1,224,990	$ 47,369

Revenue Bonds Payable

The University's revenue bonds payable at June 30, 2014 and 2013 is as follows:

	Series	Date Issued	Authorized	2014	2013
Frear Hall Construction, Student Housing System at Mānoa, Food Service System and Student Housing System at Hilo (interest rate, 3.25% to 5.0%)	2006A	December 13, 2006	$ 100,000	$ 89,825	$ 92,020
University Health & Wellness Center (interest rate, 3.5% to 5.0%)	Ref 2006A	October 25, 2006	133,810	127,420	131,495
Various acquisition and construction projects (interest rate, 2.5% to 6.0%)	2009A	April 15, 2009	100,000	92,195	94,480
University's Cancer Center (interest rate, 2.5% to 6.0%)	2010A-1, 2010A-2	October 7, 2010	138,640	130,495	133,290
Various construction projects (interest rate, 2.5% to 6.0%)	2010B-1, 2010B-2	October 7, 2010	154,090	147,995	150,085
Student Housing System at Mānoa and Telecommunications System (interest rate, 2.0% to 5.0%)	2012A(R)	February 22, 2012	8,575	6,000	7,300
			$ 635,115	$ 593,930	$ 608,670

In February 2012, the University issued $8,575 in Series 2012A(R) revenue bonds to retire (current refund) $8,955 of the outstanding Series 2001B revenue bonds. The proceeds of the Series 2012A(R) bonds were deposited into a trust account with an escrow agent to fully defease the outstanding principal of the Series 2001B bonds. The defeasance resulted in an accounting gain of $943 and an economic loss (difference between the present values of the debt service payments on the old and new debt) of $27. The coupon interest rates for the Series 2012A(R) bonds range from 2.0 percent – 5.0 percent (first interest payment due on April 1, 2012) and mature on October 1, 2018.

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

The University receives funds from the State of Hawai'i Tobacco Settlement Special Fund for the payment of principal and interest on the Refunding Series 2006A bonds to finance the cost of construction of the medical school facility and for annual operating expenses incurred by the facility. The funds received from the State of Hawai'i Tobacco Settlement Special Fund for debt service amounted to $9,926 in 2014 and 2013.

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

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

(All dollars reported in thousands)

At June 30, 2014, future maturities of revenue bonds are as follows:

Year ending June 30,	Principal	Interest
2015	$ 15,345	$ 29,852
2016	17,115	29,126
2017	17,700	28,393
2018	18,585	27,651
2019	18,065	26,836
2020–2024	102,020	120,402
2025–2029	122,520	92,999
2030–2034	137,500	60,491
2035–2039	113,195	25,845
2040–2041	31,885	1,943
	$ 593,930	$ 443,538

Bond Premiums

Activity related to the premiums on general obligation and revenue bonds for the years ended June 30, 2014 and 2013 is as follows:

	Series	Beginning Balance	Additions	Reductions	Ending Balance
2014					
John A. Burns School of Medicine	Ref 2006A	$ 1,314	$ -	$ 58	$ 1,256
University's Cancer Center	2010A	1,395	-	365	1,030
Various construction projects	2010B	1,976	-	465	1,511
General obligation	DB	9	-	5	4
General obligation	DG	2	-	1	1
Total bond premlums		$ 4,696	$ -	$ 894	$ 3,802
2013					
John A. Burns School of Medicine	Ref 2006A	$ 1,383	$ -	$ 69	$ 1,314
University's Cancer Center	2010A	1,777	-	382	1,395
Various construction projects	2010B	2,447	-	471	1,976
General obligation	DB	15	-	6	9
General obligation	DG	3	-	1	2
Total bond premiums		$ 5,625	$ -	$ 929	$ 4,696

Note Payable

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

The Note bears interest at the rate of 1.5% per annum and is due and payable semi-annually to the Lender on January 1 and July 1 each year until the Note has been paid in full. Under the terms of the Note, repayment each fiscal year is limited and subject to specific appropriations by the State to make such payments. The Note matures on July 16, 2017, at which time the unpaid principal will be due. As of June 30, 2014, $17,000 remains outstanding.

(All dollars reported in thousands)

12. Line of Credit (Research Corporation)

The Research Corporation has a revolving line of credit with First Hawaiian Bank in the amount of $5,000 for short-term working capital, expiring on February 1, 2015. The terms of the revolving line of credit require repayment as specified in the credit agreement. All borrowings are collateralized by a security agreement over the Research Corporation's accounts receivable. The rate of interest on borrowings was 3.28 percent at June 30, 2014 and 2013. At June 30, 2014 and 2013, there were no borrowings under this line.

13. Property Leases

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

Year ending June 30,	Lease Amount
2015	$ 2,612
2016	1,650
2017	1,300
2018	1,247
2019	642
2020–2024	615
2025–2029	334
Thereafter	1,789
	$ 10,189

Rent expense for outside space for the years ended June 30, 2014 and 2013 approximated $10,195 and $8,366, respectively.

14. Employee Benefits

Employees' Retirement System
Substantially all eligible employees of the University are members of the Employees' Retirement System of the State of Hawai'i ("ERS"), a cost-sharing, multiple-employer, public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits.

Prior to July 1, 1984, the ERS consisted only of a contributory option. In 1984, legislation was enacted to add a new noncontributory option for members of the ERS who are also covered under Social Security. Persons employed in positions not covered by Social Security are precluded from the noncontributory option. The noncontributory option provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory option or to elect the new noncontributory option and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and noncontributory options, respectively. Both options provide a monthly retirement allowance based on the employee's age, years of credited service and average final compensation ("AFC"). If the employee became a member prior to January 1, 1971, the AFC is the average salary earned during the five highest paid years of service, including the vacation payment, or three highest paid years of service, excluding the vacation payment. The AFC for members hired on or after that date is based on the three highest paid years of service, excluding the vacation payment. Contributions are based upon negotiated collective bargaining agreements, and the majority is funded by the State general fund as accrued. Subsequently, if an employee is paid from another funding source, contributions will be made from that same source. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liability.

On July 1, 2006, a new hybrid contributory plan became effective pursuant to Act 179, SLH of 2004. Members in the hybrid plan will be eligible for full retirement benefits at age 62 with 5 years of credited service or age 55 with 30 years of credited service. Members will receive a benefit multiplier of two percent for each year of credited service in the hybrid plan. The benefit payment options are similar to the current contributory plan. Almost 58,000 current members, all members of the noncontributory plan and certain members of the contributory plan were eligible to join the new hybrid plan. Most of the new employees hired from July 1, 2006 will be required to join the hybrid plan.

Contribution requirements are not actuarially determined, but are established by the Hawai'i Revised Statues ("HRS") Chapter 88 and amended by the Hawai'i State Legislature. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. The employee contribution rate is 7.8 percent of salary for the Contributory Plan and 6.0 percent of salary for the Hybrid Plan. There is no employee contribution for the Noncontributory Plan. Employer contributions are calculated as part of the State's total contribution requirements and are reimbursed to the State's General Fund as part of the fringe benefit rate on the University employees' actual salaries. The required employer contributions for the years ended June 30, 2014, 2013 and 2012 were $87,753, $84,154 and $75,497, respectively. Effective July 1, 2008, the employer contribution rate increased from 13.75 percent to 15.00 percent of salary.

Actuarial valuation is prepared for the entire ERS and not separately computed for the University. Information on vested and nonvested benefits and other aspects of the ERS is also not available at the University level.

ERS issues a Comprehensive Annual Financial Report ("CAFR") that includes financial statements and required supplementary information which may be obtained from the following address:

Employees' Retirement System of the State of Hawai'i
210 Merchant Street, Suite 1400
Honolulu, Hawai'i 96813

Basis of Accounting
The financial statements of the ERS are prepared using the accrual basis of accounting. 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.

Method Used to Value Investments
Plan investments are reported at fair value. Where appropriate, the fair value includes disposition costs. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments and real estate owned are based on independent appraisals and estimated values.

Other Benefits

The State absorbs the fringe benefit cost for employees paid from State and federal appropriations. In fiscal years 2014 and 2013, the State appropriated funds to the Department of Budget and Finance to pay for these fringe benefit costs on behalf of the University. Fringe benefit costs included in total revenue and total expenditures amounted to $168,891 and $154,757 for fiscal years 2014 and 2013, respectively.

All regular employees, with certain exceptions, earn vacation leave at the rate of 14 hours for each month of service. Employees who are entitled to annual vacation may accumulate for the succeeding year or years up to 15 working days annual vacation allowance, provided that the total accumulation shall not exceed 90 working days at the end of the calendar year. Accumulated vacation leave, earned, but not taken, is reflected as an accrual in the accompanying consolidated financial statements. When termination of services takes place, the employees are paid for their vacation allowance in a lump sum.

Sick leave accumulates at the rate of 14 hours for each full month of service without limit, but can be taken only in the event of an illness and is not convertible to pay upon termination of employment. Accordingly, accumulated sick leave, earned but not taken, is not reflected as an accrual in the accompanying consolidated financial statements. Employees who retire with 60 days of unused sick leave are entitled to three months of service credit in the ERS. For each additional 20 days, or major fraction thereof, of unused sick leave they have in excess of 60 days, their service period is increased by one month. As of June 30, 2014 and 2013, accumulated sick leave approximated $428,237 and $406,973, respectively.

The University's regular employees may enter into deferred compensation arrangements directly with authorized insurance companies or agencies through a payroll deduction plan. Accordingly, the University has no deferred compensation or withholding payable.

The University manages its workers' compensation program. Medical related payments for fiscal years 2014 and 2013 were $2,080 and $2,146, respectively. Temporary wage loss payments for fiscal years 2014 and 2013 amounted to $577 and $625, respectively.

15. Postemployment Benefits Other than Pensions

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

Plan Description

The State contributes to the Hawai'i Employer-Union Health Benefits Trust Fund ("EUTF"), an agent, multiple-employer defined benefit plan that replaced the Hawai'i Public Employees Health Fund effective July 1, 2003, pursuant to Act 88, SLH of 2001. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees and their dependents. The EUTF issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to:

Hawai'i Employer-Union Health Benefits Trust Fund
City Financial Tower
210 Merchant Street, Suite 1520
Honolulu, Hawai'i 96813

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

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

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

(All dollars reported in thousands)

Funding Policy and Annual OPEB Cost

Employer contributions are financed on a pay-as-you-go basis. The University's contributions are calculated as part of the State's total contribution requirements and are reimbursed to the State's General Fund as part of the fringe benefit rate on the University employees' actual salaries. The University's annual OPEB cost is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following tables present the annual OPEB cost and the percentage of annual OPEB cost contributed to the plan for the fiscal year ended June 30, 2014:

Projected June 30, 2014 Net OPEB Obligation ("NOO")

July 1, 2013 net OPEB obligation	$ 514,364
Plus: Annual OPEB cost	106,832
Less: Employer contributions (estimated "pay as you go" method)	42,000
Equals: Expected June 30, 2014 net OPEB obligation	$ 579,196

The University remitted $56,972 and $53,598 in State assessed OPEB contributions for the years ended June 30, 2014 and 2013, respectively. The University's actuarially determined minimum OPEB contribution was $42,000 and $41,700 for the years ended June 30, 2014 and 2013, respectively. The difference between the State assessed and University actuarially determined OPEB contribution is reported net with Transfers from (to) State for Fringe Benefits in the accompanying Consolidated Statements of Revenues, Expenses and Changes in Net Position.

OPEB Summary

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2014	$106,832	39.3%	$579,196
June 30, 2013	$142,602	29.2%	$514,364
June 30, 2012	$136,078	30.6%	$413,462

(All dollars reported in thousands)

Funded Status

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

Actuarial value of assets	$ -
Actuarial accrued liability	1,185,790
Unfunded actuarial accrued liability ("UAAL")	$ 1,185,790
Funded ratio	0%
Covered payroll (active plan members)	$ 550,758
UAAL as a percentage of covered payroll	215.3%

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

Actuarial Methods and Assumptions

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

State of Hawai'i actuarial valuation date	July 1, 2013
Actuarial cost method	Entry age normal
Amortization method	Level percentage, closed
Amortization period	30 years
Asset valuation method	Not applicable
Actuarial assumptions	
Investment rate of return	4%
Projected salary increases	3.5%
Health care inflation rate	
Medical and Rx Pre-65	9.5% initial, 5% ultimate
Medical and Rx Post-65	10.0% initial, 5% ultimate

(All dollars reported in thousands)

16. Other Noncurrent Liabilities

Other noncurrent liabilities at June 30, 2014 and 2013 are comprised of:

	2014	2013
Liabilities under split interest agreements	$ 6,889	$ 6,488
Amounts held for others	3,182	2,946
Unearned revenue on pending sale of real estate	-	5,150
Other	2,800	2,430
	$ 12,871	$ 17,014

17. State Appropriations

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

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

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

Act 164, SLH 2011 Section 32, provided $97,770 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, 2013.

The net amount of the University's State general and capital appropriations for the years ended June 30, 2014 and 2013 were $391,266 and $142,029 and $374,280 and $128,186, respectively.

(All dollars reported in thousands)

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

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

Net general and capital appropriations for the year ended June 30, 2013 were as follows:

General appropriations	
Act 164, SLH 2011, Appropriation Warrant No. 18	$ 377,460
Act 129, SLH 2012, Appropriation Warrant No. 57	30
Total funds lapsed	(77)
Collective bargaining adjustment	120
Executive restrictions	(3,253)
Total general appropriations	$ 374,280
Capital appropriations	
Act 164, SLH2011, as Amended by Act 106, SLH 2012	$ 51,163
Sections 36 & 37 of Act 164, SLH 2011, as Amended by Act 106, SLH 2012	68,976
Section 36 of Act 164, SLH 2011, as Amended by Act 106, SLH 2012	825
Act 164, SLH2011	7,500
Total funds lapsed	(278)
Total capital appropriations	$ 128,186

(All dollars reported in thousands)

18. Blended Component Information

The following condensed combining information summarizes the individual components of the University's consolidated financial position, results of operations and cash flows as of and for the years ended June 30, 2014 and 2013:

Condensed Consolidating Statements of Net Position

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

(All dollars reported in thousands)

	2013				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Assets and deferred outflows of resources					
Current assets	$ 443,800	$ 46,286	$ 36,144	$ -	$ 526,230
Interdepartmental receivables	38,635	12,331	3,315	(54,281)	-
Capital assets, net	2,023,921	983	2,216	-	2,027,120
Other assets	521,111	-	332,911	(6,718)	847,304
Total assets	3,027,467	59,600	374,586	(60,999)	3,400,654
Deferred outflows of resources	5,883	-	-	-	5,883
Total deferred outflows of resources	5,883	-	-	-	5,883
Total assets and deferred outflows of resources	$ 3,033,350	$ 59,600	$ 374,586	$ (60,999)	$ 3,406,537
Liabilities					
Current liabilities	$ 254,364	$ 12,446	$ 2,944	$ -	$ 269,754
Interdepartmental payables	14,059	33,867	3,040	(50,966)	-
Noncurrent liabilities	1,186,583	3,869	9,434	-	1,199,886
Total liabilities	1,455,006	50,182	15,418	(50,966)	1,469,640
Net position					
Net investment in capital assets	1,479,075	983	2,216	-	1,482,274
Restricted					
Nonexpendable	10,493	-	200,104	(3,259)	207,338
Expendable	377,176	-	159,672	(6,718)	530,130
Unrestricted	(288,400)	8,435	(2,824)	(56)	(282,845)
Total net position	1,578,344	9,418	359,168	(10,033)	1,936,897
Total liabilities and net position	$ 3,033,350	$ 59,600	$ 374,586	$ (60,999)	$ 3,406,537

(All dollars reported in thousands)

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

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

(All dollars reported in thousands)

	2013				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Operating revenues					
Student tuition and fees, net	$ 243,009	$ -	$ -	$ (1,198)	$ 241,811
Federal appropriations, grants and contracts	352,805	4,284	-	(4,284)	352,805
State and local grants and contracts	27,982	1,883	-	(919)	28,946
Nongovernmental sponsored programs	41,657	-	-	(8,615)	33,042
Sales and services of educational departments, other	36,594	-	5,480	(3,000)	39,074
Auxiliary enterprises	94,199	-	-	(62)	94,137
Other operating revenues	520	-	2,469	-	2,989
Total operating revenues	796,766	6,167	7,949	(18,078)	792,804
Operating expenses					
Depreciation	106,428	166	37	-	106,631
Other operating expenses	1,504,120	5,705	47,393	(22,067)	1,535,151
Total operating expenses	1,610,548	5,871	47,430	(22,067)	1,641,782
Operating income (loss)	(813,782)	296	(39,481)	3,989	(848,978)
Nonoperating activity					
Nonoperating revenues (expenses)	430,039	67	60,059	(3,838)	486,327
Capital contributions and additions to permanent and term endowments	140,927	-	13,899	771	155,597
Special and extraordinary items	-	-	-	-	
Transfers	172,757	-	-	-	172,757
Total nonoperating activity	743,723	67	73,958	(3,067)	814,681
Increase (decrease) in net position	(70,059)	363	34,477	922	(34,297)
Net position					
Beginning of year (as restated)	1,641,687	9,055	324,691	(4,239)	1,971,194
End of year	$ 1,571,628	$ 9,418	$ 359,168	$ (3,317)	$ 1,936,897

Condensed Consolidating Statements of Cash Flows

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

(All dollars reported in thousands)

	2013			
	University	Research Corporation	Foundation	Total
Net cash provided by (used in)				
Operating activities	$ (546,100)	$ 253	$ (7,613)	$ (553,460)
Noncapital financing activities	487,525	-	13,559	501,084
Capital and related financing activities	(110,006)	(95)	-	(110,101)
Investing activities	191,972	1,064	(7,422)	185,614
Total change in cash	23,391	1,222	(1,476)	23,137
Cash and cash equivalent balances				
Beginning of year	11,905	32,597	11,065	55,567
End of year	$ 35,296	$ 33,819	$ 9,589	$ 78,704

19. Litigation, Other Contingent Liabilities and Commitments

Hawai'i Revised Statutes §304A-108 stipulates that any liability arising from a claim, action, or suit brought against the University shall be payable solely from the moneys and property of the University and shall not constitute a general obligation of the State. The Board of Regents is not precluded from requesting and securing legislative appropriations to fund the settlement of any such claim or judgment against the University.

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

Substantial amounts are received and expended by the University under federal and state programs which are subject to audit by cognizant governmental agencies and independent auditors under OMB Circular A-133. This funding relates to research, student aid and other programs. University management believes that any liabilities arising from such audits will not have a material effect on the University's financial position.

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

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

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

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

Construction and Other Contracts
The University is committed under contracts awarded for construction and other services. These commitments amounted to approximately $207,076 and $250,036 as of June 30, 2014 and 2013.

Collective Bargaining Agreements
The Board of Regents, as a public employer, is mandated by Hawai'i Revised Statutes ("HRS"), Chapter 89 to negotiate with and enter into written agreements with exclusive representatives (i.e., unions) on matters of wages, hours and conditions of employment affecting University personnel included in various bargaining units. These written agreements, also known as collective bargaining agreements ("CBA") or successor agreements, including supplemental agreements, memorandums of agreement, and memorandums of understanding, reached outside of these successor agreements, cover wages, hours, contributions to the Employer-Union Trust Fund, and other terms and conditions of employment subject to collective bargaining.

Depending on the nature of their positions, most employees working at the University are included in a bargaining unit ("BU") as defined in HRS §89-6(a). Civil service personnel (e.g., blue collar non-supervisory/supervisory, white collar non-supervisory/supervisory, registered professional nurses, and institutional and health positions) working at the University are included in BUs 1, 2, 3, 4, 9 and 10. Non-civil service positions such as faculty members and administrative, professional and technical ("APT") staff are Board of Regents ("BOR") appointees and are included in BUs 7 and 8, respectively. As such, the University is responsible for properly administering the eight CBAs associated with aforementioned BUs.

Pursuant to mutually agreed upon terms specified in CBAs effective from July 1, 2011 through June 30, 2013, certain employees within BUs 1, 2, 3, 4, 8 and 10 were subjected to a 5% salary reduction during fiscal years 2012 and 2013. Thereafter, multi-year, successor CBAs for BUs 1, 2, 3, 4, 8 and 10 were reached between the unions and the Employer in 2013. CBAs pertaining to BUs 2, 3, 4 and 8 are now effective for the duration of July 1, 2013 through June 30, 2015. CBAs pertaining to BUs 1 and 10 are now effective for the duration of July 1, 2013 through June 30, 2017. The aforementioned CBAs stipulate across-the-board ("ATB") salary increases or changes to salary schedules that effectively increase salaries in each year covered by the terms of these agreements which have already been legislatively approved.

The Unit 7 faculty members of the University are currently under a six-year CBA covering the period July 1, 2009 through June 30, 2015. The subject Unit 7 CBA included a provision to temporarily reduce the salaries of faculty paid by appropriated funds by 6.667 % for 18 months beginning January 1, 2010. Effective July 1, 2011, the salaries of faculty members subjected to the temporary reduction were restored to December 31, 2009 rates (plus any subsequent promotions or special salary adjustments). The Unit 7 CBA stipulates that faculty who were subjected to the mandated temporary salary reduction may be paid one-time lump sum payments equivalent up to the amount of the temporary reduction taken to be paid in fiscal years 2013 (25%), 2014 (25%), and 2015 (50%) all due on August 1st of each respective fiscal year. The Unit 7 CBA also provides for all faculty members to have their base salaries increased by 3% effective July 1, 2013 and July 1, 2014.

On June 20, 2014 the University administration and the University of Hawai'i Professional Assembly ("UHPA") tentatively agreed to a two-year successor collective bargaining agreement covering the period July 1, 2015 to June 30, 2017. The tentative agreement was ratified in support by the Unit 7 faculty members on August 25, 2014. The successor agreement will provide a 4% across the board pay increase in each of the next two years, increases the minimum salaries to faculty members paid by rank, and negotiated EUTF contributions. The total cost is estimated at $32 million which is subject to legislative appropriations.

Successor bargaining negotiations are underway between the University and the Hawaii Government Employees Association ("HGEA") for Unit 8 APT employees of the University who are currently working on a contract that covers the period July 1, 2013 to July 1, 2015.

The University's employees in BU 1 – Blue Collar, Non-supervisory employees and BU 10 – Health, Institutional, and Correctional employees are working under a four-year (4) contract that covers the period July 1, 2013 to July 1, 2017.

The State is currently in successor bargaining negotiations with the HGEA over BUs 2, 3, 4 and 9 who are currently working under contracts that cover the period July 1, 2013 to July 1, 2015.

In assessing the University's responsibilities to negotiate and administer CBAs, below are several considerations in regards to litigation, contingent liabilities and commitments:

- Without exception, the BOR must participate with exclusive representatives in good-faith negotiations over the issue of wages, hours and conditions of work (as mandated by HRS §89-9[a]), for University personnel included in the applicable BUs.

- CBAs for civil service personnel (BUs 1, 2, 3, 4, 9 and 10) are negotiated by and between the State of Hawai'i (including the BOR and other public employers), the respective Counties (including the City and County of Honolulu), the Hawaii Health Systems Corporation, and the Judiciary, with the exclusive representative of each bargaining unit. The exclusive representative for BUs 1 and 10 is the United Public Workers ("UPW") while the exclusive representative for BUs 2, 3, 4 and 9 is the Hawai'i Government Employees Association ("HGEA"). These CBAs for the aforementioned BUs are applicable to all civil service personnel working for the State which are represented by the State as a Department under the Executive Branch.

- CBAs for faculty members (BU 7) are negotiated by and between the Governor, the University President, and the BOR with UHPA, the exclusive representative for Faculty members. APT personnel (BU 8) are negotiated by and between the Governor, the University President, and the BOR with the HGEA who is the exclusive representative for the University's APTs. In contrast to CBAs for civil service personnel, the CBAs for BUs 7 and 8 are applicable only to the University as BOR appointees, specifically APT personnel and faculty members of the University.

- Failure of parties to achieve successor agreements during negotiations initiated on behalf of blue collar workers (BU 1) and/or faculty (BU 7) could result in work interruptions and/or stoppages that may hamper or halt University operations since these bargaining units still retain the right to strike.

- If an impasse exists regarding successor negotiations involving BUs 2, 3, 4, 8, or 9, the BOR, along with the respective exclusive representatives and other public employers is subject to interest arbitration, whereby the decision of the arbitration panel and its cost items are subject to legislative appropriations and approval.

- Once a successor agreement is reached and legislatively approved, the University has a responsibility and commitment to abide by all the terms set forth in the agreement.

- As an employer of employees belonging to multiple bargaining units, the University may sometimes be subject to unforeseen labor costs related to the assertion of the most favored nation clause.

- Improper administration, disputes regarding CBA interpretation, or a lack of adherence to CBAs could result in litigation and associated costs.

Note: Certain employees, such as Executive/Managerial personnel and those whose responsibilities concern confidential matters affecting employee-employer relations, are excluded from collective bargaining pursuant to HRS §89-6; wages, hours and other terms and conditions of employment for these personnel are provided by law or action of the BOR, as applicable.

Required Supplementary Information Other Than Management's Discussion and Analysis

University of Hawai'i
State of Hawai'i
Schedule of Funding Progress (Unaudited)
Year Ended June 30, 2014
(All dollars reported in thousands)

Postemployment Benefits Other than Pensions

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b) - (a)	Funded Ratio (a) / (b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b) - (a) / (c)
July 1, 2013	$0	$1,185,790	$1,185,790	0%	$579,196	204.7%
July 1, 2011	$0	$1,965,769	$1,965,769	0%	$517,856	379.6%
July 1, 2009	$0	$1,849,949	$1,849,949	0%	$495,498	373.4%

Other Supplementary Information

Acuity LLP

CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditors on Supplemental Information

To the Board of Regents
University of Hawai'i

The report on our audits of the consolidated financial statements of the University of Hawai'i as of June 30, 2014 and 2013, and for the years then ended, appears on pages 1 and 2. Those audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplemental information (Schedules I, II, III, IV, V, VI, VII, VIII and IX) included hereinafter is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Acuity LLP

Honolulu, Hawai'i
February 12, 2015

University of Hawai'i
State of Hawai'i
Condensed Statements of Net Position
Condensed Statements of Revenues, Expenses and Changes in Net Position
Current Unrestricted Funds Excluding General Fund and University Bond System
As of and for the Years Ended June 30, 2014 and 2013
(All dollars reported in thousands) **Schedule I**

	2014	2013
Condensed statements of net position		
Assets		
Current assets	$ 251,619	$ 308,613
Noncurrent assets	2,207	2,172
Total assets	$ 253,826	$ 310,785
Liabilities		
Current liabilities	$ 80,830	$ 90,452
Noncurrent liabilities	17,640	20,671
Total liabilities	98,470	111,123
Net position		
Unrestricted	155,356	199,662
Total net position	155,356	199,662
Total liabilities and net position	$ 253,826	$ 310,785
Condensed statements of revenues, expenses and changes in net position		
Operating revenues	$ 346,444	$ 346,584
Operating expenses	413,077	400,085
Operating loss	(66,633)	(53,501)
Nonoperating revenues and transfers	61,610	50,270
Nonoperating expenses and transfers	39,283	59,108
Change in net position	(44,306)	(62,339)
Net position		
Beginning of year	199,662	262,001
End of year	$ 155,356	$ 199,662

1. Basis of Presentation

The accompanying condensed statements of net position and related condensed statements of revenues, expenses and changes in net position present the financial position and results of operations of certain of the University's Special and Revolving Funds, which are pledged as collateral on the University's Series 2002A revenue bonds and Refunding Series 2006A bonds, and are presented on the accrual basis of accounting. The financial information of the Research Corporation of the University of Hawai'i and the University of Hawai'i Foundation is not reflected in this schedule.

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

2. Reclassifications

Certain amounts in the 2013 condensed statement of revenues, expenses and changes in net position – Current Unrestricted Funds Excluding General Fund and University Bond System have been reclassified to conform to the 2014 presentation. Such reclassifications have no impact on the 2013 change in net position as previously reported.

University of Hawai'i
State of Hawai'i
Schedules of Series 2002A Revenue Bond Proceeds Activity
Years Ended June 30, 2014 and 2013
(All dollars reported in thousands)

Schedule II

	2014	2013
Beginning balance	$ 6,100	$ 9,087
Additions		
Interest and investment income	7	8
Total additions	7	8
Deductions		
Payments – building, construction in progress, other	480	2,989
Management fees	5	6
Total deductions	485	2,995
Ending balance	$ 5,622	$ 6,100

1. Basis of Presentation

The accompanying schedules of Series 2002A revenue bond proceeds activity present the sources and uses of Series 2002A revenue bond proceeds associated with the construction of the John A. Burns School of Medicine facility at Kaka'ako. The financial information of the Research Corporation of the University of Hawai'i and the University of Hawai'i Foundation is not reflected in this schedule.

2. Refinancing

In October 2006, the University refinanced a majority of the outstanding Series 2002A revenue bonds through the issuance of Refunding Series 2006A bonds. Proceeds from the State's settlement agreement with tobacco companies are expected to be utilized to service the outstanding balance of the new debt.

University of Hawai'i
State of Hawai'i
Condensed Statements of Net Position
Condensed Statements of Revenues, Expenses and Changes in Net Position
Current Unrestricted Funds Excluding General Fund
As of and for the Years Ended June 30, 2014 and 2013
(All dollars reported in thousands)

Schedule III

	2014	2013
Condensed statements of net position		
Assets		
Current assets	$ 282,790	$ 341,536
Noncurrent assets	2,207	2,175
Total assets	$ 284,997	$ 343,711
Liabilities		
Current liabilities	$ 97,115	$ 109,012
Noncurrent liabilities	18,710	21,795
Total liabilities	115,825	130,807
Net position		
Unrestricted	169,172	212,904
Total net position	169,172	212,904
Total liabilities and net position	$ 284,997	$ 343,711
Condensed statements of revenues, expenses and changes in net position		
Operating revenues	$ 427,554	$ 423,035
Operating expenses	468,290	454,899
Operating loss	(40,736)	(31,864)
Nonoperating revenues and transfers	61,893	50,619
Nonoperating expenses and transfers	64,889	81,101
Change in net position	(43,732)	(62,346)
Net position		
Beginning of year	212,904	275,250
End of year	$ 169,172	$ 212,904

1. Basis of Presentation

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

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

2. Reclassifications

Certain amounts in the 2013 condensed statement of revenues, expenses and changes in net position – Current Unrestricted Funds Excluding General Fund have been reclassified to conform to the 2014 presentation. Such reclassifications have no impact on the 2013 change in net position as previously reported.

University of Hawai'i
State of Hawai'i
Schedules of Series 2006A Revenue Bond Proceeds Activity
Years Ended June 30, 2014 and 2013
(All dollars reported in thousands)

Schedule IV

	2014	2013
Beginning balance	$ 4,295	$ 6,835
Additions		
Interest and investment income	3	7
Total additions	3	7
Deductions		
Payments – building, construction in progress, other	189	2,543
Management fees	3	4
Total deductions	192	2,547
Ending balance	$ 4,106	$ 4,295

1. Basis of Presentation

The accompanying schedules of Series 2006A revenue bond proceeds activity present the sources and uses of Series 2006A revenue bond proceeds associated with the construction of the Frear Hall dormitory at the Mānoa campus and repair and maintenance of various housing projects. The financial information of the Research Corporation of the University of Hawai'i and the University of Hawai'i Foundation is not reflected in this schedule.

University of Hawaiʻi
State of Hawaiʻi
Schedules of Series 2009A Revenue Bond Proceeds Activity
Years Ended June 30, 2014 and 2013
(All dollars reported in thousands)

Schedule V

	2014	2013
Beginning balance	$ 17,011	$ 31,131
Additions		
Interest and investment income	9	27
Total additions	9	27
Deductions		
Payments – building, construction in progress, other	8,438	14,124
Management fees	11	23
Total deductions	8,449	14,147
Ending balance	$ 8,571	$ 17,011

1. Basis of Presentation

The accompanying schedules of Series 2009A revenue bond proceeds activity present the sources and uses of Series 2009A revenue bond proceeds associated with the financing of costs of certain University projects. The financial information of the Research Corporation of the University of Hawaiʻi and the University of Hawaiʻi Foundation is not reflected in this schedule.

University of Hawai'i
State of Hawai'i
Schedules of Series 2010A Revenue Bond Proceeds Activity
Years Ended June 30, 2014 and 2013
(All dollars reported in thousands)

Schedule VI

	2010A-1	2010A-2
Balance at June 30, 2012	$ 32,199	$ 29,745
Additions		
Interest and investment income	19	58
Total additions	19	58
Deductions		
Payments – building, construction in progress, other	32,096	2,023
Management fees	11	24
Total deductions	32,107	2,047
Balance at June 30, 2013	111	27,756
Additions		
Interest and investment income	-	26
Total additions	-	26
Deductions		
Payments – building, construction in progress, other	-	1,966
Transfers to State	-	1,045
Management fees	-	22
Total deductions	-	3,033
Balance at June 30, 2014	$ 111	$ 24,749

1. Basis of Presentation

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

University of Hawai'i
State of Hawai'i
Schedules of Series 2010B Revenue Bond Proceeds Activity
Years Ended June 30, 2014 and 2013
(All dollars reported in thousands) Schedule VII

	2010B-1	2010B-2
Balance at June 30, 2012	$ 51,941	$ 19,411
Additions		
Interest and investment income	64	25
Total additions	64	25
Deductions		
Payments – building, construction in progress, other	30,435	6,072
Management fees	32	13
Total deductions	30,467	6,085
Balance at June 30, 2013	21,538	13,351
Additions		
Interest and investment income	27	18
Total additions	27	18
Deductions		
Payments – building, construction in progress, other	10,224	8,693
Management fees	12	7
Total deductions	10,236	8,700
Balance at June 30, 2014	$ 11,329	$ 4,669

1. Basis of Presentation

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

University of Hawai'i
State of Hawai'i
Condensed Statements of Net Position
Condensed Statements of Revenues, Expenses and Changes in Net Position
University Bond System
As of and for the Years Ended June 30, 2014 and 2013
(All dollars reported in thousands) **Schedule VIII**

	2014	2013
Condensed statements of net position		
Assets and deferred outflows of resources		
Current assets	$ 82,356	$ 79,591
Capital assets, net	489,452	484,513
Other assets	53,536	83,866
Total assets	625,344	647,970
Deferred outflows of resources	5	8
Total deferred outflows of resources	5	8
Total assets and deferred outflows of resources	$ 625,349	$ 647,978
Liabilities		
Current liabilities	$ 31,972	$ 37,489
Noncurrent liabilities	459,728	471,829
Total liabilities	491,700	509,318
Net position		
Net investment in capital assets	73,422	83,487
Restricted expendable	1,037	1,065
Unrestricted	59,190	54,108
Total net position	133,649	138,660
Total liabilities and net position	$ 625,349	$ 647,978
Condensed statements of revenues, expenses and changes in net position		
Operating revenues		
Bookstores	$ 25,687	$ 27,265
Room and other rentals	30,907	28,036
Parking	6,186	6,643
Telecommunications	3,527	3,766
Other operating revenues	10,387	9,020
Total operating revenues	76,694	74,730
Operating expenses (including $20,601 and $17,040 in depreciation expense in 2014 and 2013, respectively)	(85,205)	(80,716)
Operating loss	(8,511)	(5,986)
Nonoperating revenues	25,226	25,400
Nonoperating expenses	(21,726)	(17,252)
Change in net position	(5,011)	2,162
Net position		
Beginning of year (restated)	138,660	136,498
End of year	$ 133,649	$ 138,660

University of Hawai'i
State of Hawai'i
Condensed Statements of Cash Flows
University Bond System
As of and for the Years Ended June 30, 2014 and 2013
(All dollars reported in thousands) Schedule IX

	2014	2013
Condensed statements of cash flows		
Net cash flows provided by operating activities	$ 6,785	$ 2,368
Net cash flows provided by non-capital financing activities	5,578	2,083
Net cash flows used in capital and related financing activities	(40,259)	(91,015)
Net cash flows provided by investing activities	754	548
Net decrease in cash and cash equivalents	(27,142)	(86,016)
Cash and cash equivalents		
Beginning of year	146,454	232,470
End of year	$ 119,312	$ 146,454

1. Reporting Entity

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

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

2. Basis of Presentation

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

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

3. New Accounting Pronouncements

In 2014, the University adopted GASB Statement No. 65, *Items Previously Reported as Assets and* Liabilities. This Statement provides financial reporting guidance for proper classification and recognition of previously reported assets and liabilities as deferred inflows or deferred outflows of resources. Management has adopted the new standard in the University Bond System's condensed financial statements. Due to the adoption of GASB Statement No. 65 in fiscal year 2014, the 2013 condensed financial statements were restated. The beginning net position as of July 1, 2012 was restated by approximately $240 from $136,738 to $136,498.

4. Reclassifications

Certain amounts in the 2013 condensed statement of revenues, expenses and changes in net position – University Bond System have been reclassified to conform to the 2014 presentation. Such reclassifications have no impact on the 2013 change in net position as previously reported.

UNIVERSITY of HAWAI'I®

SYSTEM

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




University of Hawai'i
State of Hawai'i
Index
June 30, 2015 and 2014

Accuity LLP
CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the University of Hawai'i (the "University"), a component unit of the State of Hawai'i, as of and for the years ended June 30, 2015 and 2014, and the related notes to the consolidated financial statements, which collectively comprise the University's basic financial statements as listed in the accompanying index.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of the University of Hawai'i Foundation (the "Foundation"), which represent 13.5 percent and 13.0 percent, respectively, of the total assets and deferred outflows of resources and 1.1 percent and 1.0 percent, respectively, of the total operating revenues of the University as of and for the years ended June 30, 2015 and 2014. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the Foundation as of and for the years ended June 30, 2015 and 2014, are based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

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Honolulu, Hawaii 96813
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Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University of Hawai'i, as of June 30, 2015 and 2014, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

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

Accuity LLP

Honolulu, Hawai'i
February 11, 2016

Introduction

The following discussion and analysis provides an overview of the consolidated financial position and activities of the University of Hawai'i (the "University") for the years ended June 30, 2015 and 2014, with selected information for the year ended June 30, 2013. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Founded in 1907 under the auspices of the Morrill Act, the University is a land-grant, sea-grant and space-grant institution. The University system distinguishes itself through its Hawaiian, Asian and Pacific orientation and its position as one of the world's foremost multicultural centers for global and indigenous studies. Students are members of a population in which no one ethnic group constitutes a majority, and the educational experience is enriched by the diversity of cultures represented.

The University is Hawai'i's sole public higher education system and is governed by a Board of Regents consisting of fifteen members appointed by the Governor of the State of Hawai'i. The University of Hawai'i system is comprised of 10 campuses – seven community colleges (four on O'ahu, one on Kaua'i, one on Maui, and one on Hawai'i), the University of Hawai'i at Mānoa, the University of Hawai'i at Hilo, and the University of Hawai'i at West Oahu. In Fall 2014, enrollment totaled 57,052 (85 percent undergraduate and 15 percent graduate students). Hawai'i residents comprised 85 percent of all enrolled students, nearly 11 percent were from the U.S. mainland, and the remaining four percent of students were international students from over 100 countries. The University of Hawai'i continues to be one of the nation's more ethnically diverse higher education systems with roughly 26 percent of the students identifying as Asian, 17 percent as Caucasian, and 26 percent as either Hawaiian or Pacific Islander. The University system offers over 637 academic programs, including bachelor's degrees in 139 fields of study, master's degrees in 91 fields of study, doctoral degrees in 53 fields of study, and associate degrees in 117 fields of study. In addition to the educational campuses, the University system houses more than a hundred centers with a research, instruction or public service purpose and receives more than $425 million sponsored program awards. The University is also engaged in instructional research and service activities at hundreds of Hawai'i schools, hospitals and community sites, and carries out these activities across the Pacific Islands and in foreign countries.

Using the Financial Statements

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

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

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

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

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

Related Entities

The University maintains close relationships with two other entities, considered to be component units, whose financial information is blended into the University's accompanying consolidated financial statements. The University of Hawai'i Foundation (the "Foundation") is a not-for-profit organization established to solicit and manage funds for the benefit of the University. The Research Corporation of the University of Hawai'i (the "Research Corporation") provides administrative support services for research and training programs of the University. Both of the University's component units prepare stand-alone financial statements with footnotes, which are audited by independent auditors. Summarized information of the individual components of the University's consolidated financial position, results of operations and cash flows for the years ended June 30, 2015 and 2014 is presented in Note 18 to the consolidated financial statements.

Financial Position

The Consolidated Statements of Net Position present the financial position of the University at the end of the fiscal year and display all assets and liabilities of the University. Assets and liabilities are presented using fair and current values, respectively. Two notable exceptions are receivables and capital assets, which are stated at historical cost less an allowance for doubtful accounts and accumulated depreciation, respectively. The difference between assets and liabilities is net position, representing a measurement of the current financial condition of the University. The University's assets, liabilities and net position at June 30, 2015, 2014 and 2013 are summarized as follows (in thousands):

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

Implementation of GASB Statements No. 68 and 71

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

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

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

Current Assets and Liabilities

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

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

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

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

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

Endowment and Other Investments

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

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

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

The University's spending rate policy is to limit the immediate impact that significant changes in the fair value of the endowment portfolio have on annual distributions. The spending rate policy provides for an annual distribution, ranging between three percent and five percent of the five-year moving average of the endowment portfolio's fair value. In fiscal years 2015 and 2014, the University instituted a 4.5 percent distribution rate on restricted and unrestricted endowments. The total restricted and unrestricted distributions available to the University amounted to $2.5 million and $2.4 million in fiscal years 2015 and 2014, respectively.

Capital and Debt Activities

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

Capital Projects

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

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

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

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

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

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

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

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

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

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

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

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

Financing

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

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

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

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

Net Position

Net position represents the residual interest in the University's assets after liabilities are deducted. At June 30, 2015 and 2014, total net position amounted to $842.4 million and $2 billion, respectively. Net position is reported in four major categories: net investment in capital assets, restricted nonexpendable, restricted expendable and unrestricted.

Net investment in capital assets, net of accumulated depreciation and the related outstanding debt used to finance the acquisition, construction or improvement of those assets, amounted to $1.50 billion and $1.52 billion at June 30, 2015 and 2014, respectively. The $15.8 million decrease in fiscal year 2015 was primarily attributable to $121.4 million of depreciation expense, $12.5 million in net disposals, and $12.6 million increase in related debt offset by $130.7 million of capital asset additions.

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

Restricted expendable net position is subject to externally imposed restrictions governing their use. Net position was restricted for the following purposes at June 30, 2015, 2014 and 2013 (in thousands):

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

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

Net position that is not subject to externally imposed restrictions governing their use is classified as unrestricted for financial reporting purposes. At June 30, 2015 and 2014, unrestricted net position amounted to deficits of $1.54 billion and $374.3 million, respectively. Although unrestricted net position is not subject to externally imposed restrictions, all of the University's unrestricted net position has been internally designated for various academic and research programs and initiatives, contractual commitments, and capital projects. In addition, unrestricted net position of $45.0 million and $46.7 million were designated for endowment activities at June 30, 2015 and 2014, respectively.

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

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

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

University of Hawai'i
State of Hawai'i
Management's Discussion and Analysis (Unaudited)
June 30, 2015 and 2014

Results of Operations

The Consolidated Statements of Revenues, Expenses and Changes in Net Position are a presentation of the University's results of operations for the year. It indicates whether the financial condition of the University improved or deteriorated. For financial reporting purposes, certain significant revenues, including state appropriations, private gifts and investment income, which are relied upon and budgeted to support the University's core operations, are required to be reported as nonoperating revenues. The University's results of operations for the years ended June 30, 2015, 2014 and 2013 summarized to match revenues supporting core activities with expenses associated with core activities, are as follows (in thousands of dollars):

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

Revenues Supporting Core Activities

The University has a diversified stream of revenues to support its operations. State appropriations and tuition and fees are the core components that support the University's instructional and academic programs. Government and nongovernmental grants and contracts provide opportunities for 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, increased by $14.3 million, or 5.8 percent, to $262.7 million in fiscal year 2015. Scholarship allowances amounted to $129.8 million and $129.2 million in fiscal years 2015 and 2014, respectively. For fiscal years 2015 and 2014, the increase in tuition and fees revenue and scholarship allowances are primarily attributable to increases in tuition and fee rates offset by slight declines in enrollment.

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

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

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

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

Private gifts, most of which are restricted as to use, decreased by $29.3 million, or 48 percent, to $31.9 million in fiscal year 2015 when compared to $61.1 million in fiscal year 2014. The fiscal year 2015 decrease was primarily attributable to a one-time $40 million donation received in fiscal year 2014 offset by a one-time $5.7 million donation received in fiscal year 2015. The University will continue to aggressively develop private revenue sources and cultivate the increasing trend in private gifts received.

Expenses Associated with Core Activities

The University is committed to recruiting and retaining outstanding faculty and staff, and providing compensation equivalent to peer institutions and nonacademic employers. Of the University's operating expenses, approximately 73.1 percent during fiscal year 2015 and 71.0 percent during fiscal year 2014, were related to compensation and benefits.

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

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

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

The University is committed to providing affordable yet quality education to its students. To accomplish this goal, student aid is provided in the form of scholarships and fellowships, including tuition and fee waivers applied to student accounts and reflected as reductions and allowances to student tuition and student housing revenues, and scholarship and fellowship payments (mostly academic and athletic) made directly to students. Total aid to students decreased by $1 million, or 0.5 percent, to $179.1 million in fiscal year 2015 as compared to the prior fiscal year 2014. The decrease in fiscal year 2015 is in line with decreased enrollment offset by scheduled tuition increases.

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

Transfers from State amounted to $191.6 million and $183.5 million in fiscal years 2015 and 2014, respectively. Transfers from State were primarily for fringe benefit expenses and the UH Cancer Center cigarette stamp tax collections.

The Cigarette Tax and Tobacco Tax Law, HRS section 245-15, effective July 1, 2006, established the Hawai'i Cancer Research Special Fund. The cigarette stamp tax, beginning October 1, 2006, provides revenues to support research and operating expenses to this fund as follows:

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

Other Nonoperating Activities

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

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

Cash Flows

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

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

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

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

Looking Forward

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

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

While caution is being exercised in light of federal program cutbacks as well as realignment of research and development funding to improve health care and expanding coverage through the Affordable Care Act, the University achieved an 8.5 percent increase in funding from sponsored awards. This increase has positioned the University to maintain its solid financial condition and level of excellence in service to students, the research community, and the State of Hawai'i.

Enrollment and Tuition

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

On October 26, 2011, the University's Board of Regents approved a new tuition increase schedule for Fall 2012 through Spring 2017. This new schedule provides stability and predictability for the University and its students while preserving affordability and access to public higher education in the State of Hawai'i.

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

Extramural Funds

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

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

Facilities and Infrastructure

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

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

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

Fundraising

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

State General Fund Appropriations

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

Hawai'i Graduation Initiative and 15 to Finish Campaign

Hawai'i Graduation Initiative ("HGI") is a system-wide strategic initiative that focuses on increasing the number of educated citizens within the state. HGI is aligned with the Hawai'i P-20 goal to increase the number of working age adults in the state who hold a degree to 55 percent by 2025. Because of this focused effort, the UH campuses have increased the number of degrees and certificates awarded to 11,104 or by 34 percent since 2010.

15 to Finish is a campaign within the University of Hawai'i's Hawai'i Graduation Initiative. The campaign encourages students attending or planning to attend the University's two or four-year campuses to take 15 credits per semester to graduate on time. The campaign has garnered national attention. In Fall 2015, there was a 34.6 percent increase in the number of undergraduate students taking 15 credits or more system-wide since 2009. Because of these and other measures, Hawai'i was one of only three states chosen by Complete College America for an academy to develop next steps and specific strategies to improve college completion outcomes.

Hawai'i Innovation Initiative

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

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

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

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

University of Hawai'i
State of Hawai'i
Consolidated Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2015 and 2014
(All dollars reported in thousands)

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

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

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

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

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

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

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

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

1. Organization and Summary of Significant Accounting Policies

Financial Reporting Entity

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

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

Similarly, the University is fiscally dependent upon the State of Hawai'i (the "State") and therefore, the State is financially accountable for the University as defined by GASB Statement No. 14. Accordingly, the University's financial information is discretely presented as a component unit within the State's comprehensive annual financial report ("CAFR").

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

Basis of Presentation

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

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

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

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

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

Investments
Investments in money market funds, fixed income securities, equity securities, and mutual funds with readily determinable fair values are reported at fair value based on quoted market prices. Investment agreements, absolute return funds and real assets are reported at fair value, which is generally based on information provided by the respective external investment manager at the most recent valuation date and from the valuation date to fiscal year-end, if applicable. Investments in limited partnerships and real estate are not readily marketable and involve assumptions and methods that are reviewed by management. Because these investments are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investment existed. Unrealized gains and losses on investments are included in the Consolidated Statements of Revenues, Expenses and Changes in Net Position. Realized gains and losses are computed as the difference between the proceeds of the sale and the cost basis of the investment sold. The calculation of realized gains and losses is independent of the calculation of net changes in the fair value of investments.

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

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

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

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

Split Interest Agreements

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

Accounts Receivable

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

Contributions

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

Capital Assets

Capital assets are recorded at cost, or if donated, at an appraised value at the date of the gift. Depreciation of capital assets is provided for on a straight-line basis over the estimated useful lives (3 to 100 years) of the respective assets. The University's policy is to capitalize tangible, nonexpendable personal property having an estimated useful life of more than one year. Interest incurred on tax-exempt construction financing, net of investment income on any unspent financing proceeds, is capitalized as a cost of construction. When taxable debt is incurred specifically for a project, interest is capitalized on amounts expended on the project using the weighted-average cost of outstanding borrowings. The capitalization of interest ceases when the project is substantially complete or construction activity is suspended for more than a brief period. The University incurred interest cost of $29,156 and $29,720 for the years ended June 30, 2015 and 2014, respectively, of which capitalized interest as a cost of construction amounted to $1,633 and $3,030, respectively. The University does not capitalize works of art or historical treasures that are held for exhibition, education, research and public service. These collections are neither disposed of for financial gain nor encumbered. Accordingly, such collections are not recognized or capitalized for financial statement purposes. Maintenance and repairs, as well as minor replacements, renewals and betterments, are charged to operations. Major renewals, replacements and betterments are capitalized in the year incurred. Capital assets retired or otherwise disposed of are removed from the appropriate asset and related accumulated depreciation accounts. Gains and losses on disposals and the net book value of transfers of capital assets are reflected in operations.

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

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

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

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

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

Other Postemployment Benefits
The University applies the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which requires accrual-based measurement and recognition and disclosure of other postemployment benefits ("OPEB") expense, such as retiree medical and dental costs, over the employees' years of service, along with the related liability.

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

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

Net Position

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

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

- **Restricted**

  - Nonexpendable – Net position subject to externally imposed stipulations that they be maintained permanently by the University, which includes the University's permanent endowment funds.

  - Expendable – Net position that is restricted for specific purposes by sponsors, donors or law. Restrictions in these assets are released when the University complies with the stipulations required by the sponsor, donor or legislative act.

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

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

Net Position Restricted by Enabling Legislation

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

Operating and Nonoperating Activities

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

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

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

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

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

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

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

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

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

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

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

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

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

New Accounting Pronouncements

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

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

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

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

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

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

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

2. Cash and Investments

The carrying amounts of cash and cash equivalents and time certificates of deposit held outside of the State Treasury as of June 30, 2015 and 2014, classified as cash and cash equivalents and operating investments, were $299,528 and $267,023, with corresponding bank balances of $292,908 and $285,460, respectively. The portion of such bank balances covered by the Federal Deposit Insurance Corporation or by collateral held by the State Director of Finance in the name of the University totaled $282,960 at June 30, 2015 and $280,632 at June 30, 2014. Additional cash equivalent balances of $6,608 at June 30, 2015 and $2,180 at June 30, 2014 represent deposits with investment brokers covered by the Securities Investor Protection Corporation and additional insurance provided by the investment brokers.

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

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

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

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

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

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

(All dollars reported in thousands)

The remaining portion of the donor-restricted endowment fund that is not classified in restricted nonexpendable net position is classified as restricted expendable net position until those amounts are expended and distributed by the University in accordance with its Board-approved spending rate policy and in a manner consistent with the standard of prudence prescribed by HUPMIFA. In fiscal years 2015 and 2014, the University's spending rate policy provided for annual distributions was four and a half percent of the trailing five-year moving average of the endowment fair value.

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

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

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

(All dollars reported in thousands)

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

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

(All dollars reported in thousands)

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

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

(All dollars reported in thousands)

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

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

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

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

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

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

(All dollars reported in thousands)

Credit Risk

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

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

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

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

Interest Rate Risk

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

(All dollars reported in thousands)

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

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

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

At June 30, 2015 and 2014, the University's exposure to foreign currency risk expressed in U.S. dollars was not significant.

3. Accounts Receivable

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

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

4. U.S. Government Funding

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

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

(All dollars reported in thousands)

5. Notes and Contributions Receivable

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

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

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

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

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

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

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

(All dollars reported in thousands)

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

During the years ended June 30, 2015 and 2014, the University distributed $2,668 and $2,628 in student loans through the U.S. Department of Education Federal Perkins Loan Program, respectively, and $157,913 and $151,730 in Direct Loan programs, respectively. These distributions and related funding sources are not included as expenses or revenues in the accompanying financial statements.

As discussed in Note 1 to the consolidated financial statements, pledges for permanent endowments that do not meet eligibility requirements, as defined by GASB Statement No. 33, are not recorded as assets until the related gift is received. Accordingly, permanent endowment pledges totaling approximately $39,960 and $9,359 at June 30, 2015 and 2014, respectively, were not recognized as assets in the accompanying consolidated financial statements because of uncertainties with regard to their realizability, valuation, bequest intentions and other conditional promises until the specified conditions are met.

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

6. Inventories

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

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

(All dollars reported in thousands)

7. Capital Assets

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

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

Capital assets consist of land, land improvements, infrastructure, buildings, equipment, library materials, and construction in progress. Construction in progress ("CIP") additions represent costs for new projects, net of the amount of capital assets placed in service. CIP is not depreciated until the asset is placed in service. Assets acquired are recorded at cost, or if donated, at appraised value at the date of the gift. Land parcels comprising 5,374 acres, or 22 percent of the University's property, are recorded at the State's value of $1 per parcel. Assets owned by the federal government, although in the custody of the University, are not included in the capital asset total.

(All dollars reported in thousands)

8. Other Noncurrent Assets

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

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

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

Amounts due from and due to the State of Hawai'i at June 30, 2015 and 2014 were as follows:

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

(All dollars reported in thousands)

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

Activity related to amounts due to the State of Hawai'i for general obligation bonds for the year ended June 30, 2015 is as follows:

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

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

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

(All dollars reported in thousands)

General obligation bonds are payable in annual installments, including semi-annual interest payments, with final payment due in July 2017. The bonds mature in designated numerical sequence and are payable from the operations of the University. The interest and principal payments are due as follows:

	Principal	Interest
Series DB	September 1	March 1 and September 1
Series DG	July 1	January 1 and July 1

At June 30, 2015, principal and interest maturities on general obligation bonds are as follows:

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

The general obligation bonds have provisions for early redemption. The premiums on bond redemption, as a percentage of the bond principal redeemed, range from 0.5 percent to 2 percent.

In June 2005, the State issued $772,600 in general obligation Series DG (refunding bonds), of which the University's portion was approximately $145, with a five percent interest rate to advance refund approximately $152 (University's portion) of outstanding general obligation Series CG bonds (refunded bonds) which have been partially defeased. The net proceeds from the issuance of the refunding bonds were placed in an irrevocable trust and were used to purchase securities of the United States government at various interest rates and maturities sufficient to meet the debt service requirements of the refunded bonds.

In September 2003, the State issued $188,700 in general obligation Series DB bonds (refunding bonds) of which the University's portion was approximately $1,299, with interest rates ranging from 2.80 percent to 5.25 percent to advance refund approximately $1,299 (University's portion) of outstanding general obligation Series CG bonds (refunded bonds) which have been partially defeased. The net proceeds from the issuance of the refunding bonds were placed in an irrevocable trust and were used to purchase securities of the United States government at various interest rates and maturities sufficient to meet the debt service requirements of the refunding bonds.

(All dollars reported in thousands)

11. Long-Term Liabilities

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

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

Revenue Bonds Payable

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

	Series	Date Issued	Authorized	2015	2014
Frear Hall Construction, Student Housing System at Mānoa, Food Service System and Student Housing System at Hilo (interest rate, 3.25% to 5.0%)	2006A	December 13, 2006	$ 100,000	$ 87,540	$ 89,825
University Health & Wellness Center (interest rate, 3.5% to 5.0%)	Ref 2006A	October 25, 2006	133,810	123,140	127,420
Various acquisition and construction projects (interest rate, 2.5% to 6.0%)	2009A	April 15, 2009	100,000	89,820	92,195
University's Cancer Center (interest rate, 2.5% to 6.0%)	2010A-1, 2010A-2	October 7, 2010	138,640	127,600	130,495
Various construction projects (interest rate, 2.5% to 6.0%)	2010B-1, 2010B-2	October 7, 2010	154,090	145,830	147,995
Student Housing System at Mānoa and Telecommunications System (interest rate, 2.0% to 5.0%)	2012A(R)	February 22, 2012	8,575	4,655	6,000
			$ 635,115	$ 578,585	$ 593,930

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

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

The University receives funds from the State of Hawai'i Tobacco Settlement Special Fund for the payment of principal and interest on the Refunding Series 2006A bonds to finance the cost of construction of the medical school facility and for annual operating expenses incurred by the facility. The funds received from the State of Hawai'i Tobacco Settlement Special Fund for debt service amounted to $9,924 and $9,926 in 2015 and 2014, respectively.

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

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

(All dollars reported in thousands)

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

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

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

(All dollars reported in thousands)

Bond Premiums

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

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

Note Payable

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

The Note bears interest at the rate of 1.5 percent per annum and is due and payable semi-annually to the Lender on January 1 and July 1 each year until the Note has been paid in full. Under the terms of the Note, repayment each fiscal year is limited and subject to specific appropriations by the State to make such payments. The Note matures on July 16, 2017, at which time the unpaid principal will be due. As of June 30, 2015, $17,000 remains outstanding.

12. Line of Credit (Research Corporation)

The Research Corporation has a revolving line of credit with First Hawaiian Bank in the amount of $5,000 for short-term working capital, expiring on February 1, 2016. The terms of the revolving line of credit require repayment as specified in the credit agreement. All borrowings are collateralized by a security agreement over the Research Corporation's accounts receivable. The rate of interest on borrowings was 3.28 percent at June 30, 2015 and 2014. At June 30, 2015 and 2014, there were no borrowings under this line.

(All dollars reported in thousands)

13. Property Leases

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

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

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

14. Employee Benefits

Employees' Retirement System
General Information on the Pension Plan

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

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

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

Noncontributory Plan

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

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

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

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

Contributory Plan for Employees Hired prior to July 1, 2012

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

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

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

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

Hybrid Plan for Employees Hired Prior to July 1, 2012

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

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

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

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

Hybrid Plan for Employees Hired After June 30, 2012

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

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

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

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

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

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

(All dollars reported in thousands)

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

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

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

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

Actuarial Assumptions

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

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

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

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

(All dollars reported in thousands)

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

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

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

Discount Rate

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

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

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

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

Plan Fiduciary Net Position

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

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

Payable to the Pension Plan

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

Other Benefits

The State absorbs the fringe benefit cost for employees paid from State and federal appropriations. In fiscal years 2014 and 2013, the State appropriated funds to the Department of Budget and Finance to pay for these fringe benefit costs on behalf of the University. Fringe benefit costs included in total revenue and total expenditures amounted to $179,007 and $168,891 for fiscal years 2015 and 2014, respectively.

All regular employees, with certain exceptions, earn vacation leave at the rate of 14 hours for each month of service. Employees who are entitled to annual vacation may accumulate for the succeeding year or years up to 15 working days annual vacation allowance, provided that the total accumulation shall not exceed 90 working days at the end of the calendar year. Accumulated vacation leave earned, but not taken, is reflected as an accrual in the accompanying consolidated financial statements. When termination of services takes place, the employees are paid for their vacation allowance in a lump sum.

Sick leave accumulates at the rate of 14 hours for each full month of service without limit, but can be taken only in the event of an illness and is not convertible to pay upon termination of employment. Accordingly, accumulated sick leave, earned but not taken, is not reflected as an accrual in the accompanying consolidated financial statements. Employees who retire with 60 days of unused sick leave are entitled to three months of service credit in the ERS. For each additional 20 days, or major fraction thereof, of unused sick leave they have in excess of 60 days, their service period is increased by one month. As of June 30, 2015 and 2014, accumulated sick leave approximated $443,641 and $428,237, respectively.

The University's regular employees may enter into deferred compensation arrangements directly with authorized insurance companies or agencies through a payroll deduction plan. Accordingly, the University has no deferred compensation or withholding payable.

The University manages its workers' compensation program. Medical-related payments for fiscal years 2015 and 2014 were $2,377 and $2,080, respectively. Temporary wage loss payments for fiscal years 2015 and 2014 amounted to $795 and $577, respectively.

15. Postemployment Benefits Other than Pensions

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

Plan Description

The State contributes to the Hawai'i Employer-Union Health Benefits Trust Fund ("EUTF"), an agent, multiple-employer defined benefit plan that replaced the Hawai'i Public Employees Health Fund effective July 1, 2003, pursuant to Act 88, SLH of 2001. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees and their dependents. The EUTF issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to:

Hawai'i Employer-Union Health Benefits Trust Fund
City Financial Tower
210 Merchant Street, Suite 1520
Honolulu, Hawai'i 96813

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

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

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

(All dollars reported in thousands)

Funding Policy and Annual OPEB Cost

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

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

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

The University remitted $57,438 and $56,972 in State assessed OPEB contributions for the years ended June 30, 2015 and 2014, respectively. The University's actuarially determined minimum OPEB contribution was $41,400 and $42,000 for the years ended June 30, 2015 and 2014, respectively. The difference between the State assessed and University actuarially determined OPEB contribution is reported net with Transfers from (to) State for Fringe Benefits in the accompanying Consolidated Statements of Revenues, Expenses and Changes in Net Position.

OPEB Summary

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2015	$113,009	36.6%	$650,805
June 30, 2014	$106,832	39.3%	$579,196
June 30, 2013	$142,602	29.2%	$514,364

(All dollars reported in thousands)

Funded Status

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

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

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

Actuarial Methods and Assumptions

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

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

(All dollars reported in thousands)

16. Other Noncurrent Liabilities

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

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

17. State Appropriations

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

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

Act 122, SLH 2014 Section 35, provided $106,110 in general fund appropriations directly to the Department of Budget and Finance to pay for debt service on general obligation bonds issued for the University. As a result, the University itself received no appropriations and made no transfers for debt service on general obligation bonds for the year ended June 30, 2015.

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

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

(All dollars reported in thousands)

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

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

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

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

(All dollars reported in thousands)

18. Blended Component Information

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

Condensed Consolidating Statements of Net Position

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

(All dollars reported in thousands)

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

(All dollars reported in thousands)

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

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

(All dollars reported in thousands)

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

Condensed Consolidating Statements of Cash Flows

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

(All dollars reported in thousands)

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

19. Litigation, Other Contingent Liabilities and Commitments

Hawai'i Revised Statutes §304A-108 stipulates that any liability arising from a claim, action or suit brought against the University shall be payable solely from the moneys and property of the University and shall not constitute a general obligation of the State. The Board of Regents is not precluded from requesting and securing legislative appropriations to fund the settlement of any such claim or judgment against the University.

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

Substantial amounts are received and expended by the University under federal and state programs which are subject to audit by cognizant governmental agencies and independent auditors under OMB Circular A-133. This funding relates to research, student aid and other programs. University management believes that any liabilities arising from such audits will not have a material effect on the University's financial position.

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

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

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

Risk Management

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

Construction and Other Contracts

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

Collective Bargaining Agreements

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

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

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

Pursuant to mutually agreed upon terms specified in CBAs effective from July 1, 2011 through June 30, 2013, certain employees within BUs 1, 2, 3, 4, 8 and 10 were subjected to a five percent salary reduction during fiscal years 2012 and 2013. Thereafter, multi-year, successor CBAs for BUs 1, 2, 3, 4, 8, 9 and 10 were reached between the unions and the Employer in 2013. CBAs pertaining to BUs 2, 3, 4, 8 and 9 were effective for the duration of July 1, 2013 through June 30, 2015. CBAs pertaining to BUs 1 and 10 are now effective for the duration of July 1, 2013 through June 30, 2017. The aforementioned CBAs stipulated across-the-board ("ATB") salary increases or changes to salary schedules that effectively increase salaries in each year covered by the terms of these agreements which have already been legislatively approved.

The Unit 7 faculty members of the University were under a six-year CBA covering the period July 1, 2009 through June 30, 2015. The subject Unit 7 CBA included a provision to temporarily reduce the salaries of faculty paid by appropriated funds by 6.667 percent for 18 months beginning January 1, 2010. Effective July 1, 2011, the salaries of faculty members subjected to the temporary reduction were restored to December 31, 2009 rates (plus any subsequent promotions or special salary adjustments). The Unit 7 CBA stipulated that faculty who were subjected to the mandated temporary salary reduction may be paid one-time lump sum payments equivalent up to the amount of the temporary reduction taken to be paid in fiscal years 2013 (25 percent), 2014 (25 percent) and 2015 (50 percent) all due on August 1st of each respective fiscal year. The Unit 7 CBA also provided for all faculty members to have their base salaries increased by three percent effective July 1, 2013 and July 1, 2014.

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

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

Required Supplementary Information Other Than Management's Discussion and Analysis

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

Net Pension Liability

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

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

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Contributions

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

1. **Changes of benefit terms**

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

2. **Changes of assumptions**

   There were no changes of assumptions in 2015 or 2014.

University of Hawai'i
State of Hawai'i
Schedule of Funding Progress (Unaudited)
Year Ended June 30, 2015
(All dollars reported in thousands)

Postemployment Benefits Other than Pensions

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress

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

Other Supplementary Information

cuity LLP
CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditors on Supplemental Information

To the Board of Regents
University of Hawai'i

The report on our audits of the consolidated financial statements of the University of Hawai'i as of June 30, 2015 and 2014, and for the years then ended, appears on pages 1 and 2. Those audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplemental information (Schedules I, II, III, IV, V, VI, VII, VIII and IX) included hereinafter is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Accuity LLP

Honolulu, Hawai'i
February 11, 2016

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University of Hawai'i
State of Hawai'i
Condensed Statements of Net Position
Condensed Statements of Revenues, Expenses and Changes in Net Position
Current Unrestricted Funds Excluding General Fund and University Bond System
As of and for the Years Ended June 30, 2015 and 2014
(All dollars reported in thousands) **Schedule I**

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

1. Basis of Presentation

The accompanying condensed statements of net position and related condensed statements of revenues, expenses and changes in net position present the financial position and results of operations of certain of the University's Special and Revolving Funds, which are pledged as collateral on the Refunding Series 2006A University Bonds, and are presented on the accrual basis of accounting. The financial information of the Research Corporation of the University of Hawai'i and the University of Hawai'i Foundation is not reflected in this schedule.

(All dollars reported in thousands) Schedule I

2. Employee Benefits

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

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

3. Revisions

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

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

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

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

1. Basis of Presentation

The accompanying schedules of Series 2002A University Bond proceeds activity present the sources and uses of bond proceeds associated with the construction of the John A. Burns School of Medicine facility at Kaka‘ako. The financial information of the Research Corporation of the University of Hawai‘i and the University of Hawai‘i Foundation is not reflected in this schedule.

2. Refinancing

In October 2006, the University refinanced a majority of the outstanding Series 2002A University Bonds through the issuance of Refunding Series 2006A University Bonds and, in September 2015, priced the Series 2015D and 2015E revenue bonds to refinance a portion of the outstanding Refunding Series 2006A University Bonds. The Series 2015D revenue bonds closed on September 24, 2015 and the forward delivery Series 2015E revenue bonds will close on April 20, 2016. Proceeds from the State's settlement agreement with tobacco companies are expected to be utilized to service the debt.

University of Hawai'i
State of Hawai'i
Condensed Statements of Net Position
Condensed Statements of Revenues, Expenses and Changes in Net Position
Current Unrestricted Funds Excluding General Fund
As of and for the Years Ended June 30, 2015 and 2014
(All dollars reported in thousands) Schedule III

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

1. **Basis of Presentation**

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

2. Employee Benefits

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

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

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

Schedule IV

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

1. **Basis of Presentation**

The accompanying schedules of Series 2006A revenue bond proceeds activity present the sources and uses of bond proceeds associated with the construction of the Frear Hall dormitory at the Mānoa campus and repair and maintenance of various housing projects. The financial information of the Research Corporation of the University of Hawai'i and the University of Hawai'i Foundation is not reflected in this schedule.

2. **Refinancing**

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

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

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

1. Basis of Presentation

The accompanying schedules of Series 2009A revenue bond proceeds activity present the sources and uses of bond proceeds associated with the financing of costs of certain University projects. The financial information of the Research Corporation of the University of Hawai'i and the University of Hawai'i Foundation is not reflected in this schedule.

University of Hawai'i
State of Hawai'i
Schedules of Series 2010A Revenue Bond Proceeds Activity
Years Ended June 30, 2015 and 2014
(All dollars reported in thousands) Schedule VI

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

1. Basis of Presentation

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

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

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

1. Basis of Presentation

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

University of Hawai'i
State of Hawai'i
Condensed Statements of Net Position
Condensed Statements of Revenues, Expenses and Changes in Net Position
University Bond System
As of and for the Years Ended June 30, 2015 and 2014
(All dollars reported in thousands) Schedule VIII

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

University of Hawai'i
State of Hawai'i
Condensed Statements of Cash Flows
University Bond System
As of and for the Years Ended June 30, 2015 and 2014
(All dollars reported in thousands) Schedule IX

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

1. Reporting Entity

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

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

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

2. **Basis of Presentation**

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

3. **Employee Benefits**

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

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

UNIVERSITY *of* HAWAI'I
SYSTEM

2016 Annual Financial Report, Required Supplementary Information and Other Supplementary Information University of Hawaii State of Hawaii

University of Hawai'i
State of Hawai'i
Master Index
June 30, 2016 and 2015

CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditors

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the University of Hawai'i (the "University"), a component unit of the State of Hawai'i, as of and for the years ended June 30, 2016 and 2015, and the related notes to the consolidated financial statements, which collectively comprise the University's basic financial statements as listed in the accompanying index.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of the University of Hawai'i Foundation (the "Foundation"), which represent 13.3 percent and 13.5 percent, respectively, of the total assets and deferred outflows of resources and 0.8 percent and 1.1 percent, respectively, of the total operating revenues of the University as of and for the years ended June 30, 2016 and 2015. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the Foundation as of and for the years ended June 30, 2016 and 2015, are based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

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Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University of Hawai'i, as of June 30, 2016 and 2015, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As discussed in Note 1 to the consolidated financial statements, the University adopted new accounting guidance under Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurements*. Our opinion is not modified with respect to this matter.

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

Accuity LLP

Honolulu, Hawai'i
December 15, 2016

Introduction

The following discussion and analysis provides an overview of the consolidated financial position and activities of the University of Hawai'i (the "University") for the years ended June 30, 2016 and 2015, with selected information for the year ended June 30, 2014. 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. Since then, what began as a college of ten students and 13 faculty members on the island of O'ahu has evolved and expanded to a 10-campus system spanning the main Hawaiian Islands. The University's growth over the years has been in response to the research and cultural needs of its educational community, the State of Hawai'i, and beyond.

The University is a multi-institutional system comprised of a major research university (Mānoa), two baccalaureate campuses (Hilo and West O'ahu), seven community colleges (Hawai'i, Honolulu, Kapiolani, Kauai, Leeward, Maui and Windward) and nine educational centers distributed across the State. The University 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).

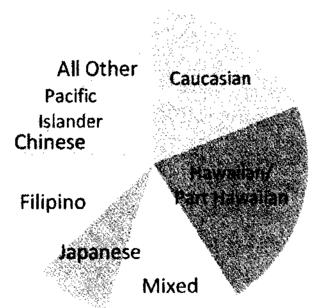
In addition to being an integrated higher education system, the University distinguishes itself through its Hawai'i, Asian and Pacific orientation and its position as one of the world's foremost multicultural centers for global and indigenous studies. Students are members of a population in which no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

Undergraduate	50,011	48,494	51,109
Graduate	5,745	8,558	5,943
Total	**55,756**	**57,052**	**57,052**

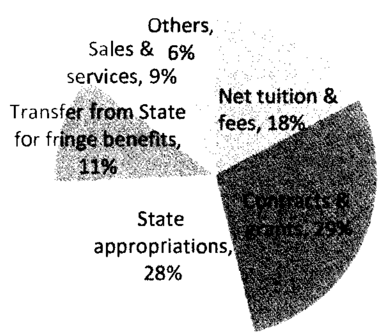
	710
Certificates: Community Colleges	180
Certificates: University	101
Associate degrees	128
Bachelor's degrees	146
Master's degrees	91
Doctoral degrees	59
Professional degrees	5

Hawai'i	85%
Mainland	10%
Foreign	4%
Other	1%

Caucasian	19%
Hawaiian/Part Hawaiian	22%
Mixed	14%
Japanese	8%
Filipino	13%
Chinese	5%
Pacific Islander	3%
All Other	16%



Net tuition and fees	$ 272,306	17%	$ 262,660	$ 248,377
Contracts and grants (including Pell grants)	451,669	29%	456,944	494,321
State appropriations	441,373	28%	413,148	391,266
Transfer from State for fringe benefits	172,248	11%	162,969	153,919
Sales and services	134,787	9%	135,315	130,879
Others	96,249	6%	244,066	292,413
Total	**$ 1,568,632**	**100%**	**$ 1,675,102**	**$ 1,711,175**



Using the Financial Statements

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

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

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

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

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

Related Entities

The University maintains close relationships with two other entities, considered to be component units, whose financial information is blended into the University's accompanying consolidated financial statements. The University of Hawai'i Foundation (the "Foundation") is a not-for-profit organization established to solicit and manage funds for the benefit of the University. The Research Corporation of the University of Hawai'i (the "Research Corporation") provides administrative support services for research and training programs of the University. Both of the University's component units prepare stand-alone financial statements with footnotes, which are audited by independent auditors. Summarized information of the individual components of the University's consolidated financial position, results of operations and cash flows for the years ended June 30, 2016 and 2015 is presented in Note 18 to the consolidated financial statements.

Financial Position

The Consolidated Statements of Net Position present the financial position of the University at the end of the fiscal year and display all assets and liabilities of the University. Assets and liabilities are presented using fair and current values, respectively. Two notable exceptions are receivables and capital assets, which are stated at historical cost less an allowance for doubtful accounts and accumulated depreciation, respectively. The difference between assets and liabilities is net position, representing a measurement of the current financial condition of the University. The University's assets, liabilities and net position at June 30, 2016, 2015 and 2014 are summarized as follows (in thousands of dollars):

	2016	Percentage of Total Assets and Deferred Outflows	2015	Percentage of Total Assets and Deferred Outflows	2014	Percentage of Total Assets and Deferred Outflows	FY 16 vs 15 Change	FY 15 vs 14 Change
Current assets								
Cash and operating investments	$ 401,881	11%	$ 375,052	10%	$ 342,353	10%	$ 26,829	$ 32,699
Receivables, net	104,838	3%	104,711	3%	108,463	3%	127	(3,752)
Other current assets	21,712	1%	24,681	1%	23,597	1%	(2,969)	1,084
Total current assets	528,431	15%	504,444	14%	474,413	14%	23,987	30,031
Noncurrent assets								
Endowment and other investments	475,040	13%	477,243	13%	499,460	14%	(2,203)	(22,217)
Capital assets, net	2,053,385	57%	2,068,691	57%	2,071,850	60%	(15,306)	(3,159)
Other noncurrent assets	388,709	10%	466,840	13%	418,903	12%	(78,131)	47,937
Total assets	3,445,565	95%	3,517,218	96%	3,464,626	100%	(71,653)	52,592
Deferred outflows of resources								
Deferred loss on refunding	11,383	0%	5,251	0%	5,576	0%	6,132	(325)
Deferred outflows on net pension liability	163,699	5%	134,848	4%	-	0%	28,851	134,848
Total deferred outflows of resources	175,082	5%	140,099	4%	5,576	0%	34,983	134,523
Total assets and deferred outflows of resources	$ 3,620,647	100%	$ 3,657,317	100%	$ 3,470,202	100%	$ (36,670)	$ 187,115
Current liabilities	$ 266,951	7%	$ 270,047	7%	$ 263,583	8%	$ (3,096)	$ 6,464
Noncurrent liabilities								
Long-term debt	543,680	15%	561,470	16%	578,585	17%	(17,790)	(17,115)
Net pension liability	1,144,564	32%	1,089,882	30%	-	0%	54,682	1,089,882
Other noncurrent liabilities	828,653	24%	742,335	20%	666,508	18%	86,318	75,827
Total liabilities	2,783,848	78%	2,663,734	73%	1,508,676	43%	120,114	1,155,058
Deferred inflows of resources								
Deferred inflows on net pension liability	111,364	3%	151,162	4%	-	0%	(39,798)	151,162
Total deferred inflows of resources	111,364	3%	151,162	4%	-	0%	(39,798)	151,162
Net position								
Net investment in capital assets	1,504,935	42%	1,503,902	41%	1,519,669	44%	1,033	(15,767)
Restricted								
Nonexpendable	244,396	6%	235,894	6%	218,133	6%	8,502	17,761
Expendable	561,093	15%	644,743	18%	598,070	17%	(83,650)	46,673
Unrestricted	(1,584,989)	-44%	(1,542,118)	-42%	(374,346)	-10%	(42,871)	(1,167,772)
Total net position	725,435	19%	842,421	23%	1,961,526	57%	(116,986)	(1,119,105)
Total liabilities, deferred inflows of resources and net position	$ 3,620,647	100%	$ 3,657,317	100%	$ 3,470,202	100%	$ (36,670)	$ 187,115

Implementation of GASB Statements No. 68 and 71

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

The adoption of Statements No. 68 and 71 has significant impact on the University's financial statements, which requires us to report expenditures and liabilities in the amount statutorily required. Readers of the fiscal year 2015 financial statements should notice that the University's balance sheet showed significant financial impact by the inclusion of the University's proportionate share of the net pension liability for the Employees' Retirement System of the State of Hawai'i ("ERS") plan. The adoption resulted in the restatement of the University's fiscal year 2014 net position. Accordingly, the University's net position as of July 1, 2014 has been restated to $849 million from $1.962 billion, which reflects the retrospective effect of adoption for net pension liability of $1.113 billion. Retroactive implementation of GASB Statement No. 68 was not deemed practical due to the cost and timing required to obtain and analyze the activity covering fiscal year 2014. As such, the University's fiscal year 2014 financial statements are presented in accordance with GASB Statement No. 27.

As of June 30, 2016, the net pension liability increased by $54.7 million to $1.144 billion from $1.090 billion in fiscal year 2015, primarily due to the additional pension expense, the difference between expected and actual experience with economic and demographic factors, effect of changes in assumptions, and the difference between actual and projected earnings on plan investments. Refer to Note 14 for more information regarding the University's pension.

Current Assets and Liabilities

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

The University recorded an increase in working capital the last three fiscal years, which resulted mainly from the implementation of the new financial management policy. In November 2013, the University adopted a financial reserve policy to establish system-wide operating reserves from non-general fund revenue in amounts sufficient to provide continued operations for at least two months with a minimum of five percent unencumbered cash from all tuition and fee funds, special funds, and revolving funds. At June 30, 2016, 2015 and 2014, working capital amounted to $261.5 million, $234.4 million and $210.8 million, respectively. The University is committed to maintaining a prudent level of working capital to fund operations, including pre-funding approximately $390.2 million in extramural grants which were mostly paid on a cost reimbursement basis. Based on the $1.536 billion of operating expenses (excluding depreciation) for the year ended June 30, 2016, the working capital at year end represents approximately 59 days of operating funds, as compared to 53 and 55 days of operating funds in 2015 and 2014, respectively.

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

- Current assets consist primarily of cash and cash equivalents, operating investments and net receivables. Total current assets were $528.4 million, $504.4 million and $474.4 million at June 30, 2016, 2015 and 2014, respectively. Total current assets increased by $24.0 million, or 4.8 percent, at June 30, 2016, primarily due to a $26.8 million increase in cash and operating investments. The increase was made up of the $12.0 million cash balance increase from tuition and fees, the receipt of $3.6 million from revolving funds, the proceeds of $8.5 million from the 2015 revenue bond issuance, offset by the repayment of a $6.0 million advance to the State of Hawai'i for the Snug Harbor project. Total current assets increased by $30.0 million, or 6.3 percent, at June 30, 2015, mainly due to a $32.7 million increase in cash and operating investments for similar reasons as in fiscal year 2016. The increase primarily resulted from the implementation of the financial reserve policy. The cash balance from tuition and fees increased by $20 million in fiscal year 2015, in addition to the $6 million advance from the State of Hawai'i for the Snug Harbor project that was not spent as of June 30, 2015.

- Current liabilities consist primarily of accounts payable, accrued payroll and fringe benefits, advances from sponsor and unearned revenue. Current liabilities also include amounts due to the State of Hawai'i, the current portion of long-term liabilities and other current liabilities. Total current liabilities were $267.0 million, $270.0 million and $263.6 million at June 30, 2016, 2015 and 2014, respectively. Total current liabilities decreased by $3.1 million, or 1.1 percent, at June 30, 2016, primarily due to the decrease in accounts payable of $5.1 million due to decreases in construction in progress expenditures accrued for coupled with a $6.0 million repayment to the State of Hawai'i for the Snug Harbor project. The aggregated decrease is offset by an increase in accrued payroll of $7.4 million in negotiated bonus payments paid in fiscal year 2017. Total current liabilities increased by $6.5 million, or 2.5 percent, at June 30, 2015, primarily due to the increase from the State of Hawai'i for the Snug Harbor $6.0 million project advance.

Endowment and Other Investments

The University's endowment and other investments, including endowments held with the Foundation, decreased by $2.2 million, or 0.5 percent, to $475.0 million at June 30, 2016 as a result of market value decline. The June 30, 2015 decrease of $22.2 million, or 4.4 percent, was primarily due to a $20.0 million reimbursement of preconstruction costs associated with a new facility for the Cancer Research Center, which was put into service in a prior fiscal year. Realized and unrealized losses in fiscal year 2016 totaled $6.1 million, versus $0.1 million realized and unrealized gains in fiscal year 2015. A summarized comparison of the University investments as of June 30, 2016, as follows (in thousands of dollars):

	2016	2015	2014
University of Hawai'i	$ 103.8	$ 104.0	$ 133.7
Foundation	371.2	373.2	365.8
Total	$ 475.0	$ 477.2	$ 499.5

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

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

The University's spending rate policy is to limit the immediate impact that significant changes in the fair value of the endowment portfolio have on annual distributions. The spending rate policy provides for an annual distribution, ranging between three percent and five percent of the five-year moving average of the endowment portfolio's fair value. In fiscal years 2016, 2015 and 2014, the University instituted a 4.5 percent distribution rate on restricted and unrestricted endowments. The total restricted and unrestricted distributions available to the University amounted to $2.6 million, $2.5 million and $2.4 million in fiscal years 2016, 2015 and 2014, respectively.

Capital and Debt Activities

The University's capital assets are separated into seven categories: land, buildings, infrastructure, land improvements, equipment, library materials, and construction in progress. At June 30, 2016, 2015 and 2014, total capital assets, net of accumulated depreciation, remained constant to $2.1 billion, which represented approximately 60 percent of the University's total assets. Capital asset additions totaled $118.5 million, $130.7 million and $186.5 million in fiscal years 2016, 2015 and 2014, respectively, while depreciable capital asset disposals, net of accumulated depreciation, amounted to $8.8 million, $12.5 million and $32.3 million, respectively.

The decreases of the additions in fiscal years 2016 and 2015 were due to the completion of many strategic capital projects in prior years. The decrease of the disposal in fiscal year 2015 was due to one-time large transfer of $5.3 million assets to the Federal government.

Capital Projects

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

Significant capital projects completed during fiscal years 2016 and 2015 or in progress as of June 30, 2016 and 2015 included:

- **William S. Richardson School of Law Clinical Building** – The $7 million William S. Richardson School of Law Clinical Building will break ground on September 30, 2016. The new building will increase teaching and conference space to train law students who serve the community.

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

- **Daniel K Inouye College of Pharmacy** – The $33 million Daniel K Inouye College of Pharmacy broke ground in December of 2014. The 35,000 square foot instructional and research facility will be the permanent home of the Daniel K Inouye College of Pharmacy.

- **Community College Energy Conservation Project** – The $38 million Leeward, Windward, Honolulu, and Kapiolani Community Colleges portion of the energy conservation project was completed on September 11, 2015. The project will reduce the consumption of electricity, water, wastewater and Syngas as well as create a curriculum based on conservation for each campus. The $10 million University of Hawai'i Maui College project is scheduled to be completed in fiscal year 2017. The community colleges are leading the way to reach the University of Hawai'i's goal of net-zero energy by 2035.

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

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

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

- **University of Hawai'i at Mānoa Elevator Modernization Project** – The University of Hawai'i at Mānoa has been working hard to update the elevators in many of the aging buildings. The $7.5 million Phase I, which included seven buildings, was completed in FY 2014. The $11.5 million Phase II, which included eleven buildings, was completed in fiscal year 2016. Phase III and Phase IV are scheduled to be completed in fiscal years 2017 and 2018, respectively.

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 2016, 2015 and 2014, the State appropriated funds directly to the Department of Budget and Finance to pay for debt service on general obligation bonds issued for the University. As a result, the University itself received no appropriations and made no transfers for debt service on general obligation bonds for these fiscal years. In fiscal years 2016, 2015 and 2014, $106.8 million, $106.1 million and $101.0 million, respectively, were appropriated.

- **Revenue bonds** – The University also issued revenue bonds to finance capital projects. These bonds are carried as liabilities of the University. Total revenue bonds liabilities were $562.6 million, $578.6 million and $593.9 million for fiscal years 2016, 2015 and 2014, respectively. The University revenue bonds were assigned municipal bond ratings of "A+," "Aa2" and "AA" by Standard & Poor's, Moody's Investors Service and Fitch Ratings, respectively. The University has appropriated funds, by statute, from the State of Hawai'i Tobacco Settlement Special Fund for the payment of principal and interest on revenue bonds to finance the cost of construction of the medical school facility and for annual operating expenses incurred by the facility. The University received State of Hawai'i Tobacco Settlement funds in the amount of $9.5 million, $9.9 million and $9.9 million in fiscal years 2016, 2015 and 2014, respectively, to cover debt service for the bonds that financed the medical school facility. Refer to Note 11 for more information regarding the University revenue bonds.

- **Loan agreement** – On May 4, 2012, the University entered into a five-year, unsecured loan agreement ("Note") with Hawai'i Regional Center LP III ("Lender") for a commitment amount not to exceed $18 million, subject to certain limitations. The proceeds were used to facilitate and fund construction of the UH-West O'ahu campus located at Kapolei, Hawai'i. The Note bears interest at the rate of 1.5 percent per annum, which is due and payable semi-annually to the Lender on January 1 and July 1 each year until the Note has been paid in full. Under the terms of the Note, repayment each fiscal year is limited and subject to specific appropriations by the State to make such payments. The Note matures on April 22, 2018, at which time the unpaid principal will be due. As of June 30, 2016, $17 million remains outstanding.

Net Position

Net position represents the residual interest in the University's assets after liabilities are deducted. At June 30, 2016, 2015 and 2014, total net position amounted to $725.4 million, $842.4 million and $2 billion, respectively. Net position is reported in four major categories: net investment in capital assets, restricted nonexpendable, restricted expendable and unrestricted. The University's net position at June 30, 2016, 2015 and 2014 is summarized as follows (in thousands of dollars):

	2016	2015	2014
Net investment in capital assets	$ 1,504,935	$ 1,503,902	$ 1,519,669
Restricted – Nonexpendable	244,396	235,894	218,133
Restricted – Expendable	561,093	644,743	598,070
Unrestricted	(1,584,989)	(1,542,118)	(374,346)
Total net position	$ 725,435	$ 842,421	$ 1,961,526

Net investment in capital assets is the University's capital asset, net of accumulated depreciation and the related outstanding debt used to finance the acquisition, construction or improvement of those assets. The net investment in capital assets increased by $1 million in fiscal year 2016, primarily due to $124.9 million of depreciation expense, $8.8 million in net disposals offset by a $16.0 million decrease in related debt and $118.4 million of capital asset additions. In fiscal year 2015, the net investment in capital assets reduced by $15.8 million from prior year due to $121.4 million of depreciation expense, $12.5 million in net disposals, and $12.6 million decrease in related debt offset by $130.7 million of capital asset additions.

Restricted nonexpendable net position primarily represents the University's and Foundation's permanent endowment funds, which are required to be maintained in perpetuity and amounted to $244.4 million, $235.9 million and $218.1 million at June 30, 2016, 2015 and 2014, respectively. The increases of $8.5 million and $17.8 million in fiscal years 2016 and 2015, respectively, were primarily attributable to new permanent endowment gifts received.

Restricted expendable net position is subject to externally imposed restrictions governing their use. Net position was restricted for the following purposes at June 30, 2016, 2015 and 2014 (in thousands of dollars):

	2016	2015	2014
Plant facilities	$ 319,809	$ 386,742	$ 327,195
Donor-restricted activities	210,404	224,904	234,200
Loan activities	37,229	24,363	24,173
External sponsor activities	(6,349)	8,734	12,502
	$ 561,093	$ 644,743	$ 598,070

In fiscal year 2016, the overall decrease of $83.7 million in restricted expendable net position was primarily attributable to the spending of State capital appropriations received in the prior year. In fiscal year 2015, the overall increase of $46.7 million in restricted expendable net position was attributable to a $56.8 million increase in State capital appropriations to fund construction for the UH-West O'ahu Administration and Allied Health Facility and the UH-Hilo College of Pharmacy.

Net position that is not subject to externally imposed restrictions governing their use is classified as unrestricted for financial reporting purposes. At June 30, 2016, 2015 and 2014, unrestricted net positions amounted to deficits of $1.58 billion, $1.54 billion and $374.3 million, respectively. Although unrestricted net position is not subject to externally imposed restrictions, all of the University's unrestricted net positions has been internally designated for various academic and research programs and initiatives, contractual commitments, and capital projects. In addition, unrestricted net positions of $37.6 million, $45.0 million and $46.7 million were designated for endowment activities at June 30, 2016, 2015 and 2014, respectively.

In addition to the pension liability restatement from the retrospective adoption of GASB Statements No. 68 and 71, the reduction in unrestricted net positions for the years ended June 30, 2016 and 2015 was caused by the University's required accounting and recognition of the University's allocated share of the State of Hawai'i's actuarially determined total other postemployment benefits ("OPEB") liability. Similar to other state and local governments, the State of Hawai'i ("State") plan has been paid on a "pay as you go" basis, which resulted in the OPEB liability growing substantially each year. As a result, unrestricted net position continues to decline, despite the unrestricted net position of the University from operations showed growth. The University's share of the OPEB liability as of June 30, 2016, 2015 and 2014 was $722.8 million, $650.8 million and $579.2 million, respectively. Annual required OPEB contribution payments, on a "pay as you go" basis, towards this liability were paid directly by the State Department of Budget and Finance from its general fund appropriation and not out of the University's operating budget appropriation. The University made contributions calculated as part of the State's total contribution requirements and were reimbursed to the State's General Fund as part of the fringe benefit rate on University employees' actual salaries.

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

	2016	2015	2014
Unrestricted net position	$ (1,584,989)	$ (1,542,118)	$ (374,346)
Pension liability	1,144,564	1,089,882	-
OPEB liability	722,757	650,805	579,196
Adjusted net unrestricted position	$ 282,332	$ 198,569	$ 204,850

Results of Operations

The Consolidated Statements of Revenues, Expenses and Changes in Net Position are a presentation of the University's results of operations for the year. It indicates whether the financial condition of the University improved or deteriorated. For financial reporting purposes, certain significant revenues, including state appropriations, private gifts and investment income, which are relied upon and budgeted to support the University's core operations, are required to be reported as nonoperating revenues. The University's results of operations for the years ended June 30, 2016, 2015 and 2014 summarized to match revenues supporting core activities with expenses associated with core activities, are as follows (in thousands of dollars):

	2016		2015		2014		Increase (Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	FY 16 vs 15 Change	FY 15 vs 14 Change
Revenues								
Operating								
Tuition and fees	$ 403 411	30.2%	$ 392 471	30 0%	$ 377.550	27 4%	$ 10.940	$ 14 92˙
Less. Scholarship allowances	(131,105)	-9 8%	(129.811)	-9.9%	(129.173)	-9.4%	(1.294)	(638)
Grants and contracts	390 231	29.2%	390.800	29 9%	427.056	30.9%	(569)	(36.256)
Sales and services	134.787	10.1%	135.315	10 3%	130.879	9.5%	(528)	4.436
Other revenue	2.211	0.2%	2.568	0.2%	2.935	0.2%	(357)	(367)
Total operating revenues	799.535	59.9%	791.343	60.5%	809.247	58 6%	8.192	(17.904)
Nonoperating								
State appropriations	441 373	33 0%	413.148	31.6%	391.266	28 3%	28,225	21 882
Federal Pell grant	61.438	4.6%	66.144	5 1%	67,265	4.9%	(4,706)	(1 121)
Net investment income	679	0 1%	4.659	0 4%	51,520	3 7%	(3,980)	(46.861)
Private gifts	32.382	2 4%	32.600	2.5%	61.127	4.4%	(218)	(28.527)
Total nonoperating revenues	535,872	40.1%	516.551	39.5%	571.178	41 4%	19.321	(54.627)
Total revenues supporting core activities	1.335.407	100.0%	1.307.894	100.0%	1.380.425	100.0%	27.513	(72.531)
Expenses								
Operating								
Compensation and benefits	1.113.771	75 2%	1.093.021	73.1%	1.070.419	71 0%	20.750	22.602
Supplies. services and cost of goods sold	202.157	13 6%	205.833	13.8%	238.687	15 8%	(3.676)	(32.854)
Telecom and utilities	64.633	4.4%	72 282	4 8%	79.860	5 3%	(7.649)	(7 578)
Scholarships and fellowships	43.440	2 9%	49.302	3 3%	50.835	3.4%	(5.862)	(1.533)
Other expense	111.615	7 5%	112.076	7.5%	110.597	7.3%	(461)	1.479
Total operating expenses	1.535.616	103 6%	1.532.514	102.4%	1.550.398	102.8%	3.102	(17.884)
Nonoperating (revenues) expenses								
Transfers from State. net	(200.216)	-13 5%	(191.584)	-12.8%	(183.460)	-12.2%	(8.632)	(8 124)
Transfers (from) to Federal – capital assets	(4.081)	-0.3%	5.315	0.4%	4 156	0.3%	(9.396)	1 159
Interest expense	25,064	1 7%	27.523	1.9%	26.690	1.8%	(2.459)	833
Total nonoperating revenues	(179.233)	-12.1%	(158.746)	-10.5%	(152 614)	-10 1%	(20.487)	(6.132)
Expenses associated with core activities before depreciation	1.356,383	-	1.373.768	-	1.397.784	-	(17.385)	(24,016)
Loss from core								
Loss from core activities before depreciation	(20.976)	-	(65.874)	-	(17.359)	-	44.898	(48.515)
Depreciation	124.937	8.5%	121.378	8 2%	109.458	7.3%	3.559	11.920
Expenses associated with core activities including depreciation	1,481.320	100 0%	1 495.146	100 0%	1.507,242	100 0%	(13.826)	(12.096)
Loss from core activities	(145.913)		(187.252)		(126.817)		$ 41.339	$ (60.435)
Other nonoperating activity								
Capital gifts and grants	28.122		165.904		146.068			
Permanent endowment	9,254		19.426		9.502			
Other expenses. net	(8,449)		(4.391)		(4.124)			
Other nonoperating income net	28,927		180.939		151,446			
Increase (decrease) in net position	(116 986)		(6.313)		24 629			
Net position								
Beginning of year	842.421		1.961.526		1.936.897			
Adjustment for change in accounting principle	-		(1.112.792)		-			
Beginning of year as restated	842.421		848,734		1.936.897			
End of year	$ 725.435		$ 842.421		$ 1.961.526			

Revenues Supporting Core Activities

The University has a diversified stream of revenues to support its operations. No single source generated more than 35 percent of the total 2016 revenue. State appropriations and tuition and fees are the core components that support the University's instructional and academic programs. Government and nongovernmental grants and contracts provide opportunities for under-graduate and graduate students to participate in basic research with renowned researchers. Private gifts contribute toward the support of the University's instructional and academic initiatives. Sales and services revenues include revenues from educational departments and auxiliary enterprises, including bookstores, student and faculty housing, food services, parking and athletics.

Tuition and fees revenue, net of scholarship allowances, was up by $9.6 million, or 3.7 percent, to $272.3 million in fiscal year 2016. The increase in fiscal year 2015 was $14.3 million, or 5.8 percent, to $262.7 million. The increases in fiscal years 2016 and 2015 were primarily attributable to the increase in tuition rates between 4 percent and 5 percent among all campuses offset by a decline in enrollment. Scholarship allowances amounted to $131.1 million, $129.8 million and $129.2 million in fiscal years 2016, 2015 and 2014, respectively.

One of the largest sources of revenue (29 percent) was grants and contracts. Total revenues from federal, state and local grants, and contracts and nongovernmental sponsored programs was relatively flat in fiscal year 2016 as compared to 2015. The University like other research institutions across the country continues to weather an extremely challenging funding landscape brought on by the lingering effects of sequestration, uncertainties in agency funding, budget cuts and the realignment of R&D funding priorities. The grants and contracts revenue amounted to $390.2 million, $390.8 million and $427.0 million in fiscal years 2016, 2015 and 2014, respectively.

Sales and services revenues, which are mainly comprised of bookstores, student and faculty housing, food services, parking and athletics, was down by $0.5 million, or 0.4 percent, to $134.8 million in fiscal year 2016. The decrease was primarily attributable to the decline in textbook sales, where the University faced increasing competition with online retailers and direct marketing from publishers. Sales and services revenues increased by $4.4 million, or 3.4 percent, to $135.3 million in fiscal year 2015 from fiscal year 2014. The increase was primarily attributable to the increase in revolving fund project activity.

General state appropriations increased significantly by $28.2 million, or 6.8 percent, to $441.4 million in fiscal year 2016 and by $21.9 million, or 5.6 percent, to $413.1 million in fiscal year 2015. The State of Hawai'i continued to provide strong financial support to the University as the sole public higher education system within the State. The additional funding in fiscal year 2016 included $6.3 million for performance based funding, $1.2 million for Title IX compliance support, $19.3 million for salary increase negotiated by the collective bargaining agreements, and $1.4 million for other mission critical programs. The increase in fiscal year 2015 was mainly attributable to an increase in legislative appropriations to pay for in faculty union contracts, and to address the need for increased administrative support at the UH-West O'ahu campus due to increased enrollment.

The University's net investment income for fiscal year 2016, as compared to fiscal year 2015, went down by $4.0 million, or 85.4 percent. The fiscal year 2016 decrease was mainly due to the decrease in realized gain of $7.8 million offset by the decrease in unrealized loss and other investment loss of $1.5 million and $1.4 million, respectively. The University's net investment income for fiscal year 2015, as compared to fiscal year 2014, also decreased by $46.8 million, or 91 percent, mainly due to the decrease in realized gain of $13.6 million and unrealized gain of $31.1 million, which was in line with the decrease in the market performance in fiscal year 2015.

The components of net investment income for the years ended June 30, 2016, 2015 and 2014 were as follows (in thousands):

	2016	2015	2014	Increase (Decrease) FY 16 vs 15 Change	Increase (Decrease) FY 15 vs 14 Change
Interest and dividend income	$ 8,640	$ 7,974	$ 7,621	$ 666	$ 353
Net realized gains	572	8,336	21,904	(7,764)	(13,568)
Net unrealized gains (losses)	(6,703)	(8,232)	22,826	1,529	(31,058)
Other, net	(1,830)	(3,419)	(831)	1,589	(2,588)
	$ 679	$ 4,659	$ 51,520	$ (3,980)	$ (46,861)

Private gifts, most of which are restricted as to use, stayed relatively consistent at $32.4 million in fiscal year 2016 compared to $32.6 million in fiscal year 2015. Private gifts decreased by $28.5 million, or 47 percent, to $32.6 million in fiscal year 2015 compared to $61.1 million in fiscal year 2014. The decrease was primarily attributable to a one-time $40 million donation received in fiscal year 2014 offset by a one-time $5.7 million donation received in fiscal year 2015.

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 75.2 percent during fiscal year 2016, 73.1 percent during fiscal year 2015 and 71.0 percent during fiscal year 2014, were related to compensation and benefits.

Compensation and benefits went up by $21.0 million, or 1.9 percent, to $1,114 million in fiscal year 2016 as compared to fiscal year 2015 and increased by $22.6 million, or 2.1 percent, to $1,093 million in fiscal year 2015 as compared to fiscal year 2014. The fiscal year 2016 increase was attributable to a 4.0 percent pay increase, or $3.1 million, and one-time pay bonus, or $7.4 million negotiated by the collective bargaining agreements, and an increase in fringe benefits of $9.3 million. The increase of OPEB assessment was a result from the enacted Act 268, SLH 2013 during the 2013 legislative session. The Act requires the State and the University to fully fund the Annual Required contribution as determined by an actuary within 30 years. The University recognized $117.1 million, $113.0 million and $106.8 million postretirement health and life insurance benefits in fiscal years 2016, 2015 and 2014, respectively. The increases in postretirement health and life insurance benefits in fiscal years 2016 and 2015 were a result of year-to-year increases in the payroll expense actuarial assumptions.

Supplies, services and cost of goods sold expense includes service fees, printing and binding, advertising, dues and subscriptions, controlled property acquisitions, cost of goods sold for resale items, and other miscellaneous operating costs. In fiscal year 2016, such expenses decreased by $3.7 million, or 1.8 percent, to $202.2 million as compared to fiscal year 2015. The fiscal year 2016 decrease was primarily attributable to decreases in purchases of supplies, federal property acquisitions, and other miscellaneous operating costs offset by increases in controlled property acquisitions and cost of goods sold. In fiscal year 2015, such expenses decreased by $32.9 million, or 13.8 percent, to $205.8 million as compared to fiscal year 2014. The fiscal year 2015 decrease was primarily attributable to the decrease in sponsored project expenditures due to the sunset of American Recovery and Reinvestment Act of 2009 funds.

The University is committed to providing affordable yet quality education to its students. To accomplish this goal, student aid is provided in the form of scholarships and fellowships, including tuition and fee waivers applied to student accounts and reflected as reductions and allowances to student tuition and student housing revenues, and scholarship and fellowship payments (mostly academic and athletic) made directly to students. Total aid to students decreased by $4.6 million, or 2.6 percent, to $174.5 million in fiscal year 2016 as compared to prior year. The decrease was primarily attributable to the number of Pell grants awarded, and the contributing factors were: 1) decreased enrollment and 2) increase in overall household income that stemmed from the effect of the low unemployment rate in Hawai'i that took families out of the Pell grant eligibility. Total aid to students also decreased by $1 million, or 0.5 percent, to $179.1 million in fiscal year 2015 as compared to the prior fiscal year 2014 for similar reasons.

The University depreciates its capital assets over their estimated useful lives using the straight-line method. Depreciation expense increased by $3.6 million, or 2.9 percent, to $124.9 million during fiscal year 2016 as compared to fiscal year 2015. The increase in fiscal year 2016 was primarily attributable to building and equipment additions and reclassifications from construction in progress. Depreciation expense increased by $11.9 million, or 10.9 percent, to $121.4 million during fiscal year 2015 as compared to fiscal year 2014. The increase in fiscal year 2015 was primarily attributable to building and equipment additions and reclassifications from construction in progress.

Transfers from State amounted to $200.2 million, $191.6 million and $183.5 million in fiscal years 2016, 2015 and 2014, respectively. Transfers from State were primarily for fringe benefit expense paid by the State for the University, the tobacco settlement moneys paying for John A. Burns School of Medicine revenue bond debt service, and the UH Cancer Center cigarette stamp tax collections. The increase in Transfer from State for both fiscal years 2016 and 2015 were primarily attributable to the increase in fringe benefit rates.

The Cigarette Tax and Tobacco Tax Law, HRS section 245-15, effective July 1, 2006, established the Hawai'i Cancer Research Special Fund. The cigarette stamp tax, beginning October 1, 2006, provides revenues to support research and operating expenses to this fund as follows:

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

Other Nonoperating Activities

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

In fiscal year 2016, capital gifts and grants, including state capital appropriations and transfers, decreased by $137.8 million, or 83.0 percent, to $28.1 million compared to $165.9 million in fiscal year 2015. In fiscal year 2015, there was an increase of $19.8 million, or 13.6 percent, compared to $146.1 million in fiscal year 2014. The decrease in fiscal year 2016 was primarily attributable to the decrease of capital appropriations from the State of Hawai'i by $145.3 million, or 89.8 percent, to $16.5 million compared to the increase of capital appropriations in fiscal year 2015 of $19.8 million. Other capital gifts and grants during fiscal year 2016 included federal capital grants of $4.8 million and private capital gifts and grants of $1.1 million. During fiscal year 2015, other capital gifts and grants included federal capital grants of $4.5 million and private capital gifts and grants of $0.6 million.

Cash Flows

The Consolidated Statements of Cash Flows present the University's significant sources and uses of cash and cash equivalents, including restricted cash balances. The University's cash is comprised primarily of cash held with the State Treasury, demand deposits, and time certificates of deposit with an original maturity of three months or less. A summary of the University's cash flows for the years ended June 30, 2016, 2015 and 2014 are as follows (in thousands of dollars):

	2016	2015	2014	FY 16 vs 15 Change	FY 15 vs 14 Change
Cash received from operations	$ 799,112	$ 804,374	$ 799,092	$ (5,262)	$ 5,282
Cash payments for operations	(1,293,552)	(1,299,687)	(1,314,062)	6,135	14,375
Net cash used in operating activities	(494,440)	(495,313)	(514,970)	873	19,657
Net cash provided by noncapital financing activities	560,769	538,775	508,527	21,994	30,248
Net cash used in capital and related financing activities	(43,518)	(41,419)	(50,446)	(2,099)	9,027
Net cash provided by (used in) investing activities	(9,443)	23,461	42,492	(32,904)	(19,031)
Net increase (decrease) in cash	13,368	25,504	(14,397)	(12,136)	39,901
Cash					
Beginning of year	89,811	64,307	78,704	25,504	(14,397)
End of year	$ 103,179	$ 89,811	$ 64,307	$ 13,368	$ 25,504

The University's cash and cash equivalents increased by $13.4 million, or 14.9 percent, to $103.1 million at June 30, 2016 from $89.8 million at June 30, 2015. During fiscal year 2016, $494.4 million in cash was used for operating activities, offset by $560.8 million in cash provided by noncapital financing activities. Net cash used in capital and related financing activities and investing activities amounted to $43.5 million and $9.4 million in fiscal year 2016.

The net cash used in operating activities was reduced by $0.9 million and $19.7 million in fiscal years 2016 and 2015, respectively. The reduction was the result of the implementation of the financial reserve policy that required the University to reserve at least two months of working capital with a minimum of five percent unencumbered cash from non-general fund revenue.

The $2.1 million increase in net cash used in capital and related financing activities in fiscal year 2016 as compared to fiscal year 2015 was primarily attributable to a reduction of capital appropriation received from the State of Hawai'i of $25.8 million and $12.0 million due to the advance and repayment of funds to the State of Hawai'i offset by a decrease in capital asset purchases of $28.5 million and the receipt of proceeds from the Series 2015A bond issuance of $8.6 million. The $9.0 million decrease in cash used in capital and related financing activities in fiscal year 2015 as compared to fiscal year 2014 was primarily attributable to a decrease in capital asset purchases of $44.2 million, offset by an increase in capital gifts and grants of $11.4 million and a $20.0 million transfer of funds for reimbursement of preconstruction costs associated with the UH Cancer Center.

Looking Forward

The University of Hawai'i is one of the most important economic engines in Hawai'i with a total estimated impact of $3.61 billion on Hawai'i's economy. In relation to this, the University is impacted by Hawai'i's economy in its enrollment and funding received from the State of Hawai'i and gift donors. Looking toward the future, Hawai'i's economy is expected to continue positive growth into 2017, according to the State Department of Business, Economic Development & Tourism. The tourism and construction industries are projected to remain strong, while the government and military sectors will continue to stay relatively unchanged. Hawai'i's robust economy has kept the unemployment rate low at 3.4 percent as of August 2016.

As the sole provider of public higher education in Hawai'i, the University plays a vital role in improving the social, economic and environmental well-being of current and future generations. To effectively provide higher education to the community, the University has developed and is implementing the University of Hawai'i Strategic Directions, 2015–2021, built upon previous work outlined in the Strategic Outcomes and Performances Measures, 2008–2015, that will guide the University's priorities for the next three biennia to achieve the outcomes directed by the Board of Regents (the "Board").

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

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

Enrollment and Tuition

According to the 2016 College Affordability Diagnosis by the Pennsylvania State University Graduate School of Education, University of Hawai'i community colleges are the most affordable public, two-year institutions of higher education in the nation. Hawai'i ranked as the third overall for most affordable state when considering the percentage of family income required for residents to finance the full cost of a public higher education. The University at Mānoa puts Hawai'i in 5th place among states in providing affordable access to a public research university education, and the state ranks 7th in affordable access to a public, four-year, non-doctoral institutions through the University of Hawai'i at Hilo and at West O'ahu.

The University's enrollment continues to trend downward since peaking in 2010, however, the likely reasons are varied. Since 2010, the State economy has significantly improved each year following the recession. The University has also been very successful on a number of its initiatives to increase graduation rates, to increase the speed at which student matriculate, and working with public high schools to graduate their students with University-granted college credits. Looking within the long-term historical context, overall enrollment at the University of Hawai'i remains high. The peak associated to the Great Recession is perceived to be anomalously high. Fall census headcount comparisons are as follows:

	Fall 2016	% Change	Fall 2015	% Change	Fall 2014
Mānoa	18,056	-4.3	18,865	-3.3	19,507
Hilo	3,666	-4.3	3,829	-2.4	3,924
West O'ahu	2,939	9.2	2,692	1.2	2,661
Community Colleges	28,757	-5.3	30,370	-1.9	30,960
Total	53,418	-4.2	55,756	-2.3	57,052

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

The University is committed to provide financial aid to achieve its affordability objective. The total financial aid, including aid from federal, State and private grants and awards, provided to undergraduate students were $121.0 million, $120.4 million and $119.4 million in academic years 2015, 2014 and 2013, respectively.

In Hawai'i, experts estimate 70 percent of jobs will require at least an associate's degree by 2020. Only 44 percent of working-age residents had such a degree in 2014. The University of Hawai'i has an enormous opportunity to provide affordable higher education while increasing enrollment in the State of Hawai'i.

Extramural Funds

The extramural fund awards include a mix of research and non-research programs that provide financial stability and balance to the University. About 40-50 percent of the projects are non-research in nature and are intended for training, workforce development, outreach and community services, clinical trials, and others.

The University like other research institutions across the country continues to weather an extremely challenging funding landscape brought on by the lingering effects of sequestration, uncertainties in agency funding, budget cuts and the realignment of R&D funding priorities. Despite these challenges, the University research enterprise worked diligently to halt three straight years of decline in extramural award funding and managed a slight increase in fiscal year 2015.

Unfortunately, despite continued efforts, fiscal year 2016 Extramural Awards closed at $391 million, a decrease of eight percent as compared to last year's tally of $425 million. In addition to the difficult funding environment, the University also absorbed a number of setbacks that contributed to the decrease, including the end of a four-year workforce training initiative by the U.S. Department of Labor for programs in cyber security and health, the absence of a large U.S. Navy task order for Applied Research Laboratory, and a decrease in extramural funding at the University of Hawai'i at Hilo.

While research funding will continue to remain a challenge at the University for years to come, we will continue to align our research enterprise with national science and technology funding priorities, while helping to address the critical challenges of the nation and our state. We have made headway in building a pipeline of revenue generating awards in fiscal year 2017:

- $20M grant from the National Science Foundation's Experimental Program to Stimulate Competitive Research ("EPSCoR") for its 'Ike Wai collaboration, a five-year study of water sustainability issues.

- $8.5 million from the Office of Naval Research for its Asia-Pacific Research Initiative for Sustainable Energy Systems ("APRISES") to continue testing and evaluation of renewable generation and power systems controls for smart- and micro-grids.

- $8M in two separate awards from the National Cancer Institute to study cancer risk in multi-ethnic groups.

Facilities and Infrastructure

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

Meanwhile, the State of Hawai'i Legislature continued its strong financial support to the University's capital improvement program and provided general obligation bond appropriations for the 2015–2017 and 2013–2015 fiscal biennia that were approximately $365.5 million and $390 million, respectively. In September 2015, the University also issued Series 2015-A Taxable Revenue Bonds to help fund two new strategic construction projects: $5 million for the Hilo College of Pharmacy and $3.5 million for the Law School. Both projects included state funds of $28 million and $3.5 million, respectively, in general obligation ("GO") bond funds.

Improvement and modernization of the University's physical assets is key to delivering the University's strategic directions that strives for 21st century facilities for learning, teaching and research. The University has developed a six-year CIP plan for fiscal years 2018–2023 (the "6-Year CIP Plan") that will set forth a vision of a physical environment that supports and augments the high quality education and research that takes place at our University. It also presents a coordinated, long-term strategy that (1) prioritizes classrooms, laboratories and student spaces with a focus on improving the learning and research environment, 2) targets those facilities with the highest utility and poorest conditions through upgrade to the interior/exterior structures, building roofs, mechanical and electrical systems, pedestrian pathways and roadways, and 3) changes the paradigm on how the University manages its space. This 6-year CIP Plan is organized in four categories: Major Capital Improvement Projects; Renew, Improve & Modernize Projects ("RIM Projects"); Minor Capital Improvement Projects; and Planning Projects. The University believes this plan will move us toward a multi-faceted approach that improves the quality of learning and research environment, through the lens of our students and faculty, while addressing our deferred maintenance backlogs. We have projected to reduce the current deferred maintenance of $496.3 million to $327.3 million in fiscal year 2023 under this plan.

Fundraising

The University launched a seven-year $500 million fundraising campaign and began its "quiet phase" on July 1, 2011. Since the launch of the campaign, the University has consistently exceeded the fundraising goals. In fiscal year 2016, the University had raised $66.1 million as compared to $129.0 million in fiscal year 2015 and $98.6 million in fiscal year 2014.

State General Fund Appropriations

The State of Hawai'i continues to provide strong support to the University as the sole provider of public higher education in Hawai'i. When compared to other universities in the nation, the University is well supported by the State and is ranked 11th in the category of higher education operating appropriation per full-time equivalent in 2014. The Hawai'i Governor supported, and the State Legislature appropriated, an increase of $28.2 million, or 6.8 percent, in general funds to the University's fiscal year 2017 operating budget. These funds were allocated throughout the campuses to reward academic performance and fund faculty salary increases that were negotiated through collective bargaining agreements and other special programs.

Future general fund appropriations are dependent upon the financial health of the State, State Council of Revenues projections and priorities yet to be articulated by the Governor and State legislature. The current outlook shows positive signs. The State ended fiscal year 2016 with general fund surplus exceeding $1 billion, although it was a single point of data. The Council on Revenues forecasted a 5.5 percent growth for fiscal year 2017. However, tax revenue collections for the current fiscal year through September 2016 were down 3.3 percent compared to the previous fiscal year. In addition, ERS (retirement) and OPEB (health fund) unfunded liabilities for the State are roughly $18 billion. To continue to provide quality and affordable education to the residents of Hawai'i, the University has been working hard with lawmakers to advance the University's needs and priorities.

Hawai'i Graduation Initiative and 15 to Finish Campaign

Hawai'i Graduation Initiative ("HGI") is a system-wide strategic initiative that focuses on increasing the number of educated citizens within the state. HGI is aligned with the Hawai'i P-20 goal to increase the number of working age adults in the state who hold a degree to 55 percent by 2025. Because of this focused effort, the UH campuses have increased the number of degrees and certificates awarded to 11,680 or by 46 percent since 2008.

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

The campaign has garnered national attention. To date, *15 to Finish* campaigns have been implemented by seven states at scale and an additional 120 institutions nationwide. An additional seven states have committed to launching campaigns in 2017. At Complete College America's 2016 Annual Convening of the Alliance in November, the UH System was the inaugural recipient of two President's Awards, one of which was for the *15 to Finish* campaign. The President's Award recognizes innovation and outstanding contributions to national college completion efforts.

Hawai'i Innovation Initiative

To leverage its distinctive strengths in earth and ocean sciences, astronomy, evolutionary biology, and energy research, the University is continuing our efforts to spearhead the Hawai'i Innovation Initiative, a proactive partnership between the University, the private sector and government to create a third economic driver for the state based on the University's research. Our XLR8UH venture accelerator program has developed 15 startup companies, generated over $600,000 in revenue and secured $7.8 million in total funding. In March 2016, we launched the i-Lab, a reconfigurable working space for students in cross disciplines to engage in innovation and entrepreneurial projects; and in July 2016, the Pacific Asian Center for Entrepreneurship ("PACE") at Mānoa's Shidler College of Business opened their version of the i-Lab called sPACE. Finally, we will again be hosting the second annual Future Focus innovation conference in October 2016 – this year focusing on medical research, cyber security and entrepreneurship.

University of Hawai'i
State of Hawai'i
Consolidated Statements of Net Position
June 30, 2016 and 2015
(All dollars reported in thousands)

	2016	2015
Assets and Deferred Outflows of Resources		
Current assets		
Cash and cash equivalents	$ 103,179	$ 89,811
Operating investments	298,702	285,241
Due from State of Hawai'i	102	188
Accounts receivable, net	86,913	87,719
Current portion of notes and contributions receivable, net	16,972	16,221
Accrued interest receivable	851	583
Inventories	10,250	11,765
Prepaid expenses and other current assets	11,462	12,916
Total current assets	528,431	504,444
Noncurrent assets		
Due from State of Hawai'i	329,751	399,144
Endowment and other investments	475,040	477,243
Notes and contributions receivable, net	40,068	48,155
Capital assets, net	2,053,385	2,068,691
Other noncurrent assets	18,890	19,541
Total noncurrent assets	2,917,134	3,012,774
Total assets	3,445,565	3,517,218
Deferred outflows of resources		
Deferred loss on refunding	11,383	5,251
Deferred outflows on net pension liability	163,699	134,848
Total deferred outflows of resources	175,082	140,099
Total assets and deferred outflows of resources	$ 3,620,647	$ 3,657,317
Liabilities, Deferred Inflows of Resources and Net Position		
Current liabilities		
Accounts payable	$ 51,596	$ 56,702
Accrued payroll and fringe benefits	66,300	57,434
Advances from sponsors	34,002	33,979
Unearned revenue	46,314	48,361
Due to State of Hawai'i	6,294	12,510
Current portion of long-term liabilities	55,216	51,923
Other current liabilities	7,229	9,138
Total current liabilities	266,951	270,047
Noncurrent liabilities		
Accrued vacation	45,251	44,618
Accrued workers' compensation	11,747	9,926
Net pension liability	1,144,564	1,089,882
Other postemployment benefits	722,757	650,805
Due to State of Hawai'i	-	195
Revenue bonds payable	543,680	561,470
Premium on bonds payable	14,754	2,972
Note payable	17,000	17,000
Other noncurrent liabilities	17,144	16,819
Total noncurrent liabilities	2,516,897	2,393,687
Total liabilities	2,783,848	2,663,734
Deferred inflows of resources		
Deferred inflows on net pension liability	111,364	151,162
Total deferred inflows of resources	111,364	151,162
Commitments and contingencies		
Net position		
Net investment in capital assets	1,504,935	1,503,902
Restricted		
Nonexpendable	244,396	235,894
Expendable	561,093	644,743
Unrestricted	(1,584,989)	(1,542,118)
Total net position	725,435	842,421
Total liabilities, deferred inflows of resources and net position	$ 3,620,647	$ 3,657,317

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

University of Hawai'i
State of Hawai'i
Consolidated Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2016 and 2015
(All dollars reported in thousands)

	2016	2015
Operating revenues		
Student tuition and fees	$ 403,411	$ 392,471
Less: Scholarship allowances	131,105	129,811
Net student tuition and fees	272,306	262,660
Federal appropriations, grants and contracts	322,266	325,531
State and local grants and contracts	32,831	29,033
Nongovernmental sponsored programs	35,134	36,236
Sales and services of educational departments, other	35,763	36,163
Auxiliary enterprises		
Bookstores	20,736	22,467
Student housing (net of scholarship allowances of $1,474 and $1,537)	32,102	31,164
Other auxiliary enterprises revenues	46,186	45,521
Other operating revenues	2,211	2,568
Total operating revenues	799,535	791,343
Operating expenses		
Compensation and benefits	1,113,771	1,093,021
Supplies, services and cost of goods sold	202,157	205,833
Depreciation	124,937	121,378
Telephone and utilities	64,633	72,282
Scholarships and fellowships	43,440	49,302
Travel expenses	33,962	33,022
Repairs and maintenance	28,571	33,545
Rental expenses	12,877	12,747
Other operating expenses	36,205	32,762
Total operating expenses	1,660,553	1,653,892
Operating loss	(861,018)	(862,549)
Nonoperating revenues (expenses)		
State appropriations	441,373	413,148
Federal Pell grants	61,438	66,144
Private gifts	32,382	32,600
Net investment income	679	4,659
Interest expense	(25,064)	(27,523)
Net transfers from (to) State of Hawai'i for		
Fringe benefits	172,248	162,969
Hawai'i Barrel Tax	2,784	2,051
School of Nursing	1,066	133
University of Hawai'i Cancer Center	6,366	6,919
Other	(86)	1,704
Loss on disposal of capital assets	(8,165)	(4,907)
Other, net	(284)	516
Net nonoperating revenues before capital and endowment additions (deductions)	684,737	658,413
Capital – state appropriations	16,547	161,822
Capital – federal grants/subsidies	4,829	4,460
Capital – gifts and grants	1,095	648
Net transfers from (to) State of Hawai'i for capital assets	5,651	(1,026)
Transfers from State of Hawai'i, Tobacco settlement	9,549	9,924
Transfers from State of Hawai'i, University of Hawai'i Cancer Center	7,876	7,884
Transfers from other State agencies	413	-
Transfers from (to) Federal – capital assets	4,081	(5,315)
Additions to permanent endowments	9,254	19,426
Total other revenues	59,295	197,823
Net nonoperating revenues	744,032	856,236
Change in net position	(116,986)	(6,313)
Net position		
Beginning of year	842,421	1,961,526
Adjustment for change in accounting principle (Note 1)	-	(1,112,792)
Beginning of year, as restated	842,421	848,734
End of year	$ 725,435	$ 842,421

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

University of Hawai'i
State of Hawai'i
Consolidated Statements of Cash Flows
Years Ended June 30, 2016 and 2015
(All dollars reported in thousands)

	2016	2015
Cash flows from operating activities		
Student tuition and fees	$ 267,057	$ 261,826
Grants and contracts	395,583	401,284
Other revenues	136,472	141,264
Payments to employees	(870,514)	(862,510)
Payments to suppliers and other	(379,598)	(387,875)
Payments for scholarships and fellowships	(43,440)	(49,302)
Net cash used in operating activities	(494,440)	(495,313)
Cash flows from noncapital financing activities		
State appropriations	441,459	413,884
Gifts and grants for other than capital purposes	109,406	113,855
Transfer from State of Hawai'i for		
Hawai'i Barrel Tax	2,784	2,051
School of Nursing	1,066	133
University of Hawai'i Cancer Center	6,366	6,919
Other	(86)	1,704
Other receipts (disbursements)	(226)	229
Net cash provided by noncapital financing activities	560,769	538,775
Cash flows from capital and related financing activities		
Capital appropriations	85,940	111,762
Capital gifts and grants	5,171	5,112
Proceeds from issuance of capital debt	8,575	-
Purchases of capital assets	(109,459)	(137,954)
Proceeds from sale of capital assets	653	1,245
Principal paid on capital debt	(19,190)	(15,521)
Interest paid on capital debt	(27,046)	(29,871)
Advance from (repayment to) State of Hawai'i	(6,000)	6,000
Transfer from other State agencies	413	-
Transfer from State of Hawai'i for		
Tobacco Settlement	9,549	9,924
University of Hawai'i Cancer Center	7,876	7,884
Net cash used in capital and related financing activities	(43,518)	(41,419)
Cash flows from investing activities		
Interest and dividends on investments, net	7,163	975
Proceeds from sales and maturities of investments	962,297	1,116,678
Purchase of investments	(978,903)	(1,094,192)
Net cash provided by (used in) investing activities	(9,443)	23,461
Net increase in cash and cash equivalents	13,368	25,504
Cash and cash equivalents		
Beginning of year	89,811	64,307
End of year	$ 103,179	$ 89,811

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

University of Hawai'i
State of Hawai'i
Consolidated Statements of Cash Flows
Years Ended June 30, 2016 and 2015
(All dollars reported in thousands)

	2016	2015
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	$ (861,018)	$ (862,549)
Adjustments to reconcile operating loss to net cash used in operating activities		
On behalf payments by State for fringe benefits	195,332	179,007
Depreciation expense	124,937	121,378
Pension and other post retirement health care benefit expense	34,901	48,975
Bad debt expense, net	146	3,454
Changes in operating assets and liabilities		
Accounts receivable	1,542	2,168
Notes and contributions receivable	9	317
Inventories	1,515	(157)
Prepaid expenses and other assets	810	(1,219)
Accounts payable	(3,403)	(4,990)
Accrued payroll and benefits	10,200	923
Accrued workers' compensation liability	2,588	1,244
Advances from sponsors	23	7,343
Other, net	(2,022)	8,793
Net cash used in operating activities	$ (494,440)	$ (495,313)
Supplemental information of noncash transactions		
Noncash contributions	$ 1,951	$ 2,196
Net transfers from (to) State of Hawai'i for capital assets	5,651	(1,026)
Transfers from (to) Federal for capital assets	4,081	(5,315)
Accounts payable for capital assets	18,874	20,577
Bond proceeds deposited immediately into escrow	171,408	-
Defeasance of outstanding revenue bond principal	(163,245)	-

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

1. Organization and Summary of Significant Accounting Policies

Financial Reporting Entity

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

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

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

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

Basis of Presentation

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

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

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

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

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

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

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

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

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

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

Due from and Due to State

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

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

Perpetual Trusts

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

Split-Interest Agreements

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

Accounts Receivable

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

Contributions

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

Capital Assets

Capital assets are recorded at cost, or if donated, at an appraised value at the date of the gift. Depreciation of capital assets is provided for on a straight-line basis over the estimated useful lives (3 to 100 years) of the respective assets. The University's policy is to capitalize tangible, nonexpendable personal property having an estimated useful life of more than one year. Interest incurred on tax-exempt construction financing, net of investment income on any unspent financing proceeds, is capitalized as a cost of construction. When taxable debt is incurred specifically for a project, interest is capitalized on amounts expended on the project using the weighted-average cost of outstanding borrowings. The capitalization of interest ceases when the project is substantially complete or construction activity is suspended for more than a brief period. The University incurred interest cost of $25,562 and $29,156 for the years ended June 30, 2016 and 2015, respectively, of which capitalized interest as a cost of construction amounted to $498 and $1,633, respectively. The University does not capitalize works of art or historical treasures that are held for exhibition, education, research and public service. These collections are neither disposed of for financial gain nor encumbered. Accordingly, such collections are not recognized or capitalized for financial statement purposes. Maintenance and repairs, as well as minor renewals, replacements and betterments, are charged to operations. Major renewals, replacements and betterments are capitalized in the year incurred. Capital assets retired or otherwise disposed of are removed from the appropriate asset and related accumulated depreciation accounts. Gains and losses on disposals and the net book value of transfers of capital assets are reflected in operations.

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

Deferred Outflows of Resources

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

Advances from Sponsors

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

Unearned Revenue

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

Pensions

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

Other Postemployment Benefits

The University applies the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which requires accrual-based measurement and recognition and disclosure of other postemployment benefits ("OPEB") expense, such as retiree medical and dental costs, over the employees' years of service, along with the related liability.

Revenue Bonds Payable

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

Deferred Inflows of Resources

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

Net Position

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

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

- Restricted

  - Nonexpendable – Net position subject to externally imposed stipulations that they be maintained permanently by the University, which includes the University's permanent endowment funds.

  - Expendable – Net position that is restricted for specific purposes by sponsors, donors or law. Restrictions in these assets are released when the University complies with the stipulations required by the sponsor, donor or legislative act.

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

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

Net Position Restricted by Enabling Legislation

GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34*, requires that limitations on the use of net position imposed by enabling legislation be reported as restricted net position. GASB Statement No. 46 also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Restricted net position at June 30, 2016 and 2015 amounted to $805,489 and $880,637, respectively, of which $313,262 and $380,053 were restricted by enabling legislation for capital activity.

Operating and Nonoperating Activities

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

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

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

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

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

Scholarships and Fellowships

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

State Appropriations

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

Management's Estimates

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

With respect to workers' compensation insurance, the University is self-insured for the first $650 per occurrence and annual aggregate, and obtains excess insurance of $50,000 from a commercial insurance company. The University records a liability for risk financing and insurance related losses if it is determined that a loss has been incurred and the amount can be reasonably estimated. The University uses a third-party actuary to estimate its workers' compensation liability. Changes in the liability are the result of claims payments made during the fiscal year, new claims filed, and changes in the estimates of existing claims. Anticipated payments by the third party for the next fiscal year are considered current and payments thereafter are considered noncurrent. The liability represents the University's best estimate of workers' compensation liabilities based on available information. The University's estimated liability for workers' compensation claims is included in "Other Liabilities" in the accompanying Consolidated Statements of Net Position (see Note 11).

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

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

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

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

New Accounting Pronouncements

In 2016, the University adopted GASB Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. Management has adopted the new standard as presented in the University's financial statements.

In 2015, the University adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. Management has adopted the new standard as presented in the University's consolidated financial statements. Due to the adoption of GASB Statement No. 68 in fiscal year 2015, beginning net position was restated. The beginning net position as of July 1, 2014 was restated by $1,112,792 from $1,961,526 to $848,734.

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

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

The GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*. The Statement establishes an additional blending requirement for the financial statement presentation of component units and applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The University is currently evaluating this accounting pronouncement.

The GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The Statement establishes accounting and financial reporting standards for irrevocable split-interest agreements created through trusts — or other legally enforceable agreements with characteristics that are equivalent to irrevocable split-interest agreements — in which a donor irrevocably transfers resources to an intermediary. The requirements of this Statement are effective for reporting periods beginning after December 15, 2016. The University is currently evaluating this accounting pronouncement.

The GASB issued Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, 68 and 73*. The Statement addresses certain issues that have been raised with respect to Statements No. 67, 68 and 73, and amends certain provisions of GASB Statements No. 67 and 68. The Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee contribution requirements. This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. This statement is effective for reporting periods beginning after June 15, 2016, except for paragraph 7 when employers' pension liability is measured as of a date other than the employer's most recent fiscal year end, which is effective for measurement dates on or after June 15, 2017. The University is currently evaluating this accounting pronouncement.

(All dollars reported in thousands)

Reclassifications
Certain amounts in the 2015 consolidated financial statements have been reclassified to conform to the 2016 presentation. Such reclassifications had no impact on the 2015 change in net position as previously reported, however did impact operating loss and net nonoperating revenues.

	2015 As Previously Reported	Reclassifications	2015 Revised
Operating revenues			
Nongovernmental sponsored programs	$ 31,696	$ 4,540	$ 36,236
Total operating revenues	786,803	4,540	791,343
Operating loss	(867,089)	4,540	(862,549)
Nonoperating revenues			
Private gifts	31,870	730	32,600
Net nonoperating revenues before capital and endowment additions (deductions)	657,683	730	658,413
Capital – gifts and grants	5,918	(5,270)	648
Total other revenues	203,093	(5,270)	197,823
Net nonoperating revenues	860,776	(4,540)	856,236
Cash flows from operating activities			
Net cash used in operating activities	(499,853)	4,540	(495,313)
Cash flows from noncapital financing activities			
Net cash provided by noncapital financing activities	538,045	730	538,775
Cash flows from capital and related financing activities			
Net cash provided by noncapital financing activities	(36,149)	(5,270)	(41,419)

2. Cash and Investments

The carrying amounts of cash and cash equivalents and time certificates of deposit held outside of the State Treasury as of June 30, 2016 and 2015, classified as cash and cash equivalents and operating investments, were $271,416 and $299,528, with corresponding bank balances of $282,084 and $292,908, respectively. The portion of such bank balances covered by the Federal Deposit Insurance Corporation or by collateral held by the State Director of Budget & Finance in the name of the University totaled $276,554 at June 30, 2016 and $282,960 at June 30, 2015. Additional cash equivalent balances of $7,341 at June 30, 2016 and $6,608 at June 30, 2015 represent deposits with investment brokers covered by the Securities Investor Protection Corporation and additional insurance provided by the investment brokers.

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

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

(All dollars reported in thousands)

As a result of market fluctuations, the fair market value of certain donor-restricted endowments was less than the historical cost of such funds by $10,428 and $4,161 at June 30, 2016 and 2015, respectively. These unrealized losses have been recorded as reductions in unrestricted net position. Future market gains will be used to restore this deficiency in unrestricted net position before any net appreciation above the historical cost value of such funds increases restricted expendable net position.

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

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

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

The remaining portion of the donor-restricted endowment fund that is not classified in restricted nonexpendable net position is classified as restricted expendable net position until those amounts are expended and distributed by the University in accordance with its Board-approved spending rate policy and in a manner consistent with the standard of prudence prescribed by HUPMIFA. In fiscal years 2016 and 2015, the University's spending rate policy provided for annual distributions was four and a half percent of the trailing five-year moving average of the endowment fair value.

At June 30, 2016 and 2015, the University's investments were comprised of the following:

	2016		2015	
	Fair Value	**Cost**	**Fair Value**	**Cost**
Money market funds	$ 11,679	$ 11,679	$ 17,880	$ 17,880
Fixed income securities	210,172	207,952	171,488	172,227
Equity securities	5,866	5,143	5,658	5,183
Mutual funds	179,089	178,440	170,153	166,251
Time certificates of deposit	192,518	192,518	210,015	210,015
Limited partnerships	74,376	43,289	75,651	43,105
Absolute return	19,612	14,779	27,814	22,905
Real estate	17,105	21,084	23,957	27,365
Other investments	63,325	56,312	59,868	48,304
Total investments	773,742	731,196	762,484	713,235
Less: Current portion	298,702	297,425	285,241	284,871
Total noncurrent investments	$ 475,040	$ 433,771	$ 477,243	$ 428,364

(All dollars reported in thousands)

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

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

(All dollars reported in thousands)

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

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

(All dollars reported in thousands)

	2016	2015
Summary of net investment income		
Change in unrealized net loss	$ (6,703)	$ (8,232)
Net realized gain	572	8,336
	(6,131)	104
Interest and dividend income	8,640	7,974
Other	(593)	(1,996)
Investment income before management fees	1,916	6,082
Less: Management fees	1,237	1,423
Net investment income	$ 679	$ 4,659

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, 2016 and 2015 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
2016					
Money market funds	$ 11,679	$ 11,679	$ -	$ -	$ -
Fixed income securities	210,172	88,576	90,247	-	31,349
Equity securities	5,866	5,866	-	-	-
Mutual funds	179,089	169,292	-	-	9,797
Time certificates of deposit	192,518	-	-	-	192,518
Limited partnerships	74,376	-	-	-	74,376
Absolute return	19,612	-	-	-	19,612
Real estate	17,105	-	-	6,440	10,665
Other investments	63,325	-	-	2,375	60,950
Total investments	$ 773,742	$ 275,413	$ 90,247	$ 8,815	$ 399,267
2015					
Money market funds	$ 17,880	$ 17,880	$ -	$ -	$ -
Fixed income securities	171,488	62,152	79,109	-	30,227
Equity securities	5,658	5,658	-	-	-
Mutual funds	170,153	160,707	-	-	9,446
Time certificates of deposit	210,015	-	-	-	210,015
Limited partnerships	75,651	-	-	-	75,651
Absolute return	27,814	-	-	-	27,814
Real estate	23,957	-	-	6,215	17,742
Other investments	59,868	-	-	1,631	58,237
Total investments	$ 762,484	$ 246,397	$ 79,109	$ 7,846	$ 429,132

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

- **Mutual funds** –Domestic mutual funds can be redeemed on a quarterly basis, with notification provided between 30 and 60 days prior to redemption. Investments in foreign mutual funds can be redeemed on a monthly basis with notification provided between 10 and 30 days prior to redemption.

- **Limited partnerships and other investments** – Redemption frequency for investments in this class range from monthly to annually, with notification provided between 2 and 90 days prior to redemption. Additionally, certain investments can be redeemed at the discretion of the investment managers.

- **Absolute return and real estate and other investments** – These investments can be redeemed at the discretion of the investment managers. The University through the Foundation has commitments to contribute additional amounts to this class of investments of approximately $26,619 at June 30, 2016.

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

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

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

Investment Risk Factors

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

(All dollars reported in thousands)

Concentration Risk

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

Credit Risk

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

The composition of fixed income securities at June 30, 2016 and 2015, along with credit quality ratings, is summarized below:

		Credit Quality Rating					
	Fair Value	U.S. Govt-Exempt	AAA	AA	A	BBB	Not Rated
2016							
U.S. Treasury	$ 88,076	$ 88,076	$ -	$ -	$ -	$ -	$ -
U.S. government agencies	121,536	-	-	121,536	-	-	-
Corporate bonds	560	-	29	117	232	182	-
Mutual bond funds	99,517	-	10,810	-	-	-	88,707
Total fixed income securities	$ 309,689	$ 88,076	$ 10,839	$ 121,653	$ 232	$ 182	$ 88,707

		Credit Quality Rating					
	Fair Value	U.S. Govt-Exempt	AAA	AA	A	BBB	Not Rated
2015							
U.S. Treasury	$ 62,153	$ 62,153	$ -	$ -	$ -	$ -	$ -
U.S. government agencies	108,746	-	-	108,746	-	-	-
Corporate bonds	589	-	27	134	264	164	-
Mutual bond funds	106,767	-	17,097	-	-	-	89,670
Total fixed income securities	$ 278,255	$ 62,153	$ 17,124	$ 108,880	$ 264	$ 164	$ 89,670

Interest Rate Risk

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

(All dollars reported in thousands)

At June 30, 2016, the composition of the University's fixed income investments and maturities are summarized below:

		Investment Maturities (in Years)			
	Fair Value	Less than 1	1 to 5	6 to 10	More than 10
U.S. Treasury	$ 88,076	$ 14,213	$ 64,972	$ 8,873	$ 18
U.S. government agencies	121,536	39,431	68,085	4,434	9,586
Corporate bonds	560	59	307	194	-
Mutual bond funds	99,517	17,360	49,248	32,909	-
Total fixed income securities	$ 309,689	$ 71,063	$ 182,612	$ 46,410	$ 9,604

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, 2016 and 2015, the University's exposure to foreign currency risk expressed in U.S. dollars was not significant.

3. Accounts Receivable

The composition of accounts receivable, net of allowance for uncollectable receivables, of $28,278 and $29,005 at June 30, 2016 and 2015, respectively, is summarized as follows:

	2016	2015
U.S. government	$ 49,258	$ 55,652
State and local government	8,217	7,211
Private agencies	8,019	7,001
Student tuition and fees	10,147	7,185
Other	11,272	10,670
	$ 86,913	$ 87,719

4. U.S. Government Funding

The federal government reimburses the University for certain overhead costs (e.g., facilities and administrative costs) incurred in support of federally-sponsored programs based on cost reimbursement rates negotiated with the University's cognizant agency, the U.S. Department of Health and Human Services. These reimbursements amounted to approximately $43,579 in 2016 and $44,936 in 2015 and are reported in federal appropriations, grants and contracts revenue.

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

(All dollars reported in thousands)

5. Notes and Contributions Receivable

The composition of notes and contributions receivable at June 30, 2016 and 2015 is summarized as follows:

	2016	2015
Student notes		
Federal loan programs	$ 17,036	$ 18,181
State loan programs	7,901	7,999
University loan funds	68	68
Other notes receivable	52	43
Total student and other notes outstanding	25,057	26,291
Less: Allowance for uncollectible receivables	7,410	7,760
Total student and other notes receivable, net	17,647	18,531
Contributions receivable	45,211	48,066
Less: Allowance for uncollectible pledges	1,557	1,300
Less: Discount to present value	4,261	921
Total contributions receivable, net	39,393	45,845
Total student notes and contributions receivable, net	57,040	64,376
Less: Current portion, net	16,972	16,221
	$ 40,068	$ 48,155

The allowance for uncollectible receivables at June 30, 2016 and 2015 is comprised of:

	2016	2015
Federal Perkins loan program	$ 4,035	$ 4,393
State of Hawai'i Higher Education loans	3,333	3,305
Nursing/Health Profession loans	10	34
Short-term loans	32	28
	$ 7,410	$ 7,760

Payments on contributions receivable at June 30, 2016 are expected to be collected in:

Less than one year	$ 16,012
One year to five years	29,199
	$ 45,211

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

(All dollars reported in thousands)

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

During the years ended June 30, 2016 and 2015, the University distributed $2,484 and $2,668 in student loans through the U.S. Department of Education Federal Perkins Loan Program, respectively, and $156,333 and $157,913 in Direct Loan programs, respectively. These distributions and related funding sources are not included as expenses or revenues in the accompanying financial statements.

As discussed in Note 1 to the consolidated financial statements, pledges for permanent endowments that do not meet eligibility requirements, as defined by GASB Statement No. 33, are not recorded as assets until the related gift is received. Accordingly, permanent endowment pledges totaling approximately $39,020 and $39,960 at June 30, 2016 and 2015, respectively, were not recognized as assets in the accompanying consolidated financial statements because of uncertainties with regard to their realizability, valuation, bequest intentions and other conditional promises until the specified conditions are met.

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

6. Inventories

The inventories and the methods of valuation at June 30, 2016 and 2015 are summarized below:

		2016	2015
University of Hawai'i Bookstore merchandise inventory	Lower of cost or market using the first-in, first-out retail inventory method.	$ 7,121	$ 8,396
University of Hawai'i Chemistry Stockroom	Cost applied on the first-in, first-out basis.	885	988
University of Hawai'i Facilities Management Warehouse	Cost applied on the first-in, first-out basis.	927	1,055
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.	699	758
University of Hawai'i other inventory	Lower of cost or market using the weighted average cost method.	618	568
		$ 10,250	$ 11,765

(All dollars reported in thousands)

7. Capital Assets

A summary of capital assets at June 30, 2016 and 2015 is as follows:

	Beginning Balance	Additions	Deductions	Transfers	Ending Balance
2016					
Nondepreciable capital assets					
Land	$ 37,596	$ 3,783	$ -	$ 3,975	$ 45,354
Construction in progress	249,788	78,079	3,915	(141,080)	182,872
Total capital assets not being depreciated	287,384	81,862	3,915	(137,105)	228,226
Depreciable capital assets					
Land improvements	129,013	82	126	-	128,969
Infrastructure	174,376	1,034	-	42,874	218,284
Buildings	2,248,626	17,851	14,545	88,221	2,340,153
Equipment	377,355	13,194	14,114	6,010	382,445
Library materials	164,410	4,426	-	-	168,836
Total capital assets being depreciated	3,093,780	36,587	28,785	137,105	3,238,687
Less: Accumulated depreciation	1,312,473	124,937	23,882	-	1,413,528
Capital assets, net	$ 2,068,691	$ (6,488)	$ 8,818	$ -	$ 2,053,385
2015					
Nondepreciable capital assets					
Land	$ 36,211	$ -	$ -	$ 1,385	$ 37,596
Construction in progress	230,965	100,367	3,303	(78,241)	249,788
Total capital assets not being depreciated	267,176	100,367	3,303	(76,856)	287,384
Depreciable capital assets					
Land improvements	127,590	307	-	1,116	129,013
Infrastructure	170,432	624	-	3,320	174,376
Buildings	2,192,091	13,474	24,063	67,124	2,248,626
Equipment	383,343	13,368	24,652	5,296	377,355
Library materials	161,839	2,571	-	-	164,410
Total capital assets being depreciated	3,035,295	30,344	48,715	76,856	3,093,780
Less: Accumulated depreciation	1,230,621	121,378	39,526	-	1,312,473
Capital assets, net	$ 2,071,850	$ 9,333	$ 12,492	$ -	$ 2,068,691

Capital assets consist of land, land improvements, infrastructure, buildings, equipment, library materials, and construction in progress. Construction in progress ("CIP") additions represent costs for new projects, net of the amount of capital assets placed in service. CIP is not depreciated until the asset is placed in service. Assets acquired are recorded at cost, or if donated, at appraised value at the date of the gift. Land parcels comprising 1,206 acres, or 22 percent of the University's property, are recorded at the State's value of $1 per parcel. Assets owned by the federal government, although in the custody of the University, are not included in the capital asset total.

(All dollars reported in thousands)

8. Other Noncurrent Assets

Other noncurrent assets at June 30, 2016 and 2015 were comprised of:

	2016	2015
Interest in beneficial trusts held by others	$ 16,343	$ 17,044
Prepaid bond insurance	295	317
Other	2,252	2,180
	$ 18,890	$ 19,541

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

Amounts due from and due to the State of Hawai'i at June 30, 2016 and 2015 were as follows:

	2016		2015	
	Due from	Due to	Due from	Due to
State appropriations for current operations	$ 102		$ 188	
State capital appropriations – noncurrent	329,751		399,144	
Total due from State of Hawai'i	$ 329,853		$ 399,332	
Imprest/petty cash advances		$ 80		$ 84
Advance		6,000		12,000
General obligation bonds – current		195		185
Employee fringe adjustments		19		241
Due to State of Hawai'i – current		6,294		12,510
General obligation bonds – noncurrent		-		195
Total due to State of Hawai'i		$ 6,294		$ 12,705

(All dollars reported in thousands)

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

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

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

Activity related to amounts due to the State of Hawai'i for general obligation bonds for the year ended June 30, 2015 is as follows:

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

(All dollars reported in thousands)

General obligation bonds are payable in annual installments, including semi-annual interest payments, with final payment due in July 2017. The bonds mature in designated numerical sequence and are payable from the operations of the University. The interest and principal payments are due as follows:

	Principal	**Interest**
Series DB	September 1	March 1 and September 1
Series DG	July 1	January 1 and July 1

At June 30, 2016, principal and interest maturities on general obligation bonds were $195 and $0, respectively.

The general obligation bonds have provisions for early redemption. The premiums on bond redemption, as a percentage of the bond principal redeemed, range from 0.5 percent to 2.0 percent.

In June 2005, the State issued $772,600 in general obligation Series DG (refunding bonds), of which the University's portion was approximately $145, with a five percent interest rate to advance refund approximately $152 (University's portion) of outstanding general obligation Series CG bonds (refunded bonds) which have been partially defeased. The net proceeds from the issuance of the refunding bonds were placed in an irrevocable trust and were used to purchase securities of the United States government at various interest rates and maturities sufficient to meet the debt service requirements of the refunded bonds.

In September 2003, the State issued $188,700 in general obligation Series DB bonds (refunding bonds) of which the University's portion was approximately $1,299, with interest rates ranging from 2.80 percent to 5.25 percent to advance refund approximately $1,299 (University's portion) of outstanding general obligation Series CG bonds (refunded bonds) which have been partially defeased. The net proceeds from the issuance of the refunding bonds were placed in an irrevocable trust and were used to purchase securities of the United States government at various interest rates and maturities sufficient to meet the debt service requirements of the refunding bonds.

(All dollars reported in thousands)

11. Long-Term Liabilities

Long-term liability activity for the years ended June 30, 2016 and 2015 is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
2016					
Bonds payable					
Revenue bonds payable	$ 578,585	$ 166,285	$ 182,250	$ 562,620	$ 18,940
Other liabilities					
Workers' compensation	15,512	4,636	2,048	18,100	6,353
Accrued vacation	73,840	28,219	26,885	75,174	29,923
Net pension liability (Note 14)	1,089,882	148,576	93,894	1,144,564	-
Postemployment health care/life insurance benefits (Note 15)	650,805	117,052	45,100	722,757	-
Note payable	17,000	-	-	17,000	-
Total other liabilities	1,847,039	298,483	167,927	1,977,595	36,276
Total long-term liabilities	$ 2,425,624	$ 464,768	$ 350,177	$ 2,540,215	$ 55,216
2015					
Bonds payable					
Revenue bonds payable	$ 593,930	$ -	$ 15,345	$ 578,585	$ 17,115
Other liabilities					
Workers' compensation	14,268	4,404	3,160	15,512	5,586
Accrued vacation	72,832	26,803	25,795	73,840	29,222
Net pension liability (Note 14)	-	1,329,425	239,543	1,089,882	-
Postemployment health care/life insurance benefits (Note 15)	579,196	113,009	41,400	650,805	-
Note payable	17,000	-	-	17,000	-
Total other liabilities	683,296	1,473,641	309,898	1,847,039	34,808
Total long-term liabilities	$ 1,277,226	$ 1,473,641	$ 325,243	$ 2,425,624	$ 51,923

(All dollars reported in thousands)

Revenue Bonds Payable

The University's revenue bonds payable at June 30, 2016 and 2015 is as follows:

	Series	Date Issued	Authorized	2016	2015
Frear Hall Construction, Student Housing System at Mānoa, Food Service System and Student Housing System at Hilo (interest rate, 3.25% to 5.0%)	2006A	December 13, 2006	$ 100,000	$ 19,970	$ 87,540
University Health & Wellness Center (interest rate, 3.5% to 5.0%)	Ref 2006A	October 25, 2006	133,810	20,590	123,140
Various acquisition and construction projects (interest rate, 2.5% to 6.0%)	2009A	April 15, 2009	100,000	87,340	89,820
University's Cancer Center (interest rate, 2.5% to 6.0%)	2010A-1, 2010A-2	October 7, 2010	138,640	124,590	127,600
Various construction projects (interest rate, 2.5% to 6.0%)	2010B-1, 2010B-2	October 7, 2010	154,090	142,490	145,830
Student Housing System at Mānoa and Telecommunications System (interest rate, 2.0% to 5.0%)	2012A(R)	February 22, 2012	8,575	3,245	4,655
Hilo College of Pharmacy and Law School Expansion and Modernization (interest rate, 1.0% to 4.7%)	2015A	September 24, 2015	8,575	8,575	-
Frear Hall Construction, Student Housing System at Mānoa, Food Service System and Student Housing System at Hilo (interest rate, 3.0% to 5.0%)	2015B(R)	September 24, 2015	47,010	47,010	-
Frear Hall Construction, Student Housing System at Mānoa, Food Service System and Student Housing System at Hilo (interest rate, 0.8% to 3.0%)	2015C(R)	September 24, 2015	17,585	15,945	-
University Health & Wellness Center (interest rate, 0.8% to 2.8%)	2015D(R)	September 24, 2015	25,715	25,465	-
University Health & Wellness Center (interest rate, 5.0%)	2015E(R)	April 20, 2016	67,400	67,400	-
			$ 801,400	$ 562,620	$ 578,585

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

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

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

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

The University receives funds from the State of Hawai'i Tobacco Settlement Special Fund for the payment of principal and interest on the Refunding Series 2006A, Series 2015D(R) and 2015E(R) bonds to finance the cost of construction of the medical school facility and for annual operating expenses incurred by the facility. The funds received from the State of Hawai'i Tobacco Settlement Special Fund for debt service amounted to $9,549 and $9,924 in 2016 and 2015, respectively.

The revenue bonds are paid from certain unrestricted revenues in annual installments, including semi-annual interest payments ranging from $12 to $13,688 with the final payment due in October 2044. Series 2006A, 2009A, 2010, 2012A(R) and Series 2015 bonds interest is payable semi-annually on April 1 and October 1, and the principal is payable on October 1 of each year. The Refunding Series 2006A interest is payable semi-annually on January 15 and July 15, and the principal is payable on July 15 of each year. The Bond Resolution adopted on May 17, 2002 and supplemented, stipulates that all available moneys on deposit in any special fund or revolving fund of the University, excluding moneys on deposit in the University Revenue – Undertakings Fund derived from the University Bond System, are pledged to the payment of the Refunding Series 2006A bonds, interest and premiums (if any). All available moneys on deposit in any special fund or revolving fund of the University, including moneys on deposit in the University Bond System, are pledged to the payment of the Series 2006A, 2009A, 2010, 2012A(R) and Series 2015 bonds, interest and premiums (if any).

(All dollars reported in thousands)

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

At June 30, 2016, future maturities of revenue bonds are as follows:

	Principal	Interest
Year ending June 30,		
2017	$ 18,940	$ 27,200
2018	19,115	26,739
2019	18,360	26,155
2020	18,745	25,533
2021	19,375	24,864
2022–2026	108,485	110,723
2027–2031	130,180	81,589
2032–2036	128,075	46,734
2037–2041	99,435	14,034
2042-2045	1,910	184
	$ 562,620	$ 383,755

Bond Premiums

Activity related to the premiums on general obligation and revenue bonds for the years ended June 30, 2016 and 2015 is as follows:

	Series	Beginning Balance	Additions	Reductions	Ending Balance
2016					
John A. Burns School of Medicine	Ref 2006A	$ 1,183	$ -	$ 992	$ 191
University's Cancer Center	2010A	715	-	263	452
Various construction projects	2010B	1,074	-	366	708
Student Housing	2015B(R)	-	5,639	196	5,443
John A. Burns School of Medicine	2015E(R)	-	8,059	99	7,960
Total bond premiums		$ 2,972	$ 13,698	$ 1,916	$ 14,754
2015					
John A. Burns School of Medicine	Ref 2006A	$ 1,256	$ -	$ 73	$ 1,183
University's Cancer Center	2010A	1,030	-	315	715
Various construction projects	2010B	1,511	-	437	1,074
General obligation	DB	4	-	4	-
General obligation	DG	1	-	1	-
Total bond premiums		$ 3,802	$ -	$ 830	$ 2,972

Note Payable

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

(All dollars reported in thousands)

The Note bears interest at the rate of 1.5 percent per annum and is due and payable semi-annually to the Lender on January 1 and July 1 each year until the Note has been paid in full. Under the terms of the Note, repayment each fiscal year is limited and subject to specific appropriations by the State to make such payments. The Note matures on April 22, 2018, at which time the unpaid principal will be due. As of June 30, 2016 and 2015, $17,000 remained outstanding.

12. Line of Credit (Research Corporation)

The Research Corporation has a revolving line of credit with First Hawaiian Bank in the amount of $5,000 for short-term working capital, expiring on February 1, 2017. The terms of the revolving line of credit require repayment as specified in the credit agreement. All borrowings are collateralized by a security agreement over the Research Corporation's accounts receivable. The rate of interest on borrowings was 3.28 percent at June 30, 2016 and 2015. At June 30, 2016 and 2015, there were no borrowings under this line.

13. Property Leases

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

	Lease Amount
Year ending June 30,	
2017	$ 2,550
2018	2,051
2019	1,202
2020	1,029
2021	555
2022–2026	342
2027–2031	334
Thereafter	1,734
	$ 9,797

Rent expense for outside space for the years ended June 30, 2016 and 2015 approximated $7,904 and $7,540, respectively.

14. Employee Benefits

Employees' Retirement System
General Information on the Pension Plan

Plan Description

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

Benefits Provided

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

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

<u>Noncontributory Class</u>

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

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

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

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

Contributory Class for Members Hired prior to July 1, 2012

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

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

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

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

Contributory Class for Members Hired After June 30, 2012

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

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

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

Hybrid Class for Members Hired Prior to July 1, 2012

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

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

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

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

Hybrid Class for Members Hired After June 30, 2012

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

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

Contributions

Contributions are governed by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rates for fiscal years 2016 and 2015 were 17.00 percent and 16.50 percent, respectively. Contributions to the pension plan from the University for the years ended June 30, 2016 and 2015 were $97,394 and $93,949, respectively.

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

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

At June 30, 2016 and 2015, the University reported a liability of $1,144,564 and $1,089,882, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and 2014, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The University's proportion of the net pension liability was based on a projection of the University's long-term share of contributions to the pension plan relative to projected contributions of all participants, actuarially determined. At June 30, 2015 and 2014, the University's proportion was 13.11 percent and 13.59 percent, respectively, which was a decrease of 0.48 percent and an increase of 0.16 percent from its proportion measured as of June 30, 2014 and 2013, respectively.

There were no changes in other assumptions and inputs that affected the measurement of the total pension liability since the prior measurement date other than the investment return assumption. Fiscal year 2016 was the first year of the three-year phase-in of the investment return assumption. The investment return rate decreased beginning in fiscal year 2016 to 7.65 percent and will continue to decrease to 7.55 percent in fiscal year 2017 and to 7.50 percent in fiscal year 2018 and will remain at 7.5 percent thereafter. There were no other changes between the measurement date, June 30, 2015, and the reporting date, June 30, 2016, that are expected to have a significant effect on the proportionate share of the net pension liability.

(All dollars reported in thousands)

For the years ended June 30, 2016 and 2015, the University recognized pension expense of $84,899 and $87,780, respectively. At June 30, 2016 and 2015, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
2016		
Difference between expected and actual experience	$ 10,720	$ 32,030
Net difference between projected and actual investment earnings on pension plan investments	-	39,056
Change in assumptions	27,018	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	40,278
Contributions subsequent to the measurement date	125,961	-
Total deferred inflows and outflows of resources	$ 163,699	$ 111,364
2015		
Difference between expected and actual experience	$ 13,859	$ -
Net difference between projected and actual investment earnings on pension plan investments	-	126,487
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	24,675
Contributions subsequent to the measurement date	120,989	-
Total deferred inflows and outflows of resources	$ 134,848	$ 151,162

The $125,961 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, 2017. The $120,989 reported as deferred outflows of resources resulting in the University's contributions subsequent to the measurement date was recognized as a reduction of net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30,	
2017	$ 25,553
2018	25,553
2019	25,553
2020	(5,947)
2021	2,914
	$ 73,626

(All dollars reported in thousands)

Actuarial Assumptions
The total pension liability in the June 30, 2015 and 2014 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

	2016	**2015**
Inflation	3.00 %	3.00 %
Payroll growth rate	3.50 %	3.50 %
Investment rate of return	7.65 %	7.75 %

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

Postretirement mortality rates are based on Client Specific Tables and the 1994 U.S. Group Annuity Mortality Static Tables. Pre-retirement mortality rates are based on custom tables with RP-2000 rates.

The actuarial assumptions used in the June 30, 2015 and 2014 valuations were based on the most recent experience study dated December 20, 2010. Between experience studies, the ERS Board of Trustees elected to lower the investment return assumption effective with the June 30, 2015 valuation.

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

	Target Allocation	**Long-Term Expected Real Rate of Return**
Domestic equity	30.0%	8.5%
International equity	26.0%	9.3%
Total fixed-income	20.0%	3.1%
Real estate	7.0% *	9.2%
Private equity	7.0% *	11.9%
Real return	5.0% *	6.7%
Covered calls	5.0%	7.7%
Total	100.0%	

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

(All dollars reported in thousands)

Discount Rate

The discount rate used to measure the net pension liability was 7.65 percent and 7.75 percent for the June 30, 2015 and 2014 measurement date, respectively. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the University will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the University's proportionate share of the net pension liability, calculated using the discount rate of 7.65 percent and 7.75 percent, for the measurement date June 30, 2015 and 2014, respectively, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.65 percent and 6.75 percent, respectively) or one percentage point higher (8.65 percent and 8.75 percent, respectively) than the current rate:

	1% Decrease (6.65%)	Discount Rate (7.65%)	1% Increase (8.65%)
2016			
The University's proportionate share of the net pension liability	$ 1,440,967	$ 1,144,564	$ 848,162

	1% Decrease (6.75%)	Discount Rate (7.75%)	1% Increase (8.75%)
2015			
The University's proportionate share of the net pension liability	$ 1,381,405	$ 1,089,882	$ 798,360

Pension Plan Fiduciary Net Position

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

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

Payable to the Pension Plan

At June 30, 2016, the amount payable to the ERS was $1,184.

Other Benefits

The State absorbs the fringe benefit cost for employees paid from State and federal appropriations. In fiscal years 2015 and 2014, the State appropriated funds to the Department of Budget and Finance to pay for these fringe benefit costs on behalf of the University. Fringe benefit costs included in total revenue and total expenditures amounted to $195,332 and $179,007 for fiscal years 2016 and 2015, respectively.

All regular employees, with certain exceptions, earn vacation leave at the rate of 14 hours for each month of service. Employees who are entitled to annual vacation may accumulate for the succeeding year or years up to 15 working days annual vacation allowance, provided that the total accumulation shall not exceed 90 working days at the end of the calendar year. Accumulated vacation leave earned, but not taken, is reflected as an accrual in the accompanying consolidated financial statements. When termination of services takes place, the employees are paid for their vacation allowance in a lump sum.

Sick leave accumulates at the rate of 14 hours for each full month of service without limit, but can be taken only in the event of an illness and is not convertible to pay upon termination of employment. Accordingly, accumulated sick leave, earned but not taken, is not reflected as an accrual in the accompanying consolidated financial statements. Employees who retire with 60 days of unused sick leave are entitled to three months of service credit in the ERS. For each additional 20 days, or major fraction thereof, of unused sick leave they have in excess of 60 days, their service period is increased by one month. As of June 30, 2016 and 2015, accumulated sick leave approximated $454,343 and $443,641, respectively.

The University's regular employees may enter into deferred compensation arrangements directly with authorized insurance companies or agencies through a payroll deduction plan. Accordingly, the University has no deferred compensation or withholding payable.

The University manages its workers' compensation program. Medical-related payments for fiscal years 2016 and 2015 were $2,480 and $2,377, respectively. Temporary wage loss payments for fiscal years 2016 and 2015 amounted to $1,073 and $795, respectively.

15. Postemployment Health Care and Life Insurance Benefits

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

Plan Description

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

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

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

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

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

(All dollars reported in thousands)

Funding Policy and Annual OPEB Cost
Employer contributions are financed on a pay-as-you-go basis. The University's contributions are calculated as part of the State's total contribution requirements and are reimbursed to the State's General Fund as part of the fringe benefit rate on the University employees' actual salaries. The University's annual OPEB cost is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table presents the annual OPEB cost, contributions made, the net OPEB liability, and the funding status for the University for the fiscal year ended June 30, 2016:

Annual required contribution	$ 107,059
Interest on net OPEB obligation	45,556
Adjustment to annual required contribution	(35,563)
Annual OPEB cost	117,052
Contributions made	(45,100)
Increase in net OPEB obligation	71,952
Net OPEB obligation	
Beginning of year	650,805
End of year	$ 722,757
Actuarial accrued liability ("AAL") July 1, 2015	$ 1,262,765
Funded OPEB plan assets	(30,076)
Unfunded actuarial accrued liability ("UAAL") July 1, 2015	$ 1,232,689
Funded ratio	2.4%
Covered payroll	$ 572,907
UAAL as percentage of covered payroll	215.2%

The University remitted $68,184 and $57,438 in State assessed OPEB contributions for the years ended June 30, 2016 and 2015, respectively. The University's actuarially determined minimum OPEB contribution was $45,100 and $41,400 for the years ended June 30, 2016 and 2015, respectively. The difference between the State assessed and University actuarially determined OPEB contribution is reported net with Transfers from (to) State for Fringe Benefits in the accompanying Consolidated Statements of Revenues, Expenses and Changes in Net Position.

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year 2016 and the preceding years were as follows:

OPEB Summary

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2016	$117,052	38.5%	$722,757
June 30, 2015	$113,009	36.6%	$650,805
June 30, 2014	$106,832	39.3%	$579,196

(All dollars reported in thousands)

Funded Status

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

Actuarial Methods and Assumptions

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

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

The July 1, 2013 actuarial valuation was used to determine the amounts reported in the University's consolidated financial statements for the years ended June 30, 2016 and 2015. The information on the funded status of the plan is from the July 1, 2015 valuation, the most recent valuation.

Effective July 1, 2016, the active contracts for medical, prescription drug, dental, vision, supplemental medical drug, and life insurance were extended through June 30, 2017.

(All dollars reported in thousands)

16. Other Noncurrent Liabilities

Other noncurrent liabilities at June 30, 2016 and 2015 are comprised of:

	2016	2015
Liabilities under split interest agreements	$ 10,565	$ 9,999
Amounts held for others	3,369	3,645
Other	3,210	3,175
	$ 17,144	$ 16,819

17. State Appropriations

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

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

Act 124, SLH 2016 Section 39, provided $106,789 in general fund appropriations directly to the Department of Budget and Finance to pay for debt service on general obligation bonds issued for the University. As a result, the University itself received no appropriations and made no transfers for debt service on general obligation bonds for the year ended June 30, 2016.

Act 122, SLH 2014 Section 35, provided $106,110 in general fund appropriations directly to the Department of Budget and Finance to pay for debt service on general obligation bonds issued for the University. As a result, the University itself received no appropriations and made no transfers for debt service on general obligation bonds for the year ended June 30, 2015.

The net amount of the University's State general and capital appropriations for the years ended June 30, 2016 and 2015 were $441,373 and $16,547 and $413,148 and $161,822, respectively.

(All dollars reported in thousands)

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

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

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

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

(All dollars reported in thousands)

18. Blended Component Information

The following condensed combining information summarizes the individual components of the University's consolidated financial position, results of operations and cash flows as of and for the years ended June 30, 2016 and 2015:

Condensed Consolidating Statements of Net Position

	2016				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Assets and Deferred Outflows of Resources					
Current assets	$ 468,113	$ 34,760	$ 25,558	$ -	$ 528,431
Interdepartmental receivables	24,967	10,342	39,020	(74,329)	-
Capital assets, net	2,049,087	2,021	2,277	-	2,053,385
Other assets	450,764	-	412,985	-	863,749
Total assets	2,992,931	47,123	479,840	(74,329)	3,445,565
Deferred outflows of resources	175,082	-	-	-	175,082
Total deferred outflows of resources	175,082	-	-	-	175,082
Total assets and deferred outflows of resources	$ 3,168,013	$ 47,123	$ 479,840	$ (74,329)	$ 3,620,647
Liabilities, Deferred Inflows of Resources and Net Position					
Current liabilities	$ 237,548	$ 28,057	$ 1,346	$ -	$ 266,951
Interdepartmental payables	26,637	3,790	2,711	(33,138)	-
Noncurrent liabilities	2,498,297	4,665	13,935	-	2,516,897
Total liabilities	2,762,482	36,512	17,992	(33,138)	2,783,848
Deferred inflows of resources	111,364	-	-	-	111,364
Total deferred inflows of resources	111,364	-	-	-	111,364
Net position					
Net investment in capital assets	1,500,637	2,021	2,277	-	1,504,935
Restricted					
Nonexpendable	10,493	-	272,923	(39,020)	244,396
Expendable	370,406	-	190,687	-	561,093
Unrestricted	(1,587,369)	8,590	(4,039)	(2,171)	(1,584,989)
Total net position	294,167	10,611	461,848	(41,191)	725,435
Total liabilities, deferred inflows of resources and net position	$ 3,168,013	$ 47,123	$ 479,840	$ (74,329)	$ 3,620,647

(All dollars reported in thousands)

	2015				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Assets and Deferred Outflows of Resources					
Current assets	$ 436,106	$ 39,487	$ 28,851	$ -	$ 504,444
Interdepartmental receivables	25,601	4,148	39,960	(69,709)	-
Capital assets, net	2,064,651	1,757	2,283	-	2,068,691
Other assets	520,926	-	423,157	-	944,083
Total assets	3,047,284	45,392	494,251	(69,709)	3,517,218
Deferred outflows of resources	140,099	-	-	-	140,099
Total deferred outflows of resources	140,099	-	-	-	140,099
Total assets and deferred outflows of resources	$ 3,187,383	$ 45,392	$ 494,251	$ (69,709)	$ 3,657,317
Liabilities, Deferred Inflows of Resources and Net Position					
Current liabilities	$ 240,491	$ 28,261	$ 1,295	$ -	$ 270,047
Interdepartmental payables	22,508	2,204	4,972	(29,684)	-
Noncurrent liabilities	2,375,511	4,532	13,644	-	2,393,687
Total liabilities	2,638,510	34,997	19,911	(29,684)	2,663,734
Deferred inflows of resources	151,162	-	-	-	151,162
Total deferred inflows of resources	151,162	-	-	-	151,162
Net position					
Net investment in capital assets	1,499,861	1,757	2,284	-	1,503,902
Restricted					
Nonexpendable	10,493	-	265,361	(39,960)	235,894
Expendable	440,642	-	204,101	-	644,743
Unrestricted	(1,553,285)	8,638	2,594	(65)	(1,542,118)
Total net position	397,711	10,395	474,340	(40,025)	842,421
Total liabilities, deferred inflows of resources and net position	$ 3,187,383	$ 45,392	$ 494,251	$ (69,709)	$ 3,657,317

(All dollars reported in thousands)

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

	2016				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Operating revenues					
Student tuition and fees, net	$ 273,043	$ -	$ -	$ (737)	$ 272,306
Federal appropriations, grants and contracts	322,266	-	-	-	322,266
State and local grants and contracts	31,957	2,129	-	(1,255)	32,831
Nongovernmental sponsored programs	47,070	-	-	(11,936)	35,134
Sales and services of educational departments, other	33,809	4,609	4,954	(7,609)	35,763
Auxiliary enterprises	99,024	-	-	-	99,024
Other operating revenues	727	-	1,484	-	2,211
Total operating revenues	807,896	6,738	6,438	(21,537)	799,535
Operating expenses					
Depreciation	124,553	319	65	-	124,937
Other operating expenses	1,495,316	6,310	57,960	(23,970)	1,535,616
Total operating expenses	1,619,869	6,629	58,025	(23,970)	1,660,553
Operating income (loss)	(811,973)	109	(51,587)	2,433	(861,018)
Nonoperating activity					
Nonoperating revenues (expenses)	483,129	107	30,779	(3,491)	510,524
Capital contributions and additions to permanent and term endowments	21,003	-	8,316	(108)	29,211
Transfers	204,297	-	-	-	204,297
Total nonoperating activity	708,429	107	39,095	(3,599)	744,032
Increase (decrease) in net position	(103,544)	216	(12,492)	(1,166)	(116,986)
Net position					
Beginning of year	397,711	10,395	474,340	(40,025)	842,421
Adjustment for change in accounting principle	-	-	-	-	-
Beginning of year, as restated	397,711	10,395	474,340	(40,025)	842,421
End of year	$ 294,167	$ 10,611	$ 461,848	$ (41,191)	$ 725,435

(All dollars reported in thousands)

	2015				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Operating revenues					
Student tuition and fees, net	$ 263,247	$ -	$ -	$ (587)	$ 262,660
Federal appropriations, grants and contracts	325,531	-	-	-	325,531
State and local grants and contracts	28,297	2,125	-	(1,389)	29,033
Nongovernmental sponsored programs	45,729	-	-	(9,493)	36,236
Sales and services of educational departments, other	32,318	4,384	6,844	(7,383)	36,163
Auxiliary enterprises	99,166	-	-	(14)	99,152
Other operating revenues	616	-	1,952	-	2,568
Total operating revenues	794,904	6,509	8,796	(18,866)	791,343
Operating expenses					
Depreciation	121,126	216	36	-	121,378
Other operating expenses	1,498,021	5,915	54,820	(26,242)	1,532,514
Total operating expenses	1,619,147	6,131	54,856	(26,242)	1,653,892
Operating income (loss)	(824,243)	378	(46,060)	7,376	(862,549)
Nonoperating activity					
Nonoperating revenues (expenses)	457,576	91	34,258	(2,381)	489,544
Capital contributions and additions to permanent and term endowments	166,269	(2)	50,027	(35,871)	180,423
Transfers	186,269	(250)	-	250	186,269
Total nonoperating activity	810,114	(161)	84,285	(38,002)	856,236
Increase (decrease) in net position	(14,129)	217	38,225	(30,626)	(6,313)
Net position					
Beginning of year	1,524,632	10,178	436,115	(9,399)	1,961,526
Adjustment for change in accounting principle	(1,112,792)	-	-	-	(1,112,792)
Beginning of year, as restated	411,840	10,178	436,115	(9,399)	848,734
End of year	$ 397,711	$ 10,395	$ 474,340	$ (40,025)	$ 842,421

Condensed Consolidating Statements of Cash Flows

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

(All dollars reported in thousands)

	2015			
	University	Research Corporation	Foundation	Total
Net cash provided by (used in)				
Operating activities	$ (490,480)	$ (5,474)	$ 641	$ (495,313)
Noncapital financing activities	532,159	(250)	6,866	538,775
Capital and related financing activities	(40,717)	(702)	-	(41,419)
Investing activities	23,320	89	52	23,461
Total change in cash	24,282	(6,337)	7,559	25,504
Cash and cash equivalent balances				
Beginning of year	23,146	37,311	3,850	64,307
End of year	$ 47,428	$ 30,974	$ 11,409	$ 89,811

19. Litigation, Other Contingent Liabilities and Commitments

Hawai'i Revised Statutes §304A-108 stipulates that any liability arising from a claim, action or suit brought against the University shall be payable solely from the moneys and property of the University and shall not constitute a general obligation of the State. The Board is not precluded from requesting and securing legislative appropriations to fund the settlement of any such claim or judgment against the University.

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

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

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

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

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

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

Construction and Other Contracts
The University is committed under contracts awarded for construction and other services. These commitments amounted to approximately $217,163 and $165,506 as of June 30, 2016 and 2015.

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

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

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

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

The Board, as a public employer, is mandated by Chapter 89, HRS, to negotiate and enter into written agreements with exclusive representatives (i.e., unions) on matters of wages, hours and conditions of employment affecting University personnel included in various bargaining units. These written agreements, also known as collective bargaining agreements ("CBA") or successor agreements, including supplemental agreements, memorandums of agreement, and memorandums of understanding, reached outside of these successor agreements, cover wages, hours, contributions to the Employer-Union Trust Fund, and other terms and conditions of employment subject to collective bargaining. In assessing the University's responsibilities to negotiate and administer CBAs, below are several considerations in regards to litigation, contingent liabilities and commitments:

- The Board must participate with exclusive representatives in good-faith negotiations over the issue of wages, hours and conditions of work to the extent mandated by HRS §89-9[a], for University personnel included in the applicable bargaining units;

- CBAs for civil service personnel (BUs 1, 2, 3, 4, 9 and 10) are negotiated by and between the State of Hawai'i (including the Board and other public employers), the respective Counties (including the City and County of Honolulu), the Hawaii Health Systems Corporation, and the Judiciary, with the exclusive representative of each bargaining unit. The exclusive representative for BUs 1 and 10 is the United Public Workers ("UPW") while the exclusive representative for BUs 2, 3, 4 and 9 is the Hawai'i Government Employees Association ("HGEA"). These CBAs for the aforementioned bargaining units are applicable to most civil service personnel working for the State;

- CBAs for faculty members (BU 7) are negotiated by and between the Governor, the University President, and the Board with the University of Hawai'i Professional Assembly who is the exclusive representative for Faculty members. APT personnel (BU 8) are negotiated by and between the Governor, the University President, and the Board with the HGEA who is the exclusive representative for the University's APTs. In contrast to CBAs for civil service personnel, the CBAs for BUs 7 and 8 are applicable only to the University as Board appointees, specifically APT personnel and faculty members of the University;

- Failure of parties to achieve successor agreements during negotiations initiated on behalf of blue collar workers (BU 1) and/or faculty (BU 7) could result in work interruptions and/or stoppages that may hamper or halt University operations since these bargaining units still retain the right to strike;

- If an impasse exists regarding successor negotiations involving bargaining units 2, 3, 4, 8 or 9, the Board, along with the respective exclusive representatives and other public employers is subject to interest arbitration, whereby the decision of the arbitration panel and its cost items are subject to legislative appropriations and approval;

- Once a successor agreement is reached and legislatively approved, the University has a responsibility and commitment to abide by all the terms set forth in the agreement;

- As an employer of employees belonging to multiple bargaining units, the University may sometimes be subject to unforeseen labor costs related to the assertion of the so-called "most-favored nations clause" into particular agreements;

- Improper administration, disputes regarding CBA interpretation, or a lack of adherence to CBAs could result in litigation and associated costs

The current status of the collective bargaining agreements is as follows:

- On June 20, 2014 the University administration and the University of Hawai'i Professional Assembly ("UHPA") tentatively agreed to a two-year successor collective bargaining agreement for Unit 7 faculty covering the period July 1, 2015 to June 30, 2017. The tentative agreement was ratified in support by the Unit 7 faculty members on August 25, 2014. The successor agreement provided for a four percent across the board pay increase in each of the two years, increased the minimum salaries to faculty members paid by rank, and negotiated EUTF contributions. The total cost was subject to legislative appropriations and was funded.

- Interest arbitration proceedings were completed in July 2015 with the Hawaii Government Employees Association ("HGEA") for Unit 8 APT employees of the University for a successor agreement beyond July 1, 2015. The arbitration award and decision dated December 1, 2015 covered the period July 1, 2015 to June 30, 2017. The award and decision provided an across the board increase of four percent effective July 1, 2015 and four percent effective July 1, 2016, one time lump sum bonuses paid to eligible employees, and other terms and conditions.

- The University's employees in Units 1 and 10 are working under a four-year (4) contract that covers the period July 1, 2013 to July 1, 2017. Negotiations for Units 2, 3, 4, and 9 were completed and resulted in ratified and agreed upon successor bargaining contracts for the period July 1, 2015 to June 30, 2017. The aforementioned CBAs stipulated step movements and across-the-board ("ATB") salary increases, or changes to salary schedules, that effectively increase salaries in each year covered by the terms of these agreements which have already been legislatively approved.

The parties recently entered in negotiations over successor agreements for Units 1, 2, 3, 4, 7, 8, 9 and 10. Impasse has been declared for certain units at this point in time.

Required Supplementary Information Other Than Management's Discussion and Analysis

University of Hawai'i
State of Hawai'i
Schedule of Proportionate Share of the Net Pension Liability (Unaudited)
Schedule of Contributions (Unaudited)
Year Ended June 30, 2016
(All dollars reported in thousands)

Net Pension Liability

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

Fiscal Year Ending	Proportionate Share of the Net Pension Liability as a Percentage	Proportionate Share of the Net Pension Liability as an Amount (a)	Annual Covered Payroll (b)	Proportion of the Net Pension Liability as a Percentage of Covered Payroll (a) / (b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2016	13.11%	$1,144,564	$572,907	200%	63.42%
June 30, 2015	13.60%	$1,089,882	$564,736	193%	63.92%
June 30, 2014	13.75%	$1,227,787	$550,758	223%	57.96%

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Contributions

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a) - (b)	Covered Annual Payroll (c)	Contributions as a Percentage of Covered Payroll (a) / (c)
June 30, 2016	$97,394	$97,394	$0	$572,907	17.00%
June 30, 2015	$93,949	$93,949	$0	$564,736	16.64%
June 30, 2014	$88,381	$88,381	$0	$550,758	16.05%

1. **Changes of Benefit Terms**

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

2. **Changes of Assumptions**

   The investment return assumption decreased beginning in fiscal year 2016 from 7.75 percent to 7.65 percent. There were no changes of assumptions in 2015 or 2014.

University of Hawai'i
State of Hawai'i
Schedule of Funding Progress (Unaudited)
Year Ended June 30, 2016
(All dollars reported in thousands)

Postemployment Benefits Other than Pensions

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b) - (a)	Funded Ratio (a) / (b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b) - (a) / (c)
July 1, 2015	$30,076	$1,262,765	$1,232,689	2%	$572,907	215.2%
July 1, 2013	$0	$1,185,790	$1,185,790	0%	$550,758	215.3%
July 1, 2011	$0	$1,860,680	$1,860,680	0%	$503,900	369.3%
July 1, 2009	$0	$1,849,949	$1,849,949	0%	$495,498	373.4%

Other Supplementary Information

CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditors on Supplemental Information

To the Board of Regents
University of Hawai'i

We have audited the consolidated financial statements of the University of Hawai'i as of and for the years ended June 30, 2016 and 2015, and our report thereon dated December 15, 2016, which expressed an unmodified opinion, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplemental information (Schedules I, II, III, IV, V, VI, VII, VIII, IX and X) included hereinafter is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Accuity LLP

Honolulu, Hawai'i
December 15, 2016

an independent member of
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University of Hawai'i
State of Hawai'i
Condensed Statements of Net Position
Condensed Statements of Revenues, Expenses and Changes in Net Position
Current Unrestricted Funds Excluding General Fund and University Bond System
As of and for the Years Ended June 30, 2016 and 2015

(All dollars reported in thousands) **Schedule I**

	2016	2015
Condensed statements of net position		
Assets		
Current assets	$ 277,045	$ 264,216
Noncurrent assets	2,252	2,181
Total assets	$ 279,297	$ 266,397
Liabilities		
Current liabilities	$ 85,267	$ 91,573
Noncurrent liabilities	14,340	18,742
Total liabilities	99,607	110,315
Net position		
Unrestricted	179,690	156,082
Total net position	179,690	156,082
Total liabilities and net position	$ 279,297	$ 266,397
Condensed statements of revenues, expenses and changes in net position		
Operating revenues	$ 374,434	$ 371,244
Operating expenses	346,624	401,395
Operating income (loss)	27,810	(30,151)
Nonoperating revenues and transfers	49,118	56,837
Nonoperating expenses and transfers	53,320	25,960
Change in net position	23,608	726
Net position		
Beginning of year	156,082	155,356
End of year	$ 179,690	$ 156,082

1. Basis of Presentation

The accompanying condensed statements of net position and related condensed statements of revenues, expenses and changes in net position present the financial position and results of operations of certain of the University's Special and Revolving Funds, which are pledged as collateral on the Refunding Series 2006A University Bonds, and are presented on the accrual basis of accounting. The financial information of the Research Corporation of the University of Hawai'i and the University of Hawai'i Foundation is not reflected in this schedule.

2. Employee Benefits

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

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

University of Hawai'i
State of Hawai'i
Schedules of Series 2002A University Bond Proceeds Activity
Years Ended June 30, 2016 and 2015
(All dollars reported in thousands) **Schedule II**

	2016	2015
Beginning balance	$ 5,516	$ 5,622
Additions		
Interest and investment income	7	3
Total additions	7	3
Deductions		
Payments – building, construction in progress, other	-	104
Management fees	4	5
Total deductions	4	109
Ending balance	$ 5,519	$ 5,516

1. Basis of Presentation

The accompanying schedules of Series 2002A University Bond proceeds activity present the sources and uses of bond proceeds associated with the construction of the John A. Burns School of Medicine facility at Kaka'ako. The financial information of the Research Corporation of the University of Hawai'i and the University of Hawai'i Foundation is not reflected in this schedule.

2. Refinancing

In October 2006, the University refinanced a majority of the outstanding Series 2002A University Bonds through the issuance of Refunding Series 2006A University Bonds and in September 2015, sold Series 2015D(R) and 2015E(R) revenue bonds to refinance a portion of the outstanding Refunding Series 2006A University Bonds. The Series 2015D(R) revenue bonds were delivered on September 24, 2015 and the forward delivery Series 2015E revenue bonds were delivered on April 20, 2016. Proceeds from the State's settlement agreement with tobacco companies are expected to be utilized to service the debt.

University of Hawai'i
State of Hawai'i
Condensed Statements of Net Position
Condensed Statements of Revenues, Expenses and Changes in Net Position
Current Unrestricted Funds Excluding General Fund
As of and for the Years Ended June 30, 2016 and 2015

(All dollars reported in thousands) **Schedule III**

	2016	2015
Condensed statements of net position		
Assets		
Current assets	$ 312,210	$ 297,976
Noncurrent assets	2,252	2,181
Total assets	$ 314,462	$ 300,157
Liabilities		
Current liabilities	$ 100,843	$ 107,977
Noncurrent liabilities	15,364	19,818
Total liabilities	116,207	127,795
Net position		
Unrestricted	198,255	172,362
Total net position	198,255	172,362
Total liabilities and net position	$ 314,462	$ 300,157
Condensed statements of revenues, expenses and changes in net position		
Operating revenues	$ 450,135	$ 445,010
Operating expenses	401,007	453,782
Operating income (loss)	49,128	(8,772)
Nonoperating revenues and transfers	49,488	56,956
Nonoperating expenses and transfers	72,723	44,994
Change in net position	25,893	3,190
Net position		
Beginning of year	172,362	169,172
End of year	$ 198,255	$ 172,362

1. Basis of Presentation

The accompanying condensed statements of net position and related condensed statements of revenues, expenses and changes in net position present the financial position and results of operations of certain of the University's Special and Revolving Funds, which are pledged as collateral on the University's Series 2006A, 2009A, 2010A, 2010B, 2012A(R), 2015A, 2015B(R), 2015C(R), 2015D(R) and 2015E(R) revenue bonds, and are presented on the accrual basis of accounting. The financial information of the Research Corporation of the University of Hawai'i and the University of Hawai'i Foundation is not reflected in this schedule.

2. Employee Benefits

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

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

University of Hawai'i
State of Hawai'i
Schedules of Series 2006A Revenue Bond Proceeds Activity
Years Ended June 30, 2016 and 2015
(All dollars reported in thousands)

Schedule IV

	2016	2015
Beginning balance	$ 4,074	$ 4,106
Additions		
Interest and investment income	7	3
Total additions	7	3
Deductions		
Payments – building, construction in progress, other	60	32
Management fees	3	3
Total deductions	63	35
Ending balance	$ 4,018	$ 4,074

1. Basis of Presentation

The accompanying schedules of Series 2006A revenue bond proceeds activity present the sources and uses of bond proceeds associated with the construction of the Frear Hall dormitory at the Mānoa campus and repair and maintenance of various housing projects on the Mānoa and Hilo campuses. The financial information of the Research Corporation of the University of Hawai'i and the University of Hawai'i Foundation is not reflected in this schedule.

2. Refinancing

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

University of Hawai'i
State of Hawai'i
Schedules of Series 2009A Revenue Bond Proceeds Activity
Years Ended June 30, 2016 and 2015
(All dollars reported in thousands) **Schedule V**

	2016	2015
Beginning balance	$ 2,247	$ 8,571
Additions		
Interest and investment income	2	5
Total additions	2	5
Deductions		
Payments – building, construction in progress, other	695	6,325
Management fees	1	4
Total deductions	696	6,329
Ending balance	$ 1,553	$ 2,247

1. Basis of Presentation

The accompanying schedules of Series 2009A revenue bond proceeds activity present the sources and uses of bond proceeds associated with the financing of costs of certain University projects. The financial information of the Research Corporation of the University of Hawai'i and the University of Hawai'i Foundation is not reflected in this schedule.

University of Hawai'i
State of Hawai'i
Schedules of Series 2010A Revenue Bond Proceeds Activity
Years Ended June 30, 2016 and 2015
(All dollars reported in thousands) **Schedule VI**

	2010A-1	2010A-2
Balance at June 30, 2014	$ 111	$ 24,749
Additions		
Interest and investment income	-	15
Total additions	-	15
Deductions		
Payments – building, construction in progress, other	-	20,423
Transfers to State	-	-
Management fees	-	9
Total deductions	-	20,432
Balance at June 30, 2015	111	4,332
Additions		
Interest and investment income	-	6
Total additions	-	6
Deductions		
Payments – building, construction in progress, other	-	1,031
Management fees	-	3
Total deductions	-	1,034
Balance at June 30, 2016	$ 111	$ 3,304

1. Basis of Presentation

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

University of Hawai'i
State of Hawai'i
Schedules of Series 2010B Revenue Bond Proceeds Activity
Years Ended June 30, 2016 and 2015
(All dollars reported in thousands)

Schedule VII

	2010B-1	2010B-2
Balance at June 30, 2014	$ 11,329	$ 4,669
Additions		
Interest and investment income	6	2
Total additions	6	2
Deductions		
Payments – building, construction in progress, other	1,307	620
Management fees	8	4
Total deductions	1,315	624
Balance at June 30, 2015	10,020	4,047
Additions		
Interest and investment income	15	6
Total additions	15	6
Deductions		
Payments – building, construction in progress, other	3,853	1,224
Management fees	8	3
Total deductions	3,861	1,227
Balance at June 30, 2016	$ 6,174	$ 2,826

1. Basis of Presentation

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

University of Hawaiʻi
State of Hawaiʻi
Schedules of Series 2015A Revenue Bond Proceeds Activity
Years Ended June 30, 2016

(All dollars reported in thousands) **Schedule VIII**

Beginning balance	$ -
Additions	
Bond Proceeds	8,575
Interest and investment income	9
Total additions	8,584
Deductions	
Payments – building, construction in progress, other	73
Management fees	4
Total deductions	77
Ending balance	$ 8,507

1. Basis of Presentation

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

University of Hawai'i
State of Hawai'i
Condensed Statements of Net Position
Condensed Statements of Revenues, Expenses and Changes in Net Position
University Bond System
As of and for the Years Ended June 30, 2016 and 2015

(All dollars reported in thousands) **Schedule IX**

	2016	2015
Condensed statements of net position		
Assets and deferred outflows of resources		
Current assets	$ 97,701	$ 91,231
Capital assets, net	541,344	495,191
Other assets	26,492	24,830
Total assets	665,537	611,252
Deferred outflows of resources	10,534	2
Total deferred outflows of resources	10,534	2
Total assets and deferred outflows of resources	$ 676,071	$ 611,254
Liabilities		
Current liabilities	$ 34,124	$ 32,586
Noncurrent liabilities	543,515	446,197
Total liabilities	577,639	478,783
Net position		
Net investment in capital assets	23,234	62,467
Restricted expendable	1,037	1,037
Unrestricted	74,161	68,967
Total net position	98,432	132,471
Total liabilities and net position	$ 676,071	$ 611,254
Condensed statements of revenues, expenses and changes in net position		
Operating revenues		
Bookstores	$ 22,936	$ 24,418
Room and other rentals	33,487	32,462
Parking	6,305	6,689
Telecommunications	3,312	3,496
Other operating revenues	9,661	10,074
Total operating revenues	75,701	77,139
Operating expenses (including $30,602 and $23,779 in depreciation expense in 2016 and 2015, respectively)	(88,941)	(84,261)
Operating loss	(13,240)	(7,122)
Nonoperating revenues	32,474	27,649
Nonoperating expenses	(53,273)	(21,705)
Change in net position	(34,039)	(1,178)
Net position		
Beginning of year	132,471	133,649
End of year	$ 98,432	$ 132,471

University of Hawai'i
State of Hawai'i
Condensed Statements of Cash Flows
University Bond System
As of and for the Years Ended June 30, 2016 and 2015
(All dollars reported in thousands) **Schedule X**

	2016	2015
Condensed statements of cash flows		
Net cash flows provided by operating activities	$ 18,074	$ 16,392
Net cash flows provided by non-capital financing activities	3,738	1,469
Net cash flows used in capital and related financing activities	(13,276)	(38,286)
Net cash flows provided by investing activities	203	202
Net decrease in cash and cash equivalents	8,739	(20,223)
Cash and cash equivalents		
Beginning of year	99,089	119,312
End of year	$ 107,828	$ 99,089

1. Reporting Entity

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

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

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

2. **Basis of Presentation**

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

3. **Employee Benefits**

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

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

CERTIFIED PUBLIC ACCOUNTANTS

University of Hawai‘i
State of Hawai‘i

Financial and Compliance Audit

June 30, 2016

Quality *Integrity* *Insight*

University of Hawai'i
State of Hawai'i
Index
Year Ended June 30, 2016

SECTION 1

COMPLIANCE REPORTS

CERTIFIED PUBLIC ACCOUNTANTS

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Regents
University of Hawai'i

We have audited in accordance with the 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, the consolidated financial statements of the University of Hawai'i (the "University") as of and for the year ended June 30, 2016, and have issued our report thereon dated December 15, 2016. In that report, we indicated the extent of our reliance on the report of other auditors in the conduct of the audit.

Internal Control over Financial Reporting
In planning and performing our audit of the consolidated financial statements, we considered the University's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

We also noted certain other matters that we will report to the Board of Regents and management of the University in our Internal Control and Business Issues Report.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests and the report of other auditors disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Accuity LLP

Honolulu, Hawaii
December 15, 2016

CERTIFIED PUBLIC ACCOUNTANTS

Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

To the Board of Regents
University of Hawai'i

Report on Compliance for Each Major Federal Program

We have audited the University of Hawai'i's (the "University") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended June 30, 2016. The University's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The University's consolidated financial statements include the operations of the Research Corporation of the University of Hawai'i (the "Research Corporation"), which received $11,002 in federal awards which are not included in the attached schedule of expenditures of federal awards. The Research Corporation is a separate component unit of the University and is separately audited. The federal awards expended by the Research Corporation for the year ended June 30, 2016, which are outside the scope of this report, did not meet the audit requirements described in the *OMB Compliance Supplement*.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

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Opinion on Each Major Federal Program
In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Other Matters
The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance, and which are described in the accompanying schedule of findings and questioned costs as Finding Nos. 2016-001 through 2016-006. Our opinion on each major federal program is not modified with respect to these matters. We also noted other matters that we will report to the Board of Regents and management of the University in our Internal Control and Business Issues Report.

The University's response to the noncompliance findings identified in our audit is described in Section 5 of this report. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance
Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Finding Nos. 2016-001 through 2016-003 and 2016-005 that we consider to be significant deficiencies.

The University's response to the internal control over compliance findings identified in our audit is described in Section 5 of this report. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance
We have audited the consolidated financial statements of the University, as of and for the year ended June 30, 2016, and the related notes to the consolidated financial statements, which collectively comprise the University's basic financial statements. We issued our report thereon dated December 15, 2016, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards, prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America, is presented for purposes of additional analysis as required by the Uniform Guidance 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 consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 schedule of expenditures of federal awards, as prepared on the cash basis of accounting, is fairly stated in all material respects in relation to the basic financial statements as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Accuity LLP

Honolulu, Hawai'i
December 15, 2016

SECTION 2

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

University of Hawai'i
State of Hawai'i
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

	CFDA No.	Pass-Through Identifier	Passed Through to Subrecipients	Expenditures	
MAJOR PROGRAM - RESEARCH AND DEVELOPMENT					
U.S Department of Agriculture					
Agricultural Research Service					
Agricultural Research – Basic and Applied Research	10.001				$ 2,037,790
Animal and Plant Health Inspection Service					
Plant and Animal Disease, Pest Control, and Animal Care	10.025			$ 2,059,124	
Wildlife Services	10.028			27,085	2,086,209
Agricultural Marketing Service					
Federal-State Marketing Improvement Program	10.156		$ 1,715		55,488
National Institute of Food and Agriculture					
Grants for Agricultural Research, Special Research Grants	10.200			25,727	
Cooperative Forestry Research	10.202			294,382	
Payments to Agricultural Experiment Stations Under the Hatch Act	10.203			2,028,293	
Animal Health and Disease Research	10.207			10,167	
Agriculture and Food Research Initiative ("AFRI")	10.310		2,102,330	5,753,696	
Biomass Research and Development Initiative Competitive Grants Program ("BRDI")	10.312		502,257	1,263,559	
Cooperative Extension Service	10.500			13,624	9,389,448
Forest Service					
Other	10				545,029
Natural Resources Conservation Service					
Soil Survey	10.903				5,179
Passed through from					
State of Hawaii Dept. of Agriculture	10.025			388,750	
State of Hawaii Dept. of Agriculture	10.170			71,096	
State of Hawaii Dept. of Human Services	10.561			40,550	
State of Hawaii Dept. of Land and Natural Resources	10.664			84,258	
State of Hawaii Dept. of Land and Natural Resources	10.678			3,094	
State of Hawaii Dept. of Land and Natural Resources	10.680			207,420	
University of California – Davis	10.200			62,432	
University of California – Davis	10.329			114	
University of California – Riverside	10.309			100,062	
California State University – Fresno	10.310			32,983	
Colorado State University	10.500			33,771	
Michigan State University	10.500			107,908	
National Fish and Wildlife Foundation	10.912			23,346	
Oceanic Institute	10.200			140,721	
State University of Rutgers	10.025			13,948	
University of Tennessee	10.310			19,981	
Utah State University	10.215			242,199	
University of Wyoming	10.215			19,990	1,592,623
					15,711,766
U.S. Department of Commerce					
National Oceanic and Atmospheric Administration ("NOAA")					
Ocean Exploration	11.011			10,470	
Integrated Ocean Observing System ("IOOS")	11.012			2,620,061	
Sea Grant Support	11.417		95,027	1,326,504	
Financial Assistance for National Centers for Coastal Ocean Science	11.426			42,436	
Fisheries Development and Utilization Research Development Grants and Cooperative Agreements Program	11.427			216,402	
Climate and Atmospheric Research	11.431		369	381,816	
NOAA Cooperative Institutes	11.432		25,081	13,282,656	
Unallied Industry Projects	11.452			303,169	
Unallied Management Projects	11.454			107,842	
Office of Coastal Management	11.473			29,334	
Center for Sponsored Coastal Ocean Research -- Coastal Ocean Program	11.478		56,817	125,267	
Coral Reef Conservation Program	11.482			181,319	
Other	11			94,188	18,721,464
National Institute of Standards and Technology					
Measurement and Engineering Research and Standards	11.609				47,736
Passed through from					
State of Hawaii Dept. of Defense	11.467			6,358	
State of Hawaii Dept. of Land and Natural Resources	11.482			164,125	
Research Corporation of the University of Hawaii	11	PO #Z10079456		10,430	
University of California – Los Angeles	11.431			5,000	
East West Center	11.431		9,401	240,574	
University of Maryland	11.012			187,797	
National Fish and Wildlife Foundation	11.463			42,365	
The Nature Conservancy	11.463			46,310	
University Corp for Atmospheric Research	11.431			9,649	
University Corp for Atmospheric Research	11.467			21,198	
Woods Hole Oceanographic Institute	11.431			78,949	812,755
					19,581,955

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	CFDA No.	Pass-Through Identifier	Passed Through to Subrecipients	Expenditures	
U.S. Department of Defense					
Air Force					
Air Force Defense Research Sciences Program	12.800		56.040	498.267	
Other	12.		1.570 787	9.676.984	10.175.251
Army					
Basic and Applied Scientific Research	12.300			1.851.753	
Military Medical Research and Development	12.420			249.143	
Basic Scientific Research	12 431		25.000	217.727	
Legacy Resource Management Program	12.632			18.073	
Other	12		272.691	2.859.478	5.196.174
Navy					
Basic and Applied Scientific Research	12 300		4.761.951	18 934.259	
Science. Technology Engineering & Mathematics ("STEM") Education. Outreach and Workforce Program	12 330			644.045	
Navy Command. Control Communications. Computers. Intelligence Surveillance and Reconnaissance	12.335			53.683	
Other	12		162.989	1.242.192	20.874.179
Deputy Under Secretary Defense	12				6.138.604
National Geospatial Intelligence Agency	12		589.439		1:301.742
Washington Headquarters Services					
Basic, Applied. and Advanced Research in Science and Engineering	12.630			3.989.972	
Other	12.			1.045.973	5.035.945
U.S. Special Operations Command	12				72.565
Defense Intelligence Agency	12		62.500		294.409
Office of the Secretary of Defense					
Legacy Resource Management Program	12.632				35 712
Passed through from					
State of Hawaii Dept of Land and Natural Resources	12.630			52.715	
University of Alaska – Anchorage	12.	PO P0483046.W911KB1420001		63.281	
University of Alaska – Fairbanks	12 300			25.462	
University of Alaska – Fairbanks	12	UAF 15-0067 P0487116		193.608	
Archinoetics, LLC	12.	1065-00		111.585	
The Boeing Company	12	PC 794406		53.688	
University of California – San Diego	12	S9000898/55022508. AMDT 2		80.517	
CDM Smith Federal Programs Corporation	12.	6413-135-002-CS		11.956	
University of Central Florida	12 420			138 985	
Firstpass Engineering	12	PO 53		(19.167)	
Henry M Jackson Foundation	12.420			55.927	
University of London – Royal Holloway	12.800			105.903	
Makai Ocean Engineering Inc	12.			133.677	
Massachusetts Institute of Technology	12.431			17.439	
University of New Hampshire	12.	15-018		51.810	
Pacific Health Research & Education Institute	12.			1.686	
Sandia National Laboratories	12	PO 1645862		18 612	
Spectrum Photonics Inc	12	SPI-SK2016-002		1.810	
Tetra Tech Inc	12.	1116902		11.126	
Vanderbilt University	12.300			100.364	
Vencore Services and Solutions	12	PO 1000006814		272.785	
Wyle Laboratories. Inc	12	various		346.685	1.830.454
					50.955.035
U.S Department of Housing and Urban Development					
Passed through from					
State of Hawaii Dept of Human Services	14.267				41.475
U.S Department of the Interior					
Bureau of Land Management					
Wildland Fire Research and Studies Program	15 232		10.058		56 293
Fish and Wildlife Service					
Fish and Wildlife Management Assistance	15 608			19	
Endangered Species Conservation – Recovery Implementation Funds	15.657			1.070.873	
Fish and Wildlife Coordination and Assistance Programs	15 664			158 176	
Cooperative Landscape Conservation	15 669			531.281	
Other	15			18 445	1 778 794
U.S. Geological Survey					
Assistance to State Water Resources Research Institutes	15 805			320.840	
U S. Geological Survey – Research and Data Collection	15 808			1.639.479	
Volcano Hazards Program Research and Monitoring	15 818			136.858	
National Climate Change and Wildlife Science Center	15 820		210 329	1.925.376	4.022 553
National Park Service					
Natural Resource Stewardship	15 944			49	
Cooperative Research and Training Programs – Resources of the National Park System	15.945		6 000	1.156.883	
National Park Service Conservation. Protection Outreach and Education	15.954			1.656	
Other	15			40.285	1.198.873

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	CFDA No.	Pass-Through Identifier	Passed Through to Subrecipients	Expenditures	
Passed through from					
State of Hawaii Dept of Land and Natural Resources	15 605			179 095	
State of Hawaii Dept of Land and Natural Resources	15 608			544	
State of Hawaii Dept of Land and Natural Resources	15 611			581.045	
State of Hawaii Dept of Land and Natural Resources	15 614			107 569	
State of Hawaii Dept of Land and Natural Resources	15 615			795 948	
State of Hawaii Dept. of Land and Natural Resources	15 630			7.713	
State of Hawaii Dept of Land and Natural Resources	15 634			679 170	
State of Hawaii Dept. of Land and Natural Resources	15 643			19 313	
State of Hawaii Dept of Land and Natural Resources	15 657			251 304	
State of Hawaii Dept of Land and Natural Resources	15 944			28 295	
University of Alaska – Fairbanks	15	UAF 14-0033		6 231	
America View	15 815			23 413	
American Bird Conservancy	15.663			91 002	
Government of American Samoa	15.634			724	
Howard University	15 657			52 659	
Institute for Wildlife Studies	15 945			16 291	
Malama Kahalawai Inc	15 631			8.042	
National Fish and Wildlife Foundation	15 663			36.823	
Commonwealth of the Northern Mariana Islands	15.615			18 194	2.903.375
					9 959.888
U.S. Department of Justice					
Office of Juvenile Justice and Delinquency Prevention					
Reduction and Prevention of Children's Exposure to Violence	16 730		131 849		160 062
Passed through from					
State of Hawaii Dept. of Human Services	16 540				8 432
					168 494
U.S. Department of Transportation					
Federal Aviation Administration					
Air Transportation Centers of Excellence	20 109				30 494
Passed through from					
State of Hawaii Dept. of Land and Natural Resources	20 205			10.000	
State of Hawaii Dept of Land and Natural Resources	20 219			35.530	
State of Hawaii Dept of Transportation	20.205		12.925	207 706	
State of Hawaii Dept of Transportation	20	various	8 457	349 199	
University of Central Florida	20 701			341.664	
Michigan State University	20 701			73 695	
Oregon State University	20 761			96.454	1.114.248
					1.144.742
National Aeronautics and Space Administration					
Goddard					
Science	43 001		524 675	13.675.015	
Education	43 008			575.226	
Other	43			640.515	14 890.756
Ames					
Science	43 001			351.262	
Other	43			114.913	466 175
John H. Glenn Research Center					
Science	43.001				14 417
Johnson Space Center					
Science	43.001		22 581	582.293	
Exploration	43 003		56.400	78.819	661 112
Passed through from					
University of Arizona	43 001			15.291	
University of Arizona	43	Y403002		5.692	
Arizona State University	43 001			13.210	
Arizona State University	43	various		35 133	
Bermuda Institute of Ocean Sciences Inc	43 001			18.814	
University of California – Berkeley	43 001			177.137	
University of California – Los Angeles	43 001			76.588	
University of California – San Diego	43 001			10.441	
University of Colorado – Denver	43.001			42 818	
ICS Associates Inc	43 012			5.000	
Jet Propulsion Lab	43	various		98.969	
Johns Hopkins University	43.001			31.035	
Johns Hopkins University	43.	124221		98.276	
Lowell Observatory	43 001			30,156	
Malin Space Science Systems. Inc	43 001			65.096	
University of Missouri	43 009			14,124	
University of North Carolina -- Chapel Hill	43 001			78.097	
Northwestern University	43.001			15.018	
Planetary Science Institute	43 001			23.054	
Q-Peak Inc	43	SC 57675-2726		29 791	
Sierra Lobo Inc	43			23.500	

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	CFDA No.	Pass-Through Identifier	Passed Through to Subrecipients	Expenditures	
Smithsonian Astrophysical Observatory	43.001			62,136	
University of South Carolina	43.001			149,528	
Southwest Research Institute	43.001			45,956	
Space Telescope Science Institute	43.001			11,584	
Space Telescope Science Institute	43	various		379,154	
Research Foundation for the State University of New York	43.001			57,182	
Universities Space Research Association	43.001			15,777	
Universities Space Research Association	43	002235-03		66,031	
Woods Hole Oceanographic Institute	43.001			39,879	
Wyle Laboratories, Inc	43	various		258,659	1,993,126
					18,025,586
National Endowment for the Arts and Humanities					
Passed through from					
Hawaii Council for Humanities	45.129				2,873
National Science Foundation					
Engineering Grants	47.041		41,584		1,326,188
Mathematical and Physical Sciences	47.049		415,334		4,629,010
Geosciences	47.050		262,123		16,314,211
Computer and Information Science and Engineering	47.070		720,365		2,347,477
Biological Sciences	47.074		925,652		4,251,806
Social, Behavioral and Economic Sciences	47.075				572,313
Education and Human Resources	47.076		388,299		5,343,291
Polar Programs	47.078				77,484
Office of International Science and Engineering	47.079				19,422
Office of Cyberinfrastructure	47.080		83,230		160,695
Office of Experimental Program to Stimulate Competitive Research	47.081				14,754
Office of Integrative Activities	47.083				17,557
Passed through from					
Adnoviv, LLC	47			20,747	
University of Alaska – Fairbanks	47.076			64,991	
American Association of Community Colleges	47.076			7,646	
Association of Universities for Research in Astronomy, Inc	47.049			2,121,881	
ARRA – Assn. of Universities for Research in Astronomy, Inc	47.082			44,588	
Association of Universities for Research in Astronomy, Inc	47	PO N568540-A		30,692	
University of California – San Diego	47.050			37,515	
California Institute of Technology	47.050			29,781	
California State University – Northridge	47.074			17,069	
Canada-France-Hawaii Telescope Corporation	47.049		125,000	125,000	
University of Central Florida	47.041			14,974	
College of Charleston	47.070			28,755	
Clemson University	47.070			329,816	
Columbia University	47.050			3,445	
Consortium for Ocean Leadership	47.050			50,086	
University of Georgia	47.074			2,603	
University of Illinois – Chicago	47.070			226,674	
University of Illinois – Urbana-Champaign	47.050			130,155	
Indiana University	47.070			146,730	
Koa Technologies, LLC	47.041			45,736	
University of Maryland	47.074			32,587	
University of Massachusetts – Amherst	47.075			8,819	
Monterey Bay Aquarium Research	47.050			81,156	
National Center for Science & Civic Engagement	47.076			2,057	
National Radio Astronomy Observatory	47.049			19,801	
University of New Hampshire	47.074			5,075	
University of New Mexico	47.050			165,410	
City University of New York	47.049			23,772	
State University of New York	47.050			73,903	
North Carolina State University	47.050			841	
University of Notre Dame	47.049			1,035	
Open Source Project Network	47.050			29,108	
Pacific Resources for Education & Learning	47.076			88,278	
Predictive Science Inc	47.050			62,924	
Princeton University	47.050			50,746	
Purdue University	47.070			111,742	
University of Rhode Island	47.050			11,388	
Rice University	47.050			67,874	
State University of Rutgers	47.075			21,872	
University of Southern California	47.050			322,068	
University of Texas – Austin	47.074			47,829	
University Corp for Atmospheric Research	47.050			51,031	
VentureWell	47.076			2,250	
University of Washington	47.050			70,298	4,830,748
					39,904,956
U.S. Department of Veterans Affairs	64				16,360

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	CFDA No.	Pass-Through Identifier	Passed Through to Subrecipients	Expenditures	
Environmental Protection Agency					
Office of Research and Development					
Science To Achieve Results Research Program	66.509			63,241	
P3 Award National Student Design Competition for Sustainability	66.516			2,956	66,197
Passed through from					
State of Hawaii Dept. of Health	66.419			2,826	
State of Hawaii Dept. of Health	66.454			31,560	
State of Hawaii Dept. of Health	66.817			27,374	61,760
					127,957
U.S. Department of Energy					
Office of Science Financial Assistance Program	81.049				2,048,409
Conservation Research and Development	81.086				667,909
Renewable Energy Research and Development	81.087		1,089,096		2,486,163
Passed through from					
Alliance for Sustainable Energy LLC	81	XGJ-5-52227-01		82,668	
Battelle Memorial Institute	81	various		741,247	
Brookhaven National Lab	81	241773		46,520	
University of California – Berkeley	81	7088334 MOD 2		46,246	
Carnegie Institution of Washington	81.112			35,844	
Cornell University	81.087			88,264	
Duke University Medical Center	81.087			268,779	
Duke University Medical Center	81			20,583	
InnoSys Inc	81	various		71,783	
Lawrence Livermore National Lab	81	various		82,576	
University of Michigan	81.113			275,449	
National Renewable Energy Lab	81	AGB-1-11433-01		646	
Trendstone Technologies Inc	81.049			56,284	
University Corp for Atmospheric Research	81.087			2,105	1,818,994
					7,021,475
U.S. Department of Education					
Office of Elementary and Secondary Education					
Javits Gifted and Talented Students Education	84.206		20,306		570,979
Passed through from					
State of Hawaii Dept. of Education	84	D15-032_CO-10544		776	
Pacific Resources for Education & Learning	84.283			212,616	213,392
					784,371
U.S. Department of Health and Human Services					
National Institutes of Health					
Family Smoking Prevention and Tobacco Control Act Regulatory Research	93.077		34,933	550,840	
Environmental Health	93.113			163,777	
Mental Health Research Grants	93.242		156,288	1,545,379	
Drug Abuse and Addiction Research Programs	93.279		564,958	2,270,245	
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286			285,352	
Minority Health and Health Disparities Research	93.307		648,949	6,841,307	
Trans-NIH Research Support	93.310			988	
Research Infrastructure Programs	93.351			549,170	
Cancer Cause and Prevention Research	93.393		4,799,192	11,499,975	
Cancer Treatment Research	93.395		217,339	1,222,501	
Cancer Biology Research	93.396			55,328	
Cancer Centers Support Grants	93.397		77,360	2,179,570	
Cancer Research Manpower	93.398			158,286	
Cardiovascular Diseases Research	93.837		188,787	1,588,482	
Blood Diseases and Resources Research	93.839		34,172	61,445	
Arthritis, Musculoskeletal and Skin Diseases Research	93.846			72,642	
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847		38,642	860,844	
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		3,421	436,095	
Allergy and Infectious Diseases Research	93.855		95,953	1,749,717	
Biomedical Research and Research Training	93.859		1,366,994	9,370,515	
Child Health and Human Development Extramural Research	93.865			431,728	
Aging Research	93.866			352,509	
International Research and Research Training	93.989		28,324	198,618	
Others	93			1,473,313	43,918,626
Centers for Disease Control and Prevention					
Environmental Public Health and Emergency Response	93.070				35,5[illegible]2
Administration for Community Living					
Special Programs for the Aging – Title IV – and Title II – Discretionary Projects	93.048				142,674
Health Resources and Services Administration					
Grants to Increase Organ Donations	93.134			355,304	
Geriatric Academic Career Awards	93.250			18,183	373,487
Office of the Secretary					
Teenage Pregnancy Prevention Program	93.297		246,226		501,327

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	CFDA No.	Pass-Through Identifier	Passed Through to Subrecipients	Expenditures	
Agency for Healthcare Research and Quality					
Research on Healthcare Costs, Quality and Outcomes	93.226		62,079		80,485
Centers for Medicare and Medicaid Services					
Health Care Innovation Awards ("HCIA")	93.610				3,247,986
Passed through from					
State of Hawaii Dept. of Health	93.048			21,209	
State of Hawaii Dept. of Health	93.104			19,421	
State of Hawaii Dept. of Health	93.243			197,742	
State of Hawaii Dept. of Health	93.283			901	
State of Hawaii Dept. of Health	93.757			108,386	
State of Hawaii Dept. of Health	93.758			31,766	
State of Hawaii Dept. of Health	93.917			24,128	
State of Hawaii Dept. of Health	93.945			47,404	
State of Hawaii Dept. of Health	93.958			9,336	
State of Hawaii Dept. of Health	93.959			19,619	
State of Hawaii Dept. of Human Services	93.779			8,357	
State of Hawaii Office of the Governor	93.624			39,193	
Beth Israel Deaconess Med Ctr	93.213			114,457	
Brigham and Women's Hospital Inc	93			55	
University of California – Davis	93.262			52,397	
University of California – Davis	93.397			47,593	
University of California – Los Angeles	93.279			(29,723)	
University of California – San Francisco	93.242			24,240	
University of California – San Francisco	93.393			34,951	
University of California – San Francisco	93.855			91,516	
Cancer Prevention Institute of California	93.393			14,678	
Chaminade University	93.307			240,309	
Children's Hospital of Philadelphia	93			13,681	
Dartmouth College	93.393			38,993	
ECOG-ACRIN Cancer Research Group	93.			257	
Georgia State University	93.077			8,609	
Harvard University	93.393			16,306	
University of Hawaii Foundation	93.375			234,850	
Hawaii Pacific University	93.279			97,163	
Hawaii Public Health Institute	93.305			14,407	
Health Research Inc	93.393			37,568	
Johns Hopkins University	93.393			12,583	
Johns Hopkins University	93.865			263,607	
University of Maryland	93.113		61,453	103,167	
University of Miami	93.361			165,700	
Michigan State University	93.286			11,502	
University of Minnesota	93.393		218,765	312,976	
Morehouse School of Medicine	93.307		10,646	634,877	
National Childhood Cancer Foundation	93			58,983	
University of Nevada – Las Vegas	93.859			227,968	
University of New Mexico	93.859			4,070	
University of North Carolina – Chapel Hill	93.859			10,089	
University of North Carolina – Greensboro	93.273			189,180	
Northeastern University	93.279			29,694	
NSABP Foundation Inc	93.395			67	
Oregon Health & Science University	93.			2,365	
Pacific Health Research & Education Institute	93.847			10,841	
Pacific Health Research & Education Institute	93.866			24,787	
Palo Alto Veterans Institute for Research	93.393		29,831	94,784	
Papa Ola Lokahi	93.397			150,500	
University of Pittsburgh Cancer Institute	93.393			63,000	
Portland State University	93.310			213,038	
Queen's Hospital Medical Center	93.394			211,027	
Riverside Research Institute	93.286			73,006	
Riverside Research Institute	93.394			45,212	
University of Rochester	93.135			15,000	
Seattle Institute for Biomedical and Clinical Research	93.847			132,718	
University of Southern California	93.172			243,079	
University of Southern California	93.866			43,073	
Southwest Oncology Group	93			2,694	
Stanford University	93.393		29,835	173,627	
University of Texas – San Antonio	93.865			170,960	
University of Texas Southwestern Med Ctr	93.837			90,000	
Tulane University of Louisiana	93.865			19,485	
University of Utah	93.393			9,319	
Vanderbilt University Medical Center	93.393			51,807	
Virginia Commonwealth University	93.077			60,527	
Virginia Polytechnic Institute & State University	93.394			45,493	
Virginia Polytechnic Institute & State University	93.865			49,822	
University of Washington	93.307			90,081	
University of Washington	93.855			27,166	
University of Washington	93.989			51,726	
World Health Organization	93.393			1,781	
Yale University	93.395			13,709	
Yale University	93.853			27,307	5,812,166
					54,112,263

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U.S. Department of Homeland Security					
Homeland Security Research Development Testing, Evaluation and Demonstration of Technologies Related to Nuclear Threat Detection	97.077				44,362
Passed through from					
NiyamIT Inc	97				15,358
					59,720
U.S. Agency for International Development					
USAID Foreign Assistance for Programs Overseas	98.001				513,398
Passed through from					
Development Alternatives Inc	98.001			282,553	
Iowa State University	98	404-21-77B		60,603	
Nathan Associates Inc	98.001			41,749	
Purdue University	98.001		15,825	33,749	
Virginia Polytechnic Institute & State University	98.001		15,289	15,378	434,032
					947,430
Other					
Smithsonian Institution	99	09-S DD-400-0000184717			4,770
Total Research and Development					**218,571,116**
MAJOR PROGRAM – STUDENT FINANCIAL ASSISTANCE					
U.S. Department of Education					
Office of Federal Student Aid					
Federal Supplemental Educational Opportunity Grants	84.007			1,264,385	
Federal Work-Study Program	84.033			1,714,130	
Federal Perkins Loan Program	84.038			2,483,673	
Federal Perkins Loan Program	84.038			(369,813)	
Federal Pell Grant Program	84.063			61,437,730	
Federal Direct Student Loans	84.268			156,333,365	222,863,470
Teacher Education Assistance for College and Higher Education Grants	84.379				45,052
Total Student Financial Assistance					**222,908,522**
MAJOR PROGRAM – TITLE III HIGHER EDUCATION – INSTITUTIONAL AID					
U.S. Department of Education					
Office of Postsecondary Education					
Higher Education – Institutional Aid	84.031				10,645,405
Total Title III Higher Education – Institutional Aid					**10,645,405**
MAJOR PROGRAM – TRIO CLUSTER					
U.S. Department of Education					
Office of Postsecondary Education					
TRIO – Student Support Services	84.042			1,739,630	
TRIO – Talent Search	84.044			590,981	
TRIO – Upward Bound	84.047			1,991,237	
TRIO – Educational Opportunity Centers	84.066			422,972	4,744,820
Total TRIO Cluster					**4,744,820**
MAJOR PROGRAM – TITLE VII NATIVE HAWAIIAN EDUCATION					
U.S. Department of Education					
Office of Elementary and Secondary Education					
Native Hawaiian Education	84.362		1,303,638		5,912,455
Passed through from					
Kula No Na Po'e Hawaii	84.362			102,234	
Pacific American Foundation	84.362			219,572	
Waianae Coast Comprehensive Health Center	84.362			14,220	336,026
Total Title VII Native Hawaiian Education					**6,248,481**
MAJOR PROGRAM – HOMELAND SECURITY TRAINING					
U.S. Department of Homeland Security					
State and Local Homeland Security National Training Program	97.005		4,215,831		7,052,475
Total State and Local Homeland Security National Training Program					**7,052,475**
MAJOR PROGRAM – GEAR UP PROGRAM					
U.S. Department of Education					
Office of Postsecondary Education					
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334		702,669		4,867,332
Total Gear Up Program					**4,867,332**

University of Hawai'i
State of Hawai'i
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

	CFDA No.	Pass-Through Identifier	Passed Through to Subrecipients	Expenditures	
MAJOR PROGRAM - C3T PROGRAM					
U.S. Department of Labor					
Employment Training Administration					
Trade Adjustment Assistance Community College and Career Training ("TAACCCT") Grants	17.282				10,380,435
Total C3T Program					**10,380,435**
MAJOR PROGRAM – CAREER & TECHNICAL EDUCATION – BASIC GRANTS TO STATES					
U.S. Department of Education					
Office of Vocational and Adult Education					
Career and Technical Education – Basic Grants to States	84.048				3,456,947
Total Career & Technical Education Program					**3,456,947**
MAJOR PROGRAM – IRTF OPERATION					
National Aeronautics and Space Administration					
Goddard					
NNH14CK55B	43				4,831,227
Total IRTF Program					**4,831,227**
OTHER FEDERAL ASSISTANCE					
U.S. Department of Agriculture					
Agricultural Research Service					
Agricultural Research – Basic and Applied Research	10.001				25,438
Animal and Plant Health Inspection Service					
Plant and Animal Disease, Pest Control, and Animal Care	10.025				79,376
Agricultural Marketing Service					
Federal-State Marketing Improvement Program	10.156				23,720
National Institute of Food and Agriculture					
Payments to Agricultural Experiment Stations Under the Hatch Act	10.203			9,847	
Secondary and Two-Year Postsecondary Agriculture Education Challenge Grants	10.226		4,622	18,069	
Alaska Native Serving and Native Hawaiian Serving Institutions Education Grants	10.228			1,659,778	
Agriculture and Food Research Initiative ("AFRI")	10.310			57,901	
Beginning Farmer and Rancher Development Program	10.311		5,744	148,720	
Cooperative Extension Service	10.500			2,332,279	4,226,594
Farm Service Agency					
Other	10.				10,000
Forest Service					
Forest Stewardship Program	10.678			13,650	
Other	10			160,179	173,829
Natural Resources Conservation Service					
Environmental Quality Incentives Program	10.912		2,431	129,230	
Other	10			1	129,231
Passed through from					
State of Hawaii Dept. of Education	10.558			85,435	
State of Hawaii Dept. of Education	10.559			27,040	
State of Hawaii Dept. of Human Services	10.561			404,448	
State of Hawaii Dept. of Land and Natural Resources	10.093			130	
State of Hawaii Dept. of Land and Natural Resources	10.664			59,993	
State of Hawaii Dept. of Land and Natural Resources	10.678			54,175	
State of Hawaii Dept. of Land and Natural Resources	10.680			165,738	
State of Hawaii Dept. of Land and Natural Resources	10.914			19,986	
University of California – Davis	10.304			28,038	
University of California – Davis	10.329			32,958	
Kansas State University	10.500		35,792	85,818	
Maui Economic Development Board	10.318			6,307	
University of Nebraska – Lincoln	10.500			3,397	
Pennsylvania State University	10.500			2,786	
Utah State University	10.215			6,963	
Utah State University	10.500			17,552	
Washington State University	10.500			1,991	
World Cocoa Foundation	10.777			315	1,003,070
					5,671,258
U.S. Department of Commerce					
Economic Development Administration					
Economic Development – Technical Assistance	11.303				65,852
National Oceanic and Atmospheric Administration ("NOAA")					
NOAA Mission-Related Education Awards	11.008			9,926	
Ocean Exploration	11.011			56,503	
Integrated Ocean Observing System ("IOOS")	11.012			24,525	
Sea Grant Support	11.417			1,133,491	
Fisheries Development and Utilization Research Development Grants and Cooperative Agreements Program	11.427			25,255	
NOAA Cooperative Institutes	11.432			22,658	
Unallied Industry Projects	11.452			223,844	
Unallied Management Projects	11.454			6,299	
Meteorologic and Hydrologic Modernization Development	11.467			536,228	
Congressionally Identified Awards and Projects	11.469			29,625	
Office of Coastal Management	11.473			200,069	
Other	11			161,706	2,430,129

University of Hawai'i
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Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

	CFDA No.	Pass-Through Identifier	Passed Through to Subrecipients	Expenditures	
Minority Business Development Agency					
MBDA Business Center	11.805				344,338
Passed through from					
State of Hawaii Dept. of Defense	11.467			80,827	
State of Hawaii Dept. of Land and Natural Resources	11.472			183,333	
State of Hawaii Dept. of Land and Natural Resources	11.482			204,056	
Conservation International Foundation	11.427			20,000	
High Technology Development Corp	11.611			26,129	
National Marine Sanctuary Foundation	11.011			3,875	
National Marine Sanctuary Foundation	11.429			31,959	
National Marine Sanctuary Foundation	11	Check No. 14700		5,108	
University of New Hampshire	11.400			1,307,250	
University Corp for Atmospheric Research	11.431			22,950	1,885,487
					4,725,806
U.S. Department of Defense					
Army					
Basic and Applied Scientific Research	12.300			30,009	
Other	12			28,092	58,101
Navy					
Basic and Applied Scientific Research	12.300			1,219,643	
Other	12		10,343	696,576	1,916,219
National Security Agency					
Language Grant Program	12.900			94,807	
Mathematical Sciences Grants Program	12.901			3,490	
GenCyber Grants Program	12.903			46,052	144,349
Pacific Command	12				147,750
Defense Logistics Agency	12				7,531
Passed through from					
Chaminade University	12.300			70,019	
Ho'okipaipai LLC	12.002			23,131	
Institute of International Education	12.550			803,302	
Institute of International Education	12	various	212,536	760,176	
Johns Hopkins University	12	various		118,525	1,775,153
					4,049,103
U.S. Department of Housing & Urban Development					
Office of Policy Development and Research					
Alaska Native/Native Hawaiian Institutions Assisting Communities	14.515		90,198		722,085
Passed through from					
State of Hawaii Dept. of Business, Economic Development and Tourism	14	PEO 16-04		36,125	
State of Hawaii Dept. of Labor and Industrial Relations	14.401			21,125	57,250
					779,335
U.S. Department of the Interior					
Fish and Wildlife Service					
Service Training and Technical Assistance (Generic Training)	15.649			15,730	
Endangered Species Conservation – Recovery Implementation Funds	15.657			43,933	
Fish and Wildlife Coordination and Assistance Programs	15.664			155,259	
Cooperative Landscape Conservation	15.669			29,820	244,742
U.S. Geological Survey					
Other	15				137,798
Office of Insular Affairs					
Economic, Social, and Political Development of the Territories	15.875		33,107		265,251
National Park Service					
Cooperative Research and Training Programs – Resources of the National Park System	15.945			7,163	
Other	15			2,737	9,900
Passed through from					
State of Hawaii Dept. of Land and Natural Resources	15.605			307,045	
State of Hawaii Dept. of Land and Natural Resources	15.611			44,999	
State of Hawaii Dept. of Land and Natural Resources	15.614			70,719	
State of Hawaii Dept. of Land and Natural Resources	15.615			215,244	
State of Hawaii Dept. of Land and Natural Resources	15.634			1,421	
Government of American Samoa	15	C00216		12,770	
Government of Guam	15.875			201,478	
Commonwealth of the Northern Mariana Islands	15.875			10,311	863,987
					1,521,678
U.S. Department of Justice					
Bureau of Justice Assistance					
Capital Case Litigation Initiative	16.746				121,352
National Institute of Justice					
Postconviction Testing of DNA Evidence to Exonerate the Innocent	16.820				63,629
Passed through from					
State of Hawaii Dept. of Human Services	16.540			67,778	
State of Hawaii Dept. of Public Safety	16.751			4,397	72,175
					257,156

University of Hawai'i
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Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

	CFDA No.	Pass-Through Identifier	Passed Through to Subrecipients	Expenditures	
U.S. Department of Labor					
Passed through from					
State of Hawaii Dept. of Labor and Industrial Relations	17.207			232	
County of Maui	17.259			69,843	70,075
U.S. Department of State					
Passed through from					
East West Center	19.	various			541,562
U.S. Department of Transportation					
Passed through from					
State of Hawaii Dept. of Land and Natural Resources	20.219			93,205	
State of Hawaii Dept. of Transportation	20.200			1,824	
State of Hawaii Dept. of Transportation	20.600			106,372	
State of Hawaii Dept. of Transportation	20.616			5,184	
State of Hawaii Dept. of Transportation	20.	SRS-1500(86)		15,693	222,278
National Aeronautics and Space Administration					
Goddard					
Science	43.001			471,053	
Education	43.008			913,438	1,384,491
Johnson Space Center					
Education	43.008				10,641
NASA Astrobiology Institute	43.				18,919
Passed through from					
University of Arizona	43.	Y403053		35,523	
New Mexico State University	43.009			77,655	
Space Telescope Science Institute	43.	HST-HF2-51359.001-A		81,128	194,306
					1,608,357
National Endowment for the Arts and Humanities					
National Endowment for the Arts					
Promotion of the Arts – Grants to Organizations and Individuals	45.024				19,812
National Endowment for the Humanities					
Promotion of the Humanities – Division of Preservation and Access	45.149				543
Passed through from					
Hawaii State Foundation on Culture & Arts	45.025			24,005	
Hawaii State Foundation on Culture & Arts	45.	FY15-0052		25,000	
Hawaii Council for the Humanities	45.129			7,435	
WESTAF	45.025			2,125	58,565
					78,920
Small Business Administration					
Small Business Development Centers	59.037				686,358
Other	59.				34,055
					720,413
U.S. Department of Veterans Affairs	64.				51,574
Environmental Protection Agency					
Office of Research and Development ("ORD")					
Greater Research Opportunities Fellowships for Undergraduate Environmental Study	66.513			13,607	
Science to Achieve Results ("STAR") Fellowship Program	66.514			22,469	36,076
Passed through from					
State of Hawaii Dept. of Health	66.460				98,124
					134,200
U.S. Department of Energy					
Conservation Research and Development	81.086				29,794

University of Hawai'i
State of Hawai'i
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

	CFDA No.	Pass-Through Identifier	Passed Through to Subrecipients	Expenditures	
U.S. Department of Education					
Office of Postsecondary Education					
National Resource Centers Program for Foreign Language and Areas Studies or Foreign Language and International Studies Program and Foreign Language and Area Studies Fellowship Program	84.015			1,670,001	
Overseas Programs – Group Projects Abroad	84.021			21,890	
Overseas Programs – Doctoral Dissertation Research Abroad	84.022			40,618	
Fund for the Improvement of Postsecondary Education	84.116			165,972	
Centers for International Business Education	84.220			13,009	
Language Resource Centers	84.229			180,414	
Child Care Access Means Parents in School	84.335			216,053	
College Access Challenge Grant Program	84.378		323,775	1,147,277	
Strengthening Minority-Serving Institutions	84.382			497,143	
Transition Programs for Students with Intellectual Disabilities into Higher Education	84.407			434,286	4,386,663
Office of Special Education and Rehabilitative Services					
Rehabilitation Long-Term Training	84.129			79,307	
Special Education – Personnel Development to Improve Services and Results for Children with Disabilities	84.325			1,093,791	
Special Education – Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326			170,382	1,343,480
Office of Elementary and Secondary Education					
English Language Acquisition State Grants	84.365			384,057	
Improving Teacher Quality State Grants	84.367			264,393	648,450
Passed through from					
State of Hawaii Dept. of Education	84.287			59,033	
State of Hawaii Dept. of Education	84.372			1,759,403	
State of Hawaii Dept. of Human Services	84.126			643,439	
State of Hawaii Dept. of Human Services	84			38,664	
State Public Charter School Commission	84.419			80,013	
Alu Like, Inc.	84.259			942,473	
Government of American Samoa	84.	various		1,185,429	
Endicott College	84.116			108	
Kaho'olawe Island Reserve Commission	84.259			76,963	
National Writing Project Corp	84.367			11,181	4,796,706
					11,175,299
U.S. Institute of Peace					
Annual Grant Competition	91.001				6,151
U.S. Department of Health and Human Services					
Health Resources and Services Administration					
Area Health Education Centers Point of Service Maintenance and Enhancement Awards	93.107		693,361	916,330	
Maternal and Child Health Federal Consolidated Programs	93.110		29,486	547,384	
Emergency Medical Services for Children	93.127		28,268	204,655	
Centers of Excellence	93.157			677,345	
Grants to States for Loan Repayment Program	93.165			164,607	
Telehealth Programs	93.211			323,563	
Substance Abuse and Mental Health Services – Projects of Regional and National Significance	93.243			197,810	
Advanced Nursing Education Grant Program	93.247			484,120	
Universal Newborn Hearing Screening	93.251			670,451	
Advanced Education Nursing Traineeships	93.358			310,386	
Nurse Education, Practice Quality and Retention Grants	93.359			368,865	
Mental and Behavioral Health Education and Training Grants	93.732		118,814	131,130	
Health Careers Opportunity Program	93.822		41,650	161,012	
PPHF Geriatric Education Centers	93.969		20,000	641,982	5,799,640
Centers for Disease Control and Prevention					
Centers for Disease Control and Prevention – Investigations and Technical Assistance	93.283		275,252	832,335	
Early Hearing Detection and Intervention Information System ("EHDI-IS") Surveillance Program	93.314			231,580	
PPHF Racial and Ethnic Approaches to Community Health Program Financed Solely by Public Prevention and Health Funds	93.738		42,044	622,956	1,686,871
Substance Abuse and Mental Health Services Administration					
Substance Abuse and Mental Health Services – Projects of Regional and National Significance	93.243				233,881
Administration for Community Living					
University Centers for Excellence in Developmental Disabilities Education, Research and Service	93.632		313,865	1,023,725	
Alzheimer's Disease Initiative: Specialized Supportive Services Project ("ADI-SSS") thru Prevention and Public Health Funds ("PPHF")	93.763			129,061	1,152,786
Office of Minority Health					
Community Programs to Improve Minority Health Grant Program	93.137				108,179

University of Hawai'i
State of Hawai'i
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

	CFDA No.	Pass-Through Identifier	Passed Through to Subrecipients	Expenditures	
Passed through from					
State of Hawaii Dept of Education	93 243			77.776	
State of Hawaii Dept. of Education	93.	CO-10266 MOA D11-140		13.473	
State of Hawaii Dept. of Health	93.004			28.877	
State of Hawaii Dept. of Health	93 104			10.119	
State of Hawaii Dept. of Health	93 217			59,307	
State of Hawaii Dept of Health	93.243			208.785	
State of Hawaii Dept. of Health	93.283			8,000	
State of Hawaii Dept of Health	93.757			18.754	
State of Hawaii Dept. of Health	93.758			27.852	
State of Hawaii Dept. of Health	93 944			24,345	
State of Hawaii Dept. of Health	93.958			109 159	
State of Hawaii Dept of Health	93 959			849,984	
State of Hawaii Dept of Health	93 991			35.701	
State of Hawaii Dept. of Health	93	ASO LOG 16-032		108.689	
State of Hawaii Dept of Human Services	93 536			1,374,448	
State of Hawaii Dept. of Human Services	93 558			15,744	
State of Hawaii Dept of Human Services	93 596		46,598	697.277	
State of Hawaii Dept. of Human Services	93 658			422,033	
State of Hawaii Dept. of Human Services	93 667			94,341	
State of Hawaii Dept of Human Services	93.779			162.274	
State of Hawaii Judiciary	93.243			19,707	
State of Hawaii Office of Information Management and Technology	93.511			334 661	
City & County of Honolulu	93 044			2.487	
City & County of Honolulu	93 052			212,375	
Government of American Samoa	93 283			50 000	
University of Arizona	93 516			90,363	
Association of University Centers on Disabilities	93 524			3.305	
Association of University Centers on Disabilities	93			7.358	
University of California – Los Angeles	93.279			187.592	
University of California – San Francisco	93 145			138,353	
Coalition for a Drug-Free Hawaii	93 276			22 122	
Federated States of Micronesia	93 283			53.936	
Global Coalition Against Cervical Cancer	93 424			12.088	
Government of Guam	93.185			17.930	
Government of Guam	93 283			33.553	
Government of Guam	93 778			26 327	
ARRA – Hawaii Health Information Exchange	93 718			1.102	
Made in Hope	93.290			1,999	
Republic of the Marshall Islands	93.283			61.676	
Commonwealth of the Northern Mariana Islands	93.185			36,849	
Commonwealth of the Northern Mariana Islands	93 778			28,711	
Commonwealth of the Northern Mariana Islands	93 888			3.756	
Commonwealth of the Northern Mariana Islands	93.912			133,566	
Commonwealth of the Northern Mariana Islands	93.	CNMI-CHC-SIM 2015-001		81,149	
Republic of Palau	93 283			18 924	
University of Tennessee	93 103			2.000	
University Clinical, Education & Research Associates	93 917			113 115	
Waianae Coast Comprehensive Health Center	93 178			930	6.042 872
					15 024 229
Corporation for National and Community Service					
State Commissions	94.003				273 644
AmeriCorps	94.006		2.206.292		2.206.292
					2,479,936
Social Security Administration					
Social Security – Work Incentives Planning and Assistance Program	96.008				86 657
U.S. Department of Homeland Security					
Passed through from					
County of Kauai	97 044			3,134	
Daughters of Hawaii	97.036			53.608	56.742
Agency for International Development					
USAID Foreign Assistance for Programs Overseas	98 001				108.423
Passed through from					
American Council on Education	98 012		33.523	117 341	
Michigan State University	98	RC102095BHEARD-Bangladesh		29,000	146.341
					254 764
Other					
Peace Corps	99				24.400
Total other federal assistance					**49,569,687**
Total expenditures of federal awards			**$ 35,083,757**		**$ 543,276,447**

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the University and is presented on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (the "Uniform Guidance"). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements. The University has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

2. Loans Outstanding

The University had the following loans outstanding as of June 30, 2016, which are not presented in the schedule of expenditures of federal awards.

	CFDA No.	Loans Outstanding
Major Program – Student Financial Assistance		
Federal Perkins Loan	84.038	$ 17,023,459
Nurse Faculty Loan Program	93.264	277
Nursing Student Loan	93.364	11,374
		$ 17,035,110

During the year ended June 30, 2016, the University distributed $2,483,673 and $156,333,365 in student loans through the U.S. Department of Education Federal Perkins Loan and Direct Loan programs, respectively. These distributions and related funding sources are presented in the schedule of expenditures of federal awards, however, are not included as expenses and revenues in the University's consolidated financial statements. During the year ended June 30, 2016, the University returned $369,813 of Federal capital contributions to the U.S. Department of Education Federal Perkins Loan program. The return of funds are included as an operating expense in the University's consolidated financial statements.

SECTION 3

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

University of Hawai'i
State of Hawai'i
Schedule of Findings and Questioned Costs
Year Ended June 30, 2016

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs	
Material weaknesses identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Type of auditors' report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. CFR Part 200, Section 200.516?	Yes

Identification of Major Programs[1]

CFDA Number	Federal Program or Cluster
Various	Research and Development Cluster
Various	Student Financial Assistance Cluster – Grants, Scholarships and Loans
Various	TRIO Cluster
17.282	Trade Adjustment Assistance Community College and Career Training
43.000	NASA IRTF Operation
84.031	Title III Higher Education – Institutional Aid
84.048	Career and Technical Education
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs ("GEAR UP")
84.362	Title VII Native Hawaiian Education
97.005	State and Local Homeland Security National Training Program

Dollar threshold used to distinguish between Type A and Type B programs	$3,000,000
Auditee qualified as low-risk auditee?	Yes

[1] Refer to Section 2 of this report for detailed information on each contract and grant comprising the University's major programs.

[2] The University's federal entity identification number is 99-6000354.

Section II – Financial Statement Findings

There were no findings related to the consolidated financial statements. However, we noted other matters involving compliance and internal control over financial reporting that we will be reporting to the Board of Regents and management of the University in a separate letter.

Section III – Federal Award Findings and Questioned Costs

Questioned Costs

$29,167

Finding No. 2016-001: Approval of Payroll Expenditures – Significant Deficiency

Federal Agency: U.S. Department of Education

CFDA Number and Title: 84.362 – Title VII Native Hawaiian Education

Finding and Cause

During our audit, we noted that for the period from July 1, 2015 through the termination of the project on November 30, 2015, documentation could not be provided evidencing supervisory approval of payroll expenditures incurred by an employee of the Research Corporation of the University of Hawaii ("RCUH") who was working on a grant for the Title VII Native Hawaiian Education program.

Section 3.810, *RCUH Time Reporting* of RCUH's policies and procedures states that employees must certify the accuracy of their reported hours worked either electronically or via the submission of a hardcopy timesheet. Subsequently, an individual with requisite knowledge of the employee's job responsibilities is responsible for approving the employee's reported hours worked either electronically or via manual signature on the hardcopy timesheet. This individual typically shall be the Principal Investigator for the project, or their authorized designee.

Effect

Failure by RCUH's Human Resources Department and University project personnel to adhere to the designated approval processes for salaries and wages exposes the University to an undue risk of noncompliance with Title 2 U.S. Code of Federal Regulations ("CFR") Part 220 – *Cost Principles for Educational Institutions (OMB Circular A-21)*.

Repeat Finding

This is not a repeat finding.

Recommendation

We recommend that RCUH's Human Resources Department work with University project personnel to ensure that the proper documentation, either electronic or hardcopy, is maintained evidencing the approval of all employee timesheets.

Views of Responsible Officials and Planned Corrective Actions

Refer to Section 5 – Corrective Action Plan (Unaudited) for the University's response to the identified instance of noncompliance.

Questioned Costs

$59,950

Finding No. 2016-002: Improper Consultant Expenditures – Significant Deficiency

Federal Agency: U.S. Department of Education

CFDA Number and Title: 84.031 – Title III Higher Education – Institutional Aid
84.334 – GEAR UP

Finding and Cause

During our audit, we noted the following instances in which a University employee was hired as a consultant to the University:

- During fiscal years 2013 through 2016, a University employee was contracted to provide services to grants within the Title III Higher Education – Institutional Aid program amounting to $28,000 and services to non-federally funded University programs amounting to $24,000.
- During fiscal years 2014 and 2016, a University employee was contracted to provide services to grants within the GEAR UP program amounting to $7,950.

Criteria

OMB Circular A-21, *Cost Principles for Educational Institutions* and Title 2 U.S. CFR Part 220 – *Cost Principles for Educational Institutions (OMB Circular A-21)*, allow for the incurrence of "costs of professional and consultant services rendered by persons who are members of a particular profession or possess a special skill, and who are not officers or employees of the institution."

Also, Section A8.230, *Contracting for Services*, of the University's Administrative Procedures, states "Programs requiring specialized skills, knowledge, resources and/or experience which cannot be provided by existing staff may obtain such services on a contractual basis from providers outside the University. Under no circumstances should a services contract be used to circumvent University employment procedures or to perform a job that could be accomplished by available personnel within the University."

Effect

Failure by the University's project personnel to adhere to the allowable cost principles of OMB Circular A-21 and Title 2 U.S. CFR Part 220 exposes the University to an undue risk of misuse of federal funds which may ultimately jeopardize the University's eligibility to receive federal funds in the future.

Also regarding non-federally funded projects, failure by the University's project personnel to adhere to the University's procurement policies and procedures exposes the University to an undue risk of misuse of their general funds.

Repeat Finding

This is not a repeat finding.

Recommendation

We recommend that prior to executing a contract for services with a consultant or subcontractor, the University's project personnel ensure that the consultant or subcontractor is not an employee of the University. We also recommend that RCUH and the University review existing consultant or subcontractor agreements to ensure that additional service agreements with University employees do not exist and that RCUH and the University work together to develop policies and procedures to ensure that similar incidents do not occur in the future.

Views of Responsible Officials and Planned Corrective Actions

Refer to Section 5 – Corrective Action Plan (Unaudited) for the University's response to the identified instances of noncompliance.

Questioned Costs

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Finding No. 2016-003:	Subrecipient Monitoring – Significant Deficiency
Federal Agency:	National Science Foundation Department of Justice Department of Health & Human Services
CFDA Number and Title:	47.049 – Mathematical and Physical Sciences 16.730 – Reduction and Prevention of Children's Exposure to Violence 93.632 – University Centers for Excellence in Developmental Disabilities Education, Research and Service

Finding and Cause

During our audit, we noted instances in which the University's Office of Research Services ("ORS") department did not perform during-the-award monitoring procedures over the following subrecipients in a timely manner as follows:

- Expenditures incurred during the review period from July 1, 2015 through December 31, 2015; documented during-the-award monitoring procedures were not completed until August 11, 2016.
- Expenditures incurred during the review period from January 1, 2016 through March 31, 2016; documented during-the-award monitoring procedures were not completed until October 12, 2016.
- Expenditures incurred during the review period from October 1, 2015 through March 31, 2016; documented during-the-award monitoring procedures were not completed until August 11, 2016.

Criteria

Title 2 U.S. CFR Part 200 – *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, requires a pass-through entity to perform during-the-award monitoring of a subrecipient's use of Federal awards through reporting, site visits, regular contact or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations and the provisions of contracts or grant agreements, and that performance goals are achieved.

To fulfil the requirements of Title 2 U.S. CFR Part 200, twice a year, Compliance Specialists within the ORS are assigned to perform during-the-award monitoring procedures over selected subrecipients with the expectation that such procedures are completed within the fiscal year.

Effect

Failure by ORS personnel to perform during-the-award subrecipient monitoring procedures in a timely manner exposes the University to an undue risk of noncompliance with Title 2 U.S. CFR Part 200.

Repeat Finding

This is not a repeat finding.

Recommendation

We recommend that ORS ensure that during-the-award subrecipient monitoring procedures are performed in a timely manner.

Views of Responsible Officials and Planned Corrective Actions

Refer to Section 5 – Corrective Action Plan (Unaudited) for the University's response to the identified instances of noncompliance.

Questioned Costs

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Finding No. 2016-004: Federal Direct Loan Enrollment Reporting – Control Deficiency

Federal Agency: U.S. Department of Education

CFDA Number and Title: 84.268 – Federal Direct Student Loans

Finding and Cause

During our audit, we noted that for one out of twenty students tested, the institution failed to update student enrollment status in the National Student Loan Data System ("NSLDS") within a timely manner. The finding occurred as a result of a change in enrollment requirements for graduate assistants. The institution reviewed its population of graduate assistants receiving Federal Direct Loans who had incorrect enrollment status and updated 43 records upon identification during our audit.

Criteria

Title 34, Section 685.309 (b)(2) of the CFR states that unless it expects to submit its next updated enrollment report to the Secretary within the next 60 days, a school must notify the Secretary within 30 days after the date the school discovers that a loan under Title IV of the Act was made to or on behalf of a student who was enrolled on at least a half-time basis or failed to enroll on at least a half-time basis for the period which the loan was intended.

Effect

In accordance with 34 CFR 668.84, the Secretary of Education may levy fines and/or penalties on the institution or suspend future participation in federal student financial assistance programs for failure to comply with the requirements applicable to Title IV of the Higher Education Act ("HEA").

Repeat Finding

This is not a repeat finding.

Recommendation

We recommend that the institution update NSLDS in a timely manner and assess the impact to compliance requirements when making changes to institutional requirements.

Views of Responsible Officials and Planned Corrective Actions

Refer to Section 5 – Corrective Action Plan (Unaudited) for the University's response to the identified instance of noncompliance.

Questioned Costs

$500

Finding No. 2016-005: Financial Aid Administration – Significant Deficiency

Federal Agency: U.S. Department of Education

CFDA Number and Title: 84.268 – Federal Direct Student Loans
84.007 – Federal Supplemental Educational Opportunity Grants

Finding and Cause

Due to turnover in critical positions within the financial aid office, we noted the following instances of noncompliance:

- The institution did not budget the correct tuition, student fees, and books and supplies for its cost of attendance ("COA") in line with published information that's made available to students.
- The institution was not able to evidence that they were transmitting and reconciling borrower data on a monthly basis.
- The institution did not perform calculations for unofficial withdrawals of the fall semester in a timely manner.
- For 1 out of 10 students tested, the student was awarded $1,587 greater than its estimated financial need, of which $500 was Title IV aid.

Criteria

Title 34, Section 668.43(a)(1) of the CFR requires the cost of attending the institution be made readily available to enrolled and prospective students.

Title 34, Section 685.30(b)(5) of the CFR requires the institution to reconcile institution records with Direct Loan funds received from the Secretary and Direct Loan disbursement records submitted to and accepted by the Secretary on a monthly basis.

Title 34, Section 668.22(j)(2) of the CFR requires the institution that is not required to take attendance must determine the withdrawal date for a student who withdraws without providing notification to the institution no later than 30 days after the end of the earlier of 1) the payment period or period of enrollment, as applicable; 2) the academic year; or 3) the program.

Title 34, Section 673.5(a)(1) of the CFR states that an institution may only award or disburse a Federal Perkins loan or an FSEOG to a student if that loan or the FSEOG, combined with the other estimated financial assistance the student receives, does not exceed the student's financial need.

Effect

In accordance with 34 CFR 668.84, the Secretary of Education may levy fines and/or penalties on the institution or suspend future participation in federal student financial assistance programs for failure to comply with the requirements applicable to Title IV of the Higher Education Act ("HEA").

In addition, the lack of a monthly reconciliation could result in discrepancies between Federal Direct Loan awarded and what was actually disbursed. As performing a monthly reconciliation is a requirement by the Federal agency, the unavailable support could lead to fees or penalties incurred by the institution.

Repeat Finding

This is a repeat of prior audit finding 2015-04.

Recommendation

We recommend that the institution:

- Ensure that controls are in place over the COA budget and that someone reviews the COA budget inputted into the Banner system and ensures that it agrees to the General Catalog provided to enrolled and prospective students.
- The institution should reconcile borrower information on a monthly basis and retain records to ensure compliance with Federal requirements.
- Ensure that unofficial withdrawals are timely determined so that return of Title IV fund calculations can be timely completed.
- Ensure that financial assistance does not exceed need before financial assistance is awarded and disbursed to the student.

We further recommend that personnel in the department be cross trained to perform other functions in the event of turnover or extended leaves of absence.

Views of Responsible Officials and Planned Corrective Actions

Refer to Section 5 – Corrective Action Plan (Unaudited) for the University's response to the identified instances of noncompliance.

Questioned Costs

$982

Finding No. 2016-006: Financial Aid Administration – Control Deficiency

Federal Agency: U.S. Department of Education

CFDA Number and Title: 84.063 – Federal Pell Grant
84.263 – Federal Direct Loans

Finding and Cause

During our audit, we noted the following instances of noncompliance:

- For 2 out of 15 students tested, the institution incorrectly prepared the return of Title IV calculation, resulting in an underpayment of $19 to the Title IV program. The institution reviewed all calculations and determined that an additional eight return of Title IV calculations were incorrectly prepared, three of which resulted in an underpayment of the amount that was required to be returned of $982.
- For 2 out of 15 students tested, the institution failed to update student enrollment status in the NSLDS within a timely manner.

Criteria

Title 34, Section 668.22(a)(1) through (a)(5) of the CFR requires the institution to determine the amount of Title IV aid earned by the student as of the student's withdrawal date when a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance.

Effect

In accordance with 34 CFR 668.84, the Secretary of Education may levy fines and/or penalties on the institution or suspend future participation in federal student financial assistance programs for failure to comply with the requirements applicable to Title IV of the HEA.

Repeat Finding

This is not a repeat finding.

Recommendation

We recommend that the institution:

- Ensure that the correct information is used to prepare the return of Title IV calculation and that someone review the calculation prepared.
- Provide the National Student Clearinghouse with its enrollment report timely so that it can update NSLDS within the 60 day requirement.

Views of Responsible Officials and Planned Corrective Actions

Refer to Section 5 – Corrective Action Plan (Unaudited) for the University's response to the identified instances of noncompliance.

SECTION 4

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding numbers relate to the sequence reported in the respective years.

University of Hawai'i
State of Hawai'i
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2016

Finding No.	Description	Classification	Status: Resolved	Status: Unresolved	Current Year Finding No.
2015-01	Return of Title IV Funds	Control deficiency ("CD")	X		
2015-02	Federal Direct Student Loans Exit Interview	CD	X		
2015-03	Federal Direct Student Loans Exit Interview	CD	X		
2015-04	Financial Aid Administration	CD		X	2016-005
2015-05	Return of Title IV Funds	CD	X		
2015-06	Federal Direct Student Loans Exit Interview	CD	X		
2015-07	Financial Aid Administration	CD	X		

SECTION 5

CORRECTIVE ACTION PLAN (UNAUDITED)

UNIVERSITY *of* HAWAIʻI®

SYSTEM

INSTITUTIONAL CORRECTIVE ACTION RESPONSES FOR THE SINGLE AUDIT REPORT FINDINGS AND QUESTIONED COSTS

FISCAL YEAR ENDED JUNE 30, 2016

Corrective Action Plan Related to the Schedule of Findings and Questioned Costs
Title VII Native Hawaiian Education
Year Ended June 30, 2016

Finding No. 2016-001:	**Approval of Payroll Expenditures – Significant Deficiency**
Federal Agency:	U.S. Department of Education
CFDA Number and Title:	84.362 – Title VII Native Hawaiian Education
Questioned Costs:	$29,167
Responsible Individual:	Nelson Sakamoto, Director of Human Resources, Research Corporation of the University of Hawai'i
Date Action Taken:	Immediately

The Corrective Action Plan will include a memo to the University of Hawai'i (the "University") Principal Investigator (PI) to inform her of this audit finding and to require her to provide a written assurance that she will ensure her certification/counter-signature on any personnel/payroll action that were prepared by a Research Corporation of the University of Hawai'i (RCUH) employee. For this audit finding, the RCUH will take additional corrective actions which include modifications to our applicable policies/procedures, forms, an improved oversight process, and training:

(a) Revise Payroll Policy: Revised Policy No. 3810 RCUH Time Reporting to include clear and unambiguous wording that prohibits an RCUH employee from preparing and submitting his/her own time report.

(b) Revise Delegation of Signature Authority: RCUH will revise the RCUH Human Resources Portal Access & Delegation of Authorization Form and process to include clear and unambiguous wording informing the PI that at no time can an RCUH employee submit any personnel or payroll action for themselves. The process will be revised to include an annual audit of these delegations to ensure they remain accurate. We plan to automate this process and request the University to assist the RCUH by reporting changes in status of University employees that may have been given delegation rights by the PI, or changes in employment status of the PI.

(c) Enforce oversight requirements of RCUH Payroll staff: Require the RCUH Payroll Office to require all RCUH employees, who have been delegated authority to submit timesheets for their PI and who are submitting their own timesheet, to obtain their PI's signature to signify his/her certification of the (delegated authority assigned) RCUH employee's time report. Failure to submit a PI's certification will result in the RCUH employee not getting paid on time and possibly additional corrective actions.

(d) Prohibit RCUH employee from submitting online timesheet for themselves: Modify RCUH Online Timesheet to deny an RCUH employee's ability to submit his/her own timesheet without a PI counter-certification.

Corrective Action Plan Related to the Schedule of Findings and Questioned Costs
Title VII Native Hawaiian Education
Year Ended June 30, 2016

Finding No. 2016-001: **Approval of Payroll Expenditures – Significant Deficiency (Continued)**

(e) Notification to PIs: We will send out notifications to all PIs of this audit finding and remind all PIs of their responsibilities for time certifications and counter-signing all timesheets whenever an RCUH employee is authorized by delegation to submit his/her own timesheet.

(f) In-Person and online training: Conduct training upon completion of these revisions in policies, procedures, and forms. All current individuals who possess a delegation from their PI will be required to attend this training or lose their delegation. Produce a web-based training and require any new PI or his/her delegated designee to attend as part of the Delegation of Authorization process.

All of these corrective actions are underway. Memos and notices will be sent out within the next 5-10 working days. The remainder will be completed by the end of January 2017.

Responsible Individual: Cindy Yamamoto, Fiscal Administrator, University of Hawai'i Maui College

Date Action Taken: November 16, 2016

The current University of Hawai'i Maui College (UH Maui College) PI on record has been notified that timesheets must be approved and maintained as documentation.

Corrective Action Plan Related to the Schedule of Findings and Questioned Costs
Title III – Higher Education Institutional Aid
Gaining Early Awareness and Readiness for Undergraduate Programs
Year Ended June 30, 2016

Finding No. 2016-002:	**Improper Consultant Expenditures – Significant Deficiency**
Federal Agency:	U.S. Department of Education
CFDA Number and Title:	84.031 – Title III Higher Education – Institutional Aid 84.334 – GEAR UP
Questioned Costs:	$59,950
Responsible Individuals:	Cindy Yamamoto, Fiscal Administrator, UH Maui College Jonathan McKee, Principal Investigator, UH Maui College Benjamin Guerrero, Project Director, UH Maui College
Program:	Title III Higher Education – Institutional Aid
Date Action Taken:	November 16, 2016

Prior to executing a contract for services with a consultant or subcontractor that has any relationship with the University, it will be thoroughly screened. The November 2016 Office of Research Services (ORS) Newsletter included an article entitled "Professional Service Costs (2 CFR 200.459)" explaining that while costs of professional and consultant services are an allowable charge, such persons cannot be officers or employees of the University. This newsletter issue was distributed to the UH Maui College. There are no current contracts with UH Maui College employees.

Responsible Individual:	Sharon Nakagawa, Fiscal Administrator, Windward Community College
Program:	Non-federally funded
Date Action Taken:	November 17, 2016

In the future, if RCUH determines that there was no "employment relationship" and the Employee/Independent Contractor (EIC) request indicates that the individual is a current University/RCUH employee, the Fiscal Administrator (FA) will request additional information from the program to ensure there is no conflict in their University/RCUH employment and the service contract.

The FA has informed the PI that per AP 8.230, paragraph 1, "Programs requiring specialized skills, knowledge, resources and/or experience which cannot be provided by existing staff may obtain such services on a contractual basis from providers outside the University. Under no circumstances should a services contract be used to circumvent University employment procedures or to perform a job that could be accomplished by available personnel within the University."

Corrective Action Plan Related to the Schedule of Findings and Questioned Costs
Title III - Higher Education Institutional Aid
Gaining Early Awareness and Readiness for Undergraduate Programs
Year Ended June 30, 2016

Finding No. 2016-002: **Improper Consultant Expenditures - Significant Deficiency (Continued)**

Responsible Individual: Richard Okubo, Institutional Support, Student Equity Excellence Diversity

Program: GEAR UP

Date Action Taken: November 15, 2016

The program office has been informed that prior to execution, all contracts for services with a consultant or subcontractor must clear an Employee-Independent Contractor (EIC) review. The result of this review must be submitted to the business office by the program office prior to the submission of any purchase order that includes a contract for services. PIs have been informed that University employees cannot be hired as consultants.

Responsible Individual: Gary Kawachi, Fiscal Administrator, Office of Student Affairs

Program: GEAR UP

Date Action Taken: November 15, 2016

More stringent checks to determine independent contractor status will be implemented to ensure that reoccurrence of this type of transaction in the future can be avoided.

Responsible Individual: Dawn Kim, Compliance Manager, Office of Research Services

Date Action Taken: November 10, 2016

In addition to the ORS Newsletter article referenced above, ORS and RCUH are reviewing transactions to ensure that additional service agreements with University employees do not exist. Furthermore, the University and RCUH have agreed to work together to review and update current policies and procedures to ensure that similar incidents do not occur in the future. According to the U.S. Department of Education (DOE) regulations §75.516, consulting fees to employees are allowable in unusual circumstances. ORS will be working with the DOE to determine whether these particular payments meet this criteria.

Corrective Action Plan Related to the Schedule of Findings and Questioned Costs
Research and Development Cluster
Office of Research Services
Year Ended June 30, 2016

Finding No. 2016-003:	**Subrecipient Monitoring – Significant Deficiency**
Federal Agency:	National Science Foundation Department of Justice Department of Health & Human Services
CFDA Number and Title:	47.049 - Mathematical and Physical Sciences 16.730 - Reduction and Prevention of Children's Exposure to Violence 93.632 - University Centers for Excellence in Developmental Disabilities Education, Research and Service
Responsible Individual:	Dawn Kim, Compliance Manager, Office of Research Services
Date Action Taken:	Immediately

The ORS Compliance Specialists have been reminded to schedule during-the-award monitoring meetings as soon as assigned in order to complete them in a timely manner. If situations arise where the PI or project personnel are unavailable for a review, follow up actions will be performed and documented. During-the-award monitoring is part of the ORS Compliance Specialists' job expectations and are incorporated into their performance evaluations.

Corrective Action Plan Related to the Schedule of Findings and Questioned Costs
Student Financial Assistance Cluster
University of Hawai'i at Mānoa
Year Ended June 30, 2016

Finding No. 2016-004:	**Federal Direct Loan Enrollment Reporting – Control Deficiency**
Federal Agency:	U.S. Department of Education
CFDA Number and Title:	84.268 - Federal Direct Student Loans
Responsible Individual:	Jodie Kuba, Financial Aid Services Director, University of Hawai'i at Mānoa
Date Action Taken:	October 12, 2016

The process to determine the enrollment status of students who are or were previously classified as Graduate Assistants (GA) has been updated by the Office of the Registrar to reflect the application of the following parameters when reporting enrollment:

1. Students currently identified as a GA must have a minimum of six credits to be reported as full time.
2. A check to verify that the student is still classified as a GA has been implemented.
3. Students who are no longer classified as a GA must be enrolled for a minimum of eight credits in order to be reported as full time.
4. Students who are no longer classified as a GA with at least six credits but, less than eight credits are reported as three quarter time.
5. Enrollment status for reporting of graduate students with less than six credits are applied regardless of the students status as a GA.

Corrective Action Plan Related to the Schedule of Findings and Questioned Costs
Student Financial Assistance Cluster
University of Hawai'i West O'ahu
Year Ended June 30, 2016

Finding No. 2016-005:	**Financial Aid Administration – Significant Deficiency**
Federal Agency:	U.S. Department of Education
CFDA Number and Title:	84.268 – Federal Direct Student Loans 84.007 – Federal Supplemental Education Opportunity Grants
Questioned Costs:	$500
Responsible Individual:	Christina Padilla, Financial Aid Director, University of Hawai'i West O'ahu
Date Action to be Taken:	October 1, 2016

The University of Hawai'i West O'ahu (UHWO) Financial Aid Office experienced a transition which included the loss of all three of their employees over a nine month period from October 2015 to May 2016. The former director, Lester Ishimoto, retired on October 1, 2015. The financial aid specialist, Jami Kurtz, advanced to a new position with the University system office in November 2015, and the senior financial aid officer, Helen Longao, got a new position with the University John A. Burns School of Medicine in May 2016. As can be expected, the loss of all three seasoned employees in such a short time period proved to be a challenge for UHWO.

With continued commitment to meet student needs, UHWO maintained operations and continued to process financial aid in a timely manner to ensure that all eligible students were able to attend with as minimal disruption as possible. Upon the retirement of the former director, Hettie Scofield (a former senior University financial aid officer) was immediately hired to provide leadership and direction on a half-time basis while UHWO conducted a search for a permanent director. The search was prolonged longer than anticipated since there was significant turnover and movement of financial aid officers within the state of Hawai'i. UHWO expanded the search nationally after experiencing little success in attracting an experienced administrator within the state. UHWO also hired another former University financial aid officer, Lynette Egusa, to help meet the demands of the office on a part-time basis while the search was extended nationally. Both Hettie Scofield and Lynette Egusa worked for UHWO through remote access, Skype, phone and email.

Due to UHWO not being able to fill all three positions in a timely manner, the 2015-16 aid year was completed with temporary part-time employees who were helping the remaining enrollment staff from remote locations.

Currently, the situation has been rectified and the 2016-17 aid year is well underway with new staff and the improvement of controls to ensure oversight in the financial aid office. UHWO has now filled all three positions with qualified, seasoned and permanent employees. In recognition of the issues that arose during the 2015-16 aid year due to the turnover of staff, the University has also added an additional position to the office which we are currently advertising and hope to fill by February, 2017.

Corrective Action Plan Related to the Schedule of Findings and Questioned Costs
Student Financial Assistance Cluster
University of Hawai'i West O'ahu
Year Ended June 30, 2016

Finding No. 2016-005: **Financial Aid Administration – Significant Deficiency (Continued)**

Controls that have been immediately documented and put into process are as follows:

- The cost of attendance budget (COA) has a two-party review process prior to being entered into Banner for use. This will be reviewed by a member of the management/leadership team and approved for execution in Banner.
- The reconciliation report that is run monthly to determine students who have exited UHWO will be saved to ensure that the documentation is retained for future audit purposes.
- Unofficial withdrawals are researched and determined on a monthly basis, in order to process R2T4 calculations in a timely and efficient manner.
- Training for all staff regarding need-based aid will be conducted upon hire and the financial aid office will monitor student accounts with negative unmet need to ensure that aid is re-evaluated and proper steps are taken to ensure compliance with need-based aid regulations.

Corrective Action Plan Related to the Schedule of Findings and Questioned Costs
Student Financial Assistance Cluster
Kaua'i Community College
Year Ended June 30, 2016

Finding No. 2016-006:	**Financial Aid Administration – Control Deficiency**
Federal Agency:	U.S. Department of Education
CFDA Number and Title:	84.063 - Federal Pell Grant 84.263 - Federal Direct Loans
Questioned Costs:	$982
Responsible Individual:	Jeff Anderson, Financial Aid Director, Kaua'i Community College
Date Action Taken:	November 28, 2016

When performing R2T4 calculations for students that withdraw prior to census date (add/drop period), additional manual actions must be performed in Banner in order to ensure correct calculations. Amongst these actions, are to update the "offered" and "accepted" award amounts to what the student was eligible for immediately prior to the date of the withdrawal. Updating to the full-time amounts instead result in incorrect calculations. Procedures have been updated to specifically document this process for the instances of performing calculations for students that have withdrawn prior to census date.

Responsible Individual:	Kailana Soto, Registrar, Kaua'i Community College
Date Action Taken:	November 29, 2016

On June 23, 2016, the Degree Transmission report for Kaua'i Community College (001614-00) was scheduled for transmission to the National Student Clearinghouse. Historically, a Clearinghouse Degree Transmission Reminder is sent via email four days prior to the scheduled transmission date. Timeliness is relied heavily on the reminder; however, the email for the Spring 2016 degree transmission was not received. As a result, the report was transmitted after the due date on July 13, 2016. In order to avoid future occurrences, the Schedule of Future Degree Transmissions to the Clearinghouse will be posted to the Admissions & Records Office's internal calendar.

SECTION 6

CONSOLIDATED FINANCIAL STATEMENTS

Index

June 30, 2016 and 2015

CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditors

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

Report on the Consolidated Financial Statements
We have audited the accompanying consolidated financial statements of the University of Hawai'i (the "University"), a component unit of the State of Hawai'i, as of and for the years ended June 30, 2016 and 2015, and the related notes to the consolidated financial statements, which collectively comprise the University's basic financial statements as listed in the accompanying index.

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

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of the University of Hawai'i Foundation (the "Foundation"), which represent 13.3 percent and 13.5 percent, respectively, of the total assets and deferred outflows of resources and 0.8 percent and 1.1 percent, respectively, of the total operating revenues of the University as of and for the years ended June 30, 2016 and 2015. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the Foundation as of and for the years ended June 30, 2016 and 2015, are based solely on the reports of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

an independent member of
BAKER TILLY
INTERNATIONAL

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Honolulu, Hawaii 96813
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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University of Hawai'i as of June 30, 2016 and 2015, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, the University adopted new accounting guidance under Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurements*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2016, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended June 30, 2016. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Accuity LLP

Honolulu, Hawai'i
December 15, 2016

Introduction

The following discussion and analysis provides an overview of the consolidated financial position and activities of the University of Hawai'i (the "University") for the years ended June 30, 2016 and 2015, with selected information for the year ended June 30, 2014. 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. Since then, what began as a college of ten students and 13 faculty members on the island of O'ahu has evolved and expanded to a 10-campus system spanning the main Hawaiian Islands. The University's growth over the years has been in response to the research and cultural needs of its educational community, the State of Hawai'i, and beyond.

The University is a multi-institutional system comprised of a major research university (Mānoa), two baccalaureate campuses (Hilo and West O'ahu), seven community colleges (Hawai'i, Honolulu, Kapiolani, Kauai, Leeward, Maui and Windward) and nine educational centers distributed across the State. The University 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).

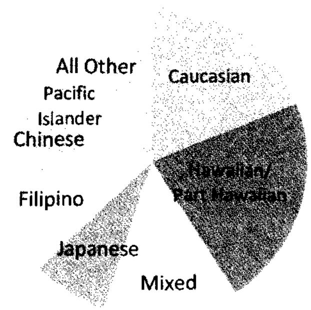
In addition to being an integrated higher education system, the University distinguishes itself through its Hawai'i, Asian and Pacific orientation and its position as one of the world's foremost multicultural centers for global and indigenous studies. Students are members of a population in which no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

Undergraduate		50,011	48,494	51,109
Graduate		5,745	8,558	5,943
	Total	**55,756**	**57,052**	**57,052**

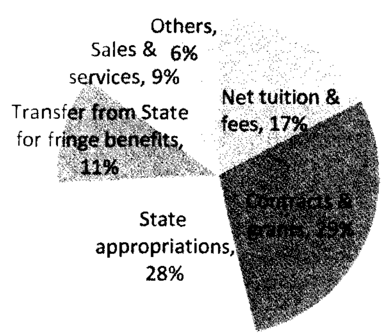
	710
Certificates: Community Colleges	180
Certificates: University	101
Associate degrees	128
Bachelor's degrees	146
Master's degrees	91
Doctoral degrees	59
Professional degrees	5

Hawai'i	85%
Mainland	10%
Foreign	4%
Other	1%

Caucasian	19%
Hawaiian/Part Hawaiian	22%
Mixed	14%
Japanese	8%
Filipino	13%
Chinese	5%
Pacific Islander	3%
All Other	16%



Net tuition and fees	$	272,306	17%	$	262,660	$	248,377
Contracts and grants (including Pell grants)		451,669	29%		456,944		494,321
State appropriations		441,373	28%		413,148		391,266
Transfer from State for fringe benefits		172,248	11%		162,969		153,919
Sales and services		134,787	9%		135,315		130,879
Others		96,249	6%		244,066		292,413
Total	**$**	**1,568,632**	**100%**	**$**	**1,675,102**	**$**	**1,711,175**



Using the Financial Statements

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

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

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

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

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

Related Entities

The University maintains close relationships with two other entities, considered to be component units, whose financial information is blended into the University's accompanying consolidated financial statements. The University of Hawaiʻi Foundation (the "Foundation") is a not-for-profit organization established to solicit and manage funds for the benefit of the University. The Research Corporation of the University of Hawaiʻi (the "Research Corporation") provides administrative support services for research and training programs of the University. Both of the University's component units prepare stand-alone financial statements with footnotes, which are audited by independent auditors. Summarized information of the individual components of the University's consolidated financial position, results of operations and cash flows for the years ended June 30, 2016 and 2015 is presented in Note 18 to the consolidated financial statements.

Financial Position

The Consolidated Statements of Net Position present the financial position of the University at the end of the fiscal year and display all assets and liabilities of the University. Assets and liabilities are presented using fair and current values, respectively. Two notable exceptions are receivables and capital assets, which are stated at historical cost less an allowance for doubtful accounts and accumulated depreciation, respectively. The difference between assets and liabilities is net position, representing a measurement of the current financial condition of the University. The University's assets, liabilities and net position at June 30, 2016, 2015 and 2014 are summarized as follows (in thousands of dollars):

	2016	Percentage of Total Assets and Deferred Outflows	2015	Percentage of Total Assets and Deferred Outflows	2014	Percentage of Total Assets and Deferred Outflows	FY 16 vs 15 Change	FY 15 vs 14 Change
Current assets								
Cash and operating investments	$ 401,881	11%	$ 375,052	10%	$ 342,353	10%	$ 26,829	$ 32,699
Receivables, net	104,838	3%	104,711	3%	108,463	3%	127	(3,752)
Other current assets	21,712	1%	24,681	1%	23,597	1%	(2,969)	1,084
Total current assets	528,431	15%	504,444	14%	474,413	14%	23,987	30,031
Noncurrent assets								
Endowment and other investments	475,040	13%	477,243	13%	499,460	14%	(2,203)	(22,217)
Capital assets, net	2,053,385	57%	2,068,691	57%	2,071,850	60%	(15,306)	(3,159)
Other noncurrent assets	388,709	10%	466,840	13%	418,903	12%	(78,131)	47,937
Total assets	3,445,565	95%	3,517,218	96%	3,464,626	100%	(71,653)	52,592
Deferred outflows of resources								
Deferred loss on refunding	11,383	0%	5,251	0%	5,576	0%	6,132	(325)
Deferred outflows on net pension liability	163,699	5%	134,848	4%	-	0%	28,851	134,848
Total deferred outflows of resources	175,082	5%	140,099	4%	5,576	0%	34,983	134,523
Total assets and deferred outflows of resources	$ 3,620,647	100%	$ 3,657,317	100%	$ 3,470,202	100%	$ (36,670)	$ 187,115
Current liabilities	$ 266,951	7%	$ 270,047	7%	$ 263,583	8%	$ (3,096)	$ 6,464
Noncurrent liabilities								
Long-term debt	543,680	15%	561,470	16%	578,585	17%	(17,790)	(17,115)
Net pension liability	1,144,564	32%	1,089,882	30%	-	0%	54,682	1,089,882
Other noncurrent liabilities	828,653	24%	742,335	20%	666,508	18%	86,318	75,827
Total liabilities	2,783,848	78%	2,663,734	73%	1,508,676	43%	120,114	1,155,058
Deferred inflows of resources								
Deferred inflows on net pension liability	111,364	3%	151,162	4%	-	0%	(39,798)	151,162
Total deferred inflows of resources	111,364	3%	151,162	4%	-	0%	(39,798)	151,162
Net position								
Net investment in capital assets	1,504,935	42%	1,503,902	41%	1,519,669	44%	1,033	(15,767)
Restricted								
Nonexpendable	244,396	6%	235,894	6%	218,133	6%	8,502	17,761
Expendable	561,093	15%	644,743	18%	598,070	17%	(83,650)	46,673
Unrestricted	(1,584,989)	-44%	(1,542,118)	-42%	(374,346)	-10%	(42,871)	(1,167,772)
Total net position	725,435	19%	842,421	23%	1,961,526	57%	(116,986)	(1,119,105)
Total liabilities, deferred inflows of resources and net position	$ 3,620,647	100%	$ 3,657,317	100%	$ 3,470,202	100%	$ (36,670)	$ 187,115

Implementation of GASB Statements No. 68 and 71

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

The adoption of Statements No. 68 and 71 has significant impact on the University's financial statements, which requires us to report expenditures and liabilities in the amount statutorily required. Readers of the fiscal year 2015 financial statements should notice that the University's balance sheet showed significant financial impact by the inclusion of the University's proportionate share of the net pension liability for the Employees' Retirement System of the State of Hawai'i ("ERS") plan. The adoption resulted in the restatement of the University's fiscal year 2014 net position. Accordingly, the University's net position as of July 1, 2014 has been restated to $849 million from $1.962 billion, which reflects the retrospective effect of adoption for net pension liability of $1.113 billion. Retroactive implementation of GASB Statement No. 68 was not deemed practical due to the cost and timing required to obtain and analyze the activity covering fiscal year 2014. As such, the University's fiscal year 2014 financial statements are presented in accordance with GASB Statement No. 27.

As of June 30, 2016, the net pension liability increased by $54.7 million to $1.144 billion from $1.090 billion in fiscal year 2015, primarily due to the additional pension expense, the difference between expected and actual experience with economic and demographic factors, effect of changes in assumptions, and the difference between actual and projected earnings on plan investments. Refer to Note 14 for more information regarding the University's pension.

Current Assets and Liabilities

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

The University recorded an increase in working capital the last three fiscal years, which resulted mainly from the implementation of the new financial management policy. In November 2013, the University adopted a financial reserve policy to establish system-wide operating reserves from non-general fund revenue in amounts sufficient to provide continued operations for at least two months with a minimum of five percent unencumbered cash from all tuition and fee funds, special funds, and revolving funds. At June 30, 2016, 2015 and 2014, working capital amounted to $261.5 million, $234.4 million and $210.8 million, respectively. The University is committed to maintaining a prudent level of working capital to fund operations, including pre-funding approximately $390.2 million in extramural grants which were mostly paid on a cost reimbursement basis. Based on the $1.536 billion of operating expenses (excluding depreciation) for the year ended June 30, 2016, the working capital at year end represents approximately 59 days of operating funds, as compared to 53 and 55 days of operating funds in 2015 and 2014, respectively.

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

- Current assets consist primarily of cash and cash equivalents, operating investments and net receivables. Total current assets were $528.4 million, $504.4 million and $474.4 million at June 30, 2016, 2015 and 2014, respectively. Total current assets increased by $24.0 million, or 4.8 percent, at June 30, 2016, primarily due to a $26.8 million increase in cash and operating investments. The increase was made up of the $12.0 million cash balance increase from tuition and fees, the receipt of $3.6 million from revolving funds, the proceeds of $8.5 million from the 2015 revenue bond issuance, offset by the repayment of a $6.0 million advance to the State of Hawai'i for the Snug Harbor project. Total current assets increased by $30.0 million, or 6.3 percent, at June 30, 2015, mainly due to a $32.7 million increase in cash and operating investments for similar reasons as in fiscal year 2016. The increase primarily resulted from the implementation of the financial reserve policy. The cash balance from tuition and fees increased by $20 million in fiscal year 2015, in addition to the $6 million advance from the State of Hawai'i for the Snug Harbor project that was not spent as of June 30, 2015.

- Current liabilities consist primarily of accounts payable, accrued payroll and fringe benefits, advances from sponsor and unearned revenue. Current liabilities also include amounts due to the State of Hawaiʻi, the current portion of long-term liabilities and other current liabilities. Total current liabilities were $267.0 million, $270.0 million and $263.6 million at June 30, 2016, 2015 and 2014, respectively. Total current liabilities decreased by $3.1 million, or 1.1 percent, at June 30, 2016, primarily due to the decrease in accounts payable of $5.1 million due to decreases in construction in progress expenditures accrued for coupled with a $6.0 million repayment to the State of Hawaiʻi for the Snug Harbor project. The aggregated decrease is offset by an increase in accrued payroll of $7.4 million in negotiated bonus payments paid in fiscal year 2017. Total current liabilities increased by $6.5 million, or 2.5 percent, at June 30, 2015, primarily due to the increase from the State of Hawaiʻi for the Snug Harbor $6.0 million project advance.

Endowment and Other Investments

The University's endowment and other investments, including endowments held with the Foundation, decreased by $2.2 million, or 0.5 percent, to $475.0 million at June 30, 2016 as a result of market value decline. The June 30, 2015 decrease of $22.2 million, or 4.4 percent, was primarily due to a $20.0 million reimbursement of preconstruction costs associated with a new facility for the Cancer Research Center, which was put into service in a prior fiscal year. Realized and unrealized losses in fiscal year 2016 totaled $6.1 million, versus $0.1 million realized and unrealized gains in fiscal year 2015. A summarized comparison of the University investments as of June 30, 2016, as follows (in thousands of dollars):

	2016	2015	2014
University of Hawaiʻi	$ 103.8	$ 104.0	$ 133.7
Foundation	371.2	373.2	365.8
Total	$ 475.0	$ 477.2	$ 499.5

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

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

The University's spending rate policy is to limit the immediate impact that significant changes in the fair value of the endowment portfolio have on annual distributions. The spending rate policy provides for an annual distribution, ranging between three percent and five percent of the five-year moving average of the endowment portfolio's fair value. In fiscal years 2016, 2015 and 2014, the University instituted a 4.5 percent distribution rate on restricted and unrestricted endowments. The total restricted and unrestricted distributions available to the University amounted to $2.6 million, $2.5 million and $2.4 million in fiscal years 2016, 2015 and 2014, respectively.

Capital and Debt Activities

The University's capital assets are separated into seven categories: land, buildings, infrastructure, land improvements, equipment, library materials, and construction in progress. At June 30, 2016, 2015 and 2014, total capital assets, net of accumulated depreciation, remained constant to $2.1 billion, which represented approximately 60 percent of the University's total assets. Capital asset additions totaled $118.5 million, $130.7 million and $186.5 million in fiscal years 2016, 2015 and 2014, respectively, while depreciable capital asset disposals, net of accumulated depreciation, amounted to $8.8 million, $12.5 million and $32.3 million, respectively.

The decreases of the additions in fiscal years 2016 and 2015 were due to the completion of many strategic capital projects in prior years. The decrease of the disposal in fiscal year 2015 was due to one-time large transfer of $5.3 million assets to the Federal government.

Capital Projects

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

Significant capital projects completed during fiscal years 2016 and 2015 or in progress as of June 30, 2016 and 2015 included:

- **William S. Richardson School of Law Clinical Building** – The $7 million William S. Richardson School of Law Clinical Building will break ground on September 30, 2016. The new building will increase teaching and conference space to train law students who serve the community.

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

- **Daniel K Inouye College of Pharmacy** – The $33 million Daniel K Inouye College of Pharmacy broke ground in December of 2014. The 35,000 square foot instructional and research facility will be the permanent home of the Daniel K Inouye College of Pharmacy.

- **Community College Energy Conservation Project** – The $38 million Leeward, Windward, Honolulu, and Kapiolani Community Colleges portion of the energy conservation project was completed on September 11, 2015. The project will reduce the consumption of electricity, water, wastewater and Syngas as well as create a curriculum based on conservation for each campus. The $10 million University of Hawai'i Maui College project is scheduled to be completed in fiscal year 2017. The community colleges are leading the way to reach the University of Hawai'i's goal of net-zero energy by 2035.

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

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

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

- **University of Hawai‘i at Mānoa Elevator Modernization Project** – The University of Hawai‘i at Mānoa has been working hard to update the elevators in many of the aging buildings. The $7.5 million Phase I, which included seven buildings, was completed in FY 2014. The $11.5 million Phase II, which included eleven buildings, was completed in fiscal year 2016. Phase III and Phase IV are scheduled to be completed in fiscal years 2017 and 2018, respectively.

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 2016, 2015 and 2014, the State appropriated funds directly to the Department of Budget and Finance to pay for debt service on general obligation bonds issued for the University. As a result, the University itself received no appropriations and made no transfers for debt service on general obligation bonds for these fiscal years. In fiscal years 2016, 2015 and 2014, $106.8 million, $106.1 million and $101.0 million, respectively, were appropriated.

- **Revenue bonds** – The University also issued revenue bonds to finance capital projects. These bonds are carried as liabilities of the University. Total revenue bonds liabilities were $562.6 million, $578.6 million and $593.9 million for fiscal years 2016, 2015 and 2014, respectively. The University revenue bonds were assigned municipal bond ratings of “A+,” “Aa2” and “AA” by Standard & Poor’s, Moody’s Investors Service and Fitch Ratings, respectively. The University has appropriated funds, by statute, from the State of Hawai‘i Tobacco Settlement Special Fund for the payment of principal and interest on revenue bonds to finance the cost of construction of the medical school facility and for annual operating expenses incurred by the facility. The University received State of Hawai‘i Tobacco Settlement funds in the amount of $9.5 million, $9.9 million and $9.9 million in fiscal years 2016, 2015 and 2014, respectively, to cover debt service for the bonds that financed the medical school facility. Refer to Note 11 for more information regarding the University revenue bonds.

- **Loan agreement** – On May 4, 2012, the University entered into a five-year, unsecured loan agreement ("Note") with Hawai'i Regional Center LP III ("Lender") for a commitment amount not to exceed $18 million, subject to certain limitations. The proceeds were used to facilitate and fund construction of the UH-West O'ahu campus located at Kapolei, Hawai'i. The Note bears interest at the rate of 1.5 percent per annum, which is due and payable semi-annually to the Lender on January 1 and July 1 each year until the Note has been paid in full. Under the terms of the Note, repayment each fiscal year is limited and subject to specific appropriations by the State to make such payments. The Note matures on April 22, 2018, at which time the unpaid principal will be due. As of June 30, 2016, $17 million remains outstanding.

Net Position

Net position represents the residual interest in the University's assets after liabilities are deducted. At June 30, 2016, 2015 and 2014, total net position amounted to $725.4 million, $842.4 million and $2 billion, respectively. Net position is reported in four major categories: net investment in capital assets, restricted nonexpendable, restricted expendable and unrestricted. The University's net position at June 30, 2016, 2015 and 2014 is summarized as follows (in thousands of dollars):

	2016	2015	2014
Net investment in capital assets	$ 1,504,935	$ 1,503,902	$ 1,519,669
Restricted – Nonexpendable	244,396	235,894	218,133
Restricted – Expendable	561,093	644,743	598,070
Unrestricted	(1,584,989)	(1,542,118)	(374,346)
Total net position	$ 725,435	$ 842,421	$ 1,961,526

Net investment in capital assets is the University's capital asset, net of accumulated depreciation and the related outstanding debt used to finance the acquisition, construction or improvement of those assets. The net investment in capital assets increased by $1 million in fiscal year 2016, primarily due to $124.9 million of depreciation expense, $8.8 million in net disposals offset by a $16.0 million decrease in related debt and $118.4 million of capital asset additions. In fiscal year 2015, the net investment in capital assets reduced by $15.8 million from prior year due to $121.4 million of depreciation expense, $12.5 million in net disposals, and $12.6 million decrease in related debt offset by $130.7 million of capital asset additions.

Restricted nonexpendable net position primarily represents the University's and Foundation's permanent endowment funds, which are required to be maintained in perpetuity and amounted to $244.4 million, $235.9 million and $218.1 million at June 30, 2016, 2015 and 2014, respectively. The increases of $8.5 million and $17.8 million in fiscal years 2016 and 2015, respectively, were primarily attributable to new permanent endowment gifts received.

Restricted expendable net position is subject to externally imposed restrictions governing their use. Net position was restricted for the following purposes at June 30, 2016, 2015 and 2014 (in thousands of dollars):

	2016	2015	2014
Plant facilities	$ 319,809	$ 386,742	$ 327,195
Donor-restricted activities	210,404	224,904	234,200
Loan activities	37,229	24,363	24,173
External sponsor activities	(6,349)	8,734	12,502
	$ 561,093	$ 644,743	$ 598,070

In fiscal year 2016, the overall decrease of $83.7 million in restricted expendable net position was primarily attributable to the spending of State capital appropriations received in the prior year. In fiscal year 2015, the overall increase of $46.7 million in restricted expendable net position was attributable to a $56.8 million increase in State capital appropriations to fund construction for the UH-West O'ahu Administration and Allied Health Facility and the UH-Hilo College of Pharmacy.

Net position that is not subject to externally imposed restrictions governing their use is classified as unrestricted for financial reporting purposes. At June 30, 2016, 2015 and 2014, unrestricted net positions amounted to deficits of $1.58 billion, $1.54 billion and $374.3 million, respectively. Although unrestricted net position is not subject to externally imposed restrictions, all of the University's unrestricted net positions has been internally designated for various academic and research programs and initiatives, contractual commitments, and capital projects. In addition, unrestricted net positions of $37.6 million, $45.0 million and $46.7 million were designated for endowment activities at June 30, 2016, 2015 and 2014, respectively.

In addition to the pension liability restatement from the retrospective adoption of GASB Statements No. 68 and 71, the reduction in unrestricted net positions for the years ended June 30, 2016 and 2015 was caused by the University's required accounting and recognition of the University's allocated share of the State of Hawai'i's actuarially determined total other postemployment benefits ("OPEB") liability. Similar to other state and local governments, the State of Hawai'i ("State") plan has been paid on a "pay as you go" basis, which resulted in the OPEB liability growing substantially each year. As a result, unrestricted net position continues to decline, despite the unrestricted net position of the University from operations showed growth. The University's share of the OPEB liability as of June 30, 2016, 2015 and 2014 was $722.8 million, $650.8 million and $579.2 million, respectively. Annual required OPEB contribution payments, on a "pay as you go" basis, towards this liability were paid directly by the State Department of Budget and Finance from its general fund appropriation and not out of the University's operating budget appropriation. The University made contributions calculated as part of the State's total contribution requirements and were reimbursed to the State's General Fund as part of the fringe benefit rate on University employees' actual salaries.

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

	2016	2015	2014
Unrestricted net position	$ (1,584,989)	$ (1,542,118)	$ (374,346)
Pension liability	1,144,564	1,089,882	-
OPEB liability	722,757	650,805	579,196
Adjusted net unrestricted position	$ 282,332	$ 198,569	$ 204,850

Results of Operations

The Consolidated Statements of Revenues, Expenses and Changes in Net Position are a presentation of the University's results of operations for the year. It indicates whether the financial condition of the University improved or deteriorated. For financial reporting purposes, certain significant revenues, including state appropriations, private gifts and investment income, which are relied upon and budgeted to support the University's core operations, are required to be reported as nonoperating revenues. The University's results of operations for the years ended June 30, 2016, 2015 and 2014 summarized to match revenues supporting core activities with expenses associated with core activities, are as follows (in thousands of dollars):

	2016		2015		2014		Increase (Decrease)	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	FY 16 vs 15 Change	FY 15 vs 14 Change
Revenues								
Operating								
Tuition and fees	$ 403,411	30.2%	$ 392,471	30.0%	$ 377,550	27.4%	$ 10,940	$ 14,921
Less: Scholarship allowances	(131,105)	-9.8%	(129,811)	-9.9%	(129,173)	-9.4%	(1,294)	(638)
Grants and contracts	390,231	29.2%	390,800	29.9%	427,056	30.9%	(569)	(36,256)
Sales and services	134,787	10.1%	135,315	10.3%	130,879	9.5%	(528)	4,436
Other revenue	2,211	0.2%	2,568	0.2%	2,935	0.2%	(357)	(367)
Total operating revenues	799,535	59.9%	791,343	60.5%	809,247	58.6%	8,192	(17,904)
Nonoperating								
State appropriations	441,373	33.0%	413,148	31.6%	391,266	28.3%	28,225	21,882
Federal Pell grant	61,438	4.6%	66,144	5.1%	67,265	4.9%	(4,706)	(1,121)
Net investment income	679	0.1%	4,659	0.4%	51,520	3.7%	(3,980)	(46,861)
Private gifts	32,382	2.4%	32,600	2.5%	61,127	4.4%	(218)	(28,527)
Total nonoperating revenues	535,872	40.1%	516,551	39.5%	571,178	41.4%	19,321	(54,627)
Total revenues supporting core activities	1,335,407	100.0%	1,307,894	100.0%	1,380,425	100.0%	27,513	(72,531)
Expenses								
Operating								
Compensation and benefits	1,113,771	75.2%	1,093,021	73.1%	1,070,419	71.0%	20,750	22,602
Supplies, services and cost of goods sold	202,157	13.6%	205,833	13.8%	238,687	15.8%	(3,676)	(32,854)
Telecom and utilities	64,633	4.4%	72,282	4.8%	79,860	5.3%	(7,649)	(7,578)
Scholarships and fellowships	43,440	2.9%	49,302	3.3%	50,835	3.4%	(5,862)	(1,533)
Other expense	111,615	7.5%	112,076	7.5%	110,597	7.3%	(461)	1,479
Total operating expenses	1,535,616	103.6%	1,532,514	102.4%	1,550,398	102.8%	3,102	(17,884)
Nonoperating (revenues) expenses								
Transfers from State, net	(200,216)	-13.5%	(191,584)	-12.8%	(183,460)	-12.2%	(8,632)	(8,124)
Transfers (from) to Federal – capital assets	(4,081)	-0.3%	5,315	0.4%	4,156	0.3%	(9,396)	1,159
Interest expense	25,064	1.7%	27,523	1.9%	26,690	1.8%	(2,459)	833
Total nonoperating revenues	(179,233)	-12.1%	(158,746)	-10.5%	(152,614)	-10.1%	(20,487)	(6,132)
Expenses associated with core activities before depreciation	1,356,383	-	1,373,768	-	1,397,784	-	(17,385)	(24,016)
Loss from core								
Loss from core activities before depreciation	(20,976)	-	(65,874)	-	(17,359)	-	44,898	(48,515)
Depreciation	124,937	8.5%	121,378	8.2%	109,458	7.3%	3,559	11,920
Expenses associated with core activities including depreciation	1,481,320	100.0%	1,495,146	100.0%	1,507,242	100.0%	(13,826)	(12,096)
Loss from core activities	(145,913)		(187,252)		(126,817)		$ 41,339	$ (60,435)
Other nonoperating activity								
Capital gifts and grants	28,122		165,904		146,068			
Permanent endowment	9,254		19,426		9,502			
Other expenses, net	(8,449)		(4,391)		(4,124)			
Other nonoperating income, net	28,927		180,939		151,446			
Increase (decrease) in net position	(116,986)		(6,313)		24,629			
Net position								
Beginning of year	842,421		1,961,526		1,936,897			
Adjustment for change in accounting principle	-		(1,112,792)		-			
Beginning of year, as restated	842,421		848,734		1,936,897			
End of year	$ 725,435		$ 842,421		$ 1,961,526			

Revenues Supporting Core Activities

The University has a diversified stream of revenues to support its operations. No single source generated more than 35 percent of the total 2016 revenue. State appropriations and tuition and fees are the core components that support the University's instructional and academic programs. Government and nongovernmental grants and contracts provide opportunities for under-graduate and graduate students to participate in basic research with renowned researchers. Private gifts contribute toward the support of the University's instructional and academic initiatives. Sales and services revenues include revenues from educational departments and auxiliary enterprises, including bookstores, student and faculty housing, food services, parking and athletics.

Tuition and fees revenue, net of scholarship allowances, was up by $9.6 million, or 3.7 percent, to $272.3 million in fiscal year 2016. The increase in fiscal year 2015 was $14.3 million, or 5.8 percent, to $262.7 million. The increases in fiscal years 2016 and 2015 were primarily attributable to the increase in tuition rates between 4 percent and 5 percent among all campuses offset by a decline in enrollment. Scholarship allowances amounted to $131.1 million, $129.8 million and $129.2 million in fiscal years 2016, 2015 and 2014, respectively.

One of the largest sources of revenue (29 percent) was grants and contracts. Total revenues from federal, state and local grants, and contracts and nongovernmental sponsored programs was relatively flat in fiscal year 2016 as compared to 2015. The University like other research institutions across the country continues to weather an extremely challenging funding landscape brought on by the lingering effects of sequestration, uncertainties in agency funding, budget cuts and the realignment of R&D funding priorities. The grants and contracts revenue amounted to $390.2 million, $390.8 million and $427.0 million in fiscal years 2016, 2015 and 2014, respectively.

Sales and services revenues, which are mainly comprised of bookstores, student and faculty housing, food services, parking and athletics, was down by $0.5 million, or 0.4 percent, to $134.8 million in fiscal year 2016. The decrease was primarily attributable to the decline in textbook sales, where the University faced increasing competition with online retailers and direct marketing from publishers. Sales and services revenues increased by $4.4 million, or 3.4 percent, to $135.3 million in fiscal year 2015 from fiscal year 2014. The increase was primarily attributable to the increase in revolving fund project activity.

General state appropriations increased significantly by $28.2 million, or 6.8 percent, to $441.4 million in fiscal year 2016 and by $21.9 million, or 5.6 percent, to $413.1 million in fiscal year 2015. The State of Hawai'i continued to provide strong financial support to the University as the sole public higher education system within the State. The additional funding in fiscal year 2016 included $6.3 million for performance based funding, $1.2 million for Title IX compliance support, $19.3 million for salary increase negotiated by the collective bargaining agreements, and $1.4 million for other mission critical programs. The increase in fiscal year 2015 was mainly attributable to an increase in legislative appropriations to pay for in faculty union contracts, and to address the need for increased administrative support at the UH-West O'ahu campus due to increased enrollment.

The University's net investment income for fiscal year 2016, as compared to fiscal year 2015, went down by $4.0 million, or 85.4 percent. The fiscal year 2016 decrease was mainly due to the decrease in realized gain of $7.8 million offset by the decrease in unrealized loss and other investment loss of $1.5 million and $1.4 million, respectively. The University's net investment income for fiscal year 2015, as compared to fiscal year 2014, also decreased by $46.8 million, or 91 percent, mainly due to the decrease in realized gain of $13.6 million and unrealized gain of $31.1 million, which was in line with the decrease in the market performance in fiscal year 2015.

The components of net investment income for the years ended June 30, 2016, 2015 and 2014 were as follows (in thousands):

	2016	2015	2014	Increase (Decrease) FY 16 vs 15 Change	Increase (Decrease) FY 15 vs 14 Change
Interest and dividend income	$ 8,640	$ 7,974	$ 7,621	$ 666	$ 353
Net realized gains	572	8,336	21,904	(7,764)	(13,568)
Net unrealized gains (losses)	(6,703)	(8,232)	22,826	1,529	(31,058)
Other, net	(1,830)	(3,419)	(831)	1,589	(2,588)
	$ 679	$ 4,659	$ 51,520	$ (3,980)	$ (46,861)

Private gifts, most of which are restricted as to use, stayed relatively consistent at $32.4 million in fiscal year 2016 compared to $32.6 million in fiscal year 2015. Private gifts decreased by $28.5 million, or 47 percent, to $32.6 million in fiscal year 2015 compared to $61.1 million in fiscal year 2014. The decrease was primarily attributable to a one-time $40 million donation received in fiscal year 2014 offset by a one-time $5.7 million donation received in fiscal year 2015.

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 75.2 percent during fiscal year 2016, 73.1 percent during fiscal year 2015 and 71.0 percent during fiscal year 2014, were related to compensation and benefits.

Compensation and benefits went up by $21.0 million, or 1.9 percent, to $1,114 million in fiscal year 2016 as compared to fiscal year 2015 and increased by $22.6 million, or 2.1 percent, to $1,093 million in fiscal year 2015 as compared to fiscal year 2014. The fiscal year 2016 increase was attributable to a 4.0 percent pay increase, or $3.1 million, and one-time pay bonus, or $7.4 million negotiated by the collective bargaining agreements, and an increase in fringe benefits of $9.3 million. The increase of OPEB assessment was a result from the enacted Act 268, SLH 2013 during the 2013 legislative session. The Act requires the State and the University to fully fund the Annual Required contribution as determined by an actuary within 30 years. The University recognized $117.1 million, $113.0 million and $106.8 million postretirement health and life insurance benefits in fiscal years 2016, 2015 and 2014, respectively. The increases in postretirement health and life insurance benefits in fiscal years 2016 and 2015 were a result of year-to-year increases in the payroll expense actuarial assumptions.

Supplies, services and cost of goods sold expense includes service fees, printing and binding, advertising, dues and subscriptions, controlled property acquisitions, cost of goods sold for resale items, and other miscellaneous operating costs. In fiscal year 2016, such expenses decreased by $3.7 million, or 1.8 percent, to $202.2 million as compared to fiscal year 2015. The fiscal year 2016 decrease was primarily attributable to decreases in purchases of supplies, federal property acquisitions, and other miscellaneous operating costs offset by increases in controlled property acquisitions and cost of goods sold. In fiscal year 2015, such expenses decreased by $32.9 million, or 13.8 percent, to $205.8 million as compared to fiscal year 2014. The fiscal year 2015 decrease was primarily attributable to the decrease in sponsored project expenditures due to the sunset of American Recovery and Reinvestment Act of 2009 funds.

The University is committed to providing affordable yet quality education to its students. To accomplish this goal, student aid is provided in the form of scholarships and fellowships, including tuition and fee waivers applied to student accounts and reflected as reductions and allowances to student tuition and student housing revenues, and scholarship and fellowship payments (mostly academic and athletic) made directly to students. Total aid to students decreased by $4.6 million, or 2.6 percent, to $174.5 million in fiscal year 2016 as compared to prior year. The decrease was primarily attributable to the number of Pell grants awarded, and the contributing factors were: 1) decreased enrollment and 2) increase in overall household income that stemmed from the effect of the low unemployment rate in Hawai'i that took families out of the Pell grant eligibility. Total aid to students also decreased by $1 million, or 0.5 percent, to $179.1 million in fiscal year 2015 as compared to the prior fiscal year 2014 for similar reasons.

The University depreciates its capital assets over their estimated useful lives using the straight-line method. Depreciation expense increased by $3.6 million, or 2.9 percent, to $124.9 million during fiscal year 2016 as compared to fiscal year 2015. The increase in fiscal year 2016 was primarily attributable to building and equipment additions and reclassifications from construction in progress. Depreciation expense increased by $11.9 million, or 10.9 percent, to $121.4 million during fiscal year 2015 as compared to fiscal year 2014. The increase in fiscal year 2015 was primarily attributable to building and equipment additions and reclassifications from construction in progress.

Transfers from State amounted to $200.2 million, $191.6 million and $183.5 million in fiscal years 2016, 2015 and 2014, respectively. Transfers from State were primarily for fringe benefit expense paid by the State for the University, the tobacco settlement moneys paying for John A. Burns School of Medicine revenue bond debt service, and the UH Cancer Center cigarette stamp tax collections. The increase in Transfer from State for both fiscal years 2016 and 2015 were primarily attributable to the increase in fringe benefit rates.

The Cigarette Tax and Tobacco Tax Law, HRS section 245-15, effective July 1, 2006, established the Hawai'i Cancer Research Special Fund. The cigarette stamp tax, beginning October 1, 2006, provides revenues to support research and operating expenses to this fund as follows:

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

Other Nonoperating Activities

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

In fiscal year 2016, capital gifts and grants, including state capital appropriations and transfers, decreased by $137.8 million, or 83.0 percent, to $28.1 million compared to $165.9 million in fiscal year 2015. In fiscal year 2015, there was an increase of $19.8 million, or 13.6 percent, compared to $146.1 million in fiscal year 2014. The decrease in fiscal year 2016 was primarily attributable to the decrease of capital appropriations from the State of Hawai'i by $145.3 million, or 89.8 percent, to $16.5 million compared to the increase of capital appropriations in fiscal year 2015 of $19.8 million. Other capital gifts and grants during fiscal year 2016 included federal capital grants of $4.8 million and private capital gifts and grants of $1.1 million. During fiscal year 2015, other capital gifts and grants included federal capital grants of $4.5 million and private capital gifts and grants of $0.6 million.

Cash Flows

The Consolidated Statements of Cash Flows present the University's significant sources and uses of cash and cash equivalents, including restricted cash balances. The University's cash is comprised primarily of cash held with the State Treasury, demand deposits, and time certificates of deposit with an original maturity of three months or less. A summary of the University's cash flows for the years ended June 30, 2016, 2015 and 2014 are as follows (in thousands of dollars):

	2016	2015	2014	FY 16 vs 15 Change	FY 15 vs 14 Change
Cash received from operations	$ 799,112	$ 804,374	$ 799,092	$ (5,262)	$ 5,282
Cash payments for operations	(1,293,552)	(1,299,687)	(1,314,062)	6,135	14,375
Net cash used in operating activities	(494,440)	(495,313)	(514,970)	873	19,657
Net cash provided by noncapital financing activities	560,769	538,775	508,527	21,994	30,248
Net cash used in capital and related financing activities	(43,518)	(41,419)	(50,446)	(2,099)	9,027
Net cash provided by (used in) investing activities	(9,443)	23,461	42,492	(32,904)	(19,031)
Net increase (decrease) in cash	13,368	25,504	(14,397)	(12,136)	39,901
Cash					
Beginning of year	89,811	64,307	78,704	25,504	(14,397)
End of year	$ 103,179	$ 89,811	$ 64,307	$ 13,368	$ 25,504

The University's cash and cash equivalents increased by $13.4 million, or 14.9 percent, to $103.1 million at June 30, 2016 from $89.8 million at June 30, 2015. During fiscal year 2016, $494.4 million in cash was used for operating activities, offset by $560.8 million in cash provided by noncapital financing activities. Net cash used in capital and related financing activities and investing activities amounted to $43.5 million and $9.4 million in fiscal year 2016.

The net cash used in operating activities was reduced by $0.9 million and $19.7 million in fiscal years 2016 and 2015, respectively. The reduction was the result of the implementation of the financial reserve policy that required the University to reserve at least two months of working capital with a minimum of five percent unencumbered cash from non-general fund revenue.

The $2.1 million increase in net cash used in capital and related financing activities in fiscal year 2016 as compared to fiscal year 2015 was primarily attributable to a reduction of capital appropriation received from the State of Hawai'i of $25.8 million and $12.0 million due to the advance and repayment of funds to the State of Hawai'i offset by a decrease in capital asset purchases of $28.5 million and the receipt of proceeds from the Series 2015A bond issuance of $8.6 million. The $9.0 million decrease in cash used in capital and related financing activities in fiscal year 2015 as compared to fiscal year 2014 was primarily attributable to a decrease in capital asset purchases of $44.2 million, offset by an increase in capital gifts and grants of $11.4 million and a $20.0 million transfer of funds for reimbursement of preconstruction costs associated with the UH Cancer Center.

Looking Forward

The University of Hawai'i is one of the most important economic engines in Hawai'i with a total estimated impact of $3.61 billion on Hawai'i's economy. In relation to this, the University is impacted by Hawai'i's economy in its enrollment and funding received from the State of Hawai'i and gift donors. Looking toward the future, Hawai'i's economy is expected to continue positive growth into 2017, according to the State Department of Business, Economic Development & Tourism. The tourism and construction industries are projected to remain strong, while the government and military sectors will continue to stay relatively unchanged. Hawai'i's robust economy has kept the unemployment rate low at 3.4 percent as of August 2016.

As the sole provider of public higher education in Hawai'i, the University plays a vital role in improving the social, economic and environmental well-being of current and future generations. To effectively provide higher education to the community, the University has developed and is implementing the University of Hawai'i Strategic Directions, 2015–2021, built upon previous work outlined in the Strategic Outcomes and Performances Measures, 2008–2015, that will guide the University's priorities for the next three biennia to achieve the outcomes directed by the Board of Regents (the "Board").

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

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

Enrollment and Tuition

According to the 2016 College Affordability Diagnosis by the Pennsylvania State University Graduate School of Education, University of Hawai'i community colleges are the most affordable public, two-year institutions of higher education in the nation. Hawai'i ranked as the third overall for most affordable state when considering the percentage of family income required for residents to finance the full cost of a public higher education. The University at Mānoa puts Hawai'i in 5th place among states in providing affordable access to a public research university education, and the state ranks 7th in affordable access to a public, four-year, non-doctoral institutions through the University of Hawai'i at Hilo and at West O'ahu.

The University's enrollment continues to trend downward since peaking in 2010, however, the likely reasons are varied. Since 2010, the State economy has significantly improved each year following the recession. The University has also been very successful on a number of its initiatives to increase graduation rates, to increase the speed at which student matriculate, and working with public high schools to graduate their students with University-granted college credits. Looking within the long-term historical context, overall enrollment at the University of Hawai'i remains high. The peak associated to the Great Recession is perceived to be anomalously high. Fall census headcount comparisons are as follows:

	Fall 2016	% Change	Fall 2015	% Change	Fall 2014
Mānoa	18,056	-4.3	18,865	-3.3	19,507
Hilo	3,666	-4.3	3,829	-2.4	3,924
West O'ahu	2,939	9.2	2,692	1.2	2,661
Community Colleges	28,757	-5.3	30,370	-1.9	30,960
Total	53,418	-4.2	55,756	-2.3	57,052

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

The University is committed to provide financial aid to achieve its affordability objective. The total financial aid, including aid from federal, State and private grants and awards, provided to undergraduate students were $121.0 million, $120.4 million and $119.4 million in academic years 2015, 2014 and 2013, respectively.

In Hawai'i, experts estimate 70 percent of jobs will require at least an associate's degree by 2020. Only 44 percent of working-age residents had such a degree in 2014. The University of Hawai'i has an enormous opportunity to provide affordable higher education while increasing enrollment in the State of Hawai'i.

Extramural Funds

The extramural fund awards include a mix of research and non-research programs that provide financial stability and balance to the University. About 40-50 percent of the projects are non-research in nature and are intended for training, workforce development, outreach and community services, clinical trials, and others.

The University like other research institutions across the country continues to weather an extremely challenging funding landscape brought on by the lingering effects of sequestration, uncertainties in agency funding, budget cuts and the realignment of R&D funding priorities. Despite these challenges, the University research enterprise worked diligently to halt three straight years of decline in extramural award funding and managed a slight increase in fiscal year 2015.

Unfortunately, despite continued efforts, fiscal year 2016 Extramural Awards closed at $391 million, a decrease of eight percent as compared to last year's tally of $425 million. In addition to the difficult funding environment, the University also absorbed a number of setbacks that contributed to the decrease, including the end of a four-year workforce training initiative by the U.S. Department of Labor for programs in cyber security and health, the absence of a large U.S. Navy task order for Applied Research Laboratory, and a decrease in extramural funding at the University of Hawai'i at Hilo.

While research funding will continue to remain a challenge at the University for years to come, we will continue to align our research enterprise with national science and technology funding priorities, while helping to address the critical challenges of the nation and our state. We have made headway in building a pipeline of revenue generating awards in fiscal year 2017:

- $20M grant from the National Science Foundation's Experimental Program to Stimulate Competitive Research ("EPSCoR") for its 'Ike Wai collaboration, a five-year study of water sustainability issues.

- $8.5 million from the Office of Naval Research for its Asia-Pacific Research Initiative for Sustainable Energy Systems ("APRISES") to continue testing and evaluation of renewable generation and power systems controls for smart- and micro-grids.

- $8M in two separate awards from the National Cancer Institute to study cancer risk in multi-ethnic groups.

Facilities and Infrastructure

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

Meanwhile, the State of Hawai'i Legislature continued its strong financial support to the University's capital improvement program and provided general obligation bond appropriations for the 2015–2017 and 2013–2015 fiscal biennia that were approximately $365.5 million and $390 million, respectively. In September 2015, the University also issued Series 2015-A Taxable Revenue Bonds to help fund two new strategic construction projects: $5 million for the Hilo College of Pharmacy and $3.5 million for the Law School. Both projects included state funds of $28 million and $3.5 million, respectively, in general obligation ("GO") bond funds.

Improvement and modernization of the University's physical assets is key to delivering the University's strategic directions that strives for 21st century facilities for learning, teaching and research. The University has developed a six-year CIP plan for fiscal years 2018–2023 (the "6-Year CIP Plan") that will set forth a vision of a physical environment that supports and augments the high quality education and research that takes place at our University. It also presents a coordinated, long-term strategy that (1) prioritizes classrooms, laboratories and student spaces with a focus on improving the learning and research environment, 2) targets those facilities with the highest utility and poorest conditions through upgrade to the interior/exterior structures, building roofs, mechanical and electrical systems, pedestrian pathways and roadways, and 3) changes the paradigm on how the University manages its space. This 6-year CIP Plan is organized in four categories: Major Capital Improvement Projects; Renew, Improve & Modernize Projects ("RIM Projects"); Minor Capital Improvement Projects; and Planning Projects. The University believes this plan will move us toward a multi-faceted approach that improves the quality of learning and research environment, through the lens of our students and faculty, while addressing our deferred maintenance backlogs. We have projected to reduce the current deferred maintenance of $496.3 million to $327.3 million in fiscal year 2023 under this plan.

Fundraising

The University launched a seven-year $500 million fundraising campaign and began its "quiet phase" on July 1, 2011. Since the launch of the campaign, the University has consistently exceeded the fundraising goals. In fiscal year 2016, the University had raised $66.1 million as compared to $129.0 million in fiscal year 2015 and $98.6 million in fiscal year 2014.

State General Fund Appropriations

The State of Hawai'i continues to provide strong support to the University as the sole provider of public higher education in Hawai'i. When compared to other universities in the nation, the University is well supported by the State and is ranked 11th in the category of higher education operating appropriation per full-time equivalent in 2014. The Hawai'i Governor supported, and the State Legislature appropriated, an increase of $28.2 million, or 6.8 percent, in general funds to the University's fiscal year 2017 operating budget. These funds were allocated throughout the campuses to reward academic performance and fund faculty salary increases that were negotiated through collective bargaining agreements and other special programs.

Future general fund appropriations are dependent upon the financial health of the State, State Council of Revenues projections and priorities yet to be articulated by the Governor and State legislature. The current outlook shows positive signs. The State ended fiscal year 2016 with general fund surplus exceeding $1 billion, although it was a single point of data. The Council on Revenues forecasted a 5.5 percent growth for fiscal year 2017. However, tax revenue collections for the current fiscal year through September 2016 were down 3.3 percent compared to the previous fiscal year. In addition, ERS (retirement) and OPEB (health fund) unfunded liabilities for the State are roughly $18 billion. To continue to provide quality and affordable education to the residents of Hawai'i, the University has been working hard with lawmakers to advance the University's needs and priorities.

Hawai'i Graduation Initiative and 15 to Finish Campaign

Hawai'i Graduation Initiative ("HGI") is a system-wide strategic initiative that focuses on increasing the number of educated citizens within the state. HGI is aligned with the Hawai'i P-20 goal to increase the number of working age adults in the state who hold a degree to 55 percent by 2025. Because of this focused effort, the UH campuses have increased the number of degrees and certificates awarded to 11,680 or by 46 percent since 2008.

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

The campaign has garnered national attention. To date, *15 to Finish* campaigns have been implemented by seven states at scale and an additional 120 institutions nationwide. An additional seven states have committed to launching campaigns in 2017. At Complete College America's 2016 Annual Convening of the Alliance in November, the UH System was the inaugural recipient of two President's Awards, one of which was for the *15 to Finish* campaign. The President's Award recognizes innovation and outstanding contributions to national college completion efforts.

Hawaiʻi Innovation Initiative

To leverage its distinctive strengths in earth and ocean sciences, astronomy, evolutionary biology, and energy research, the University is continuing our efforts to spearhead the Hawaiʻi Innovation Initiative, a proactive partnership between the University, the private sector and government to create a third economic driver for the state based on the University's research. Our XLR8UH venture accelerator program has developed 15 startup companies, generated over $600,000 in revenue and secured $7.8 million in total funding. In March 2016, we launched the i-Lab, a reconfigurable working space for students in cross disciplines to engage in innovation and entrepreneurial projects; and in July 2016, the Pacific Asian Center for Entrepreneurship ("PACE") at Mānoa's Shidler College of Business opened their version of the i-Lab called sPACE. Finally, we will again be hosting the second annual Future Focus innovation conference in October 2016 – this year focusing on medical research, cyber security and entrepreneurship.

University of Hawai'i
State of Hawai'i
Consolidated Statements of Net Position
June 30, 2016 and 2015
(All dollars reported in thousands)

	2016	2015
Assets and Deferred Outflows of Resources		
Current assets		
Cash and cash equivalents	$ 103,179	$ 89,811
Operating investments	298,702	285,241
Due from State of Hawai'i	102	188
Accounts receivable, net	86,913	87,719
Current portion of notes and contributions receivable, net	16,972	16,221
Accrued interest receivable	851	583
Inventories	10,250	11,765
Prepaid expenses and other current assets	11,462	12,916
Total current assets	528,431	504,444
Noncurrent assets		
Due from State of Hawai'i	329,751	399,144
Endowment and other investments	475,040	477,243
Notes and contributions receivable, net	40,068	48,155
Capital assets, net	2,053,385	2,068,691
Other noncurrent assets	18,890	19,541
Total noncurrent assets	2,917,134	3,012,774
Total assets	3,445,565	3,517,218
Deferred outflows of resources		
Deferred loss on refunding	11,383	5,251
Deferred outflows on net pension liability	163,699	134,848
Total deferred outflows of resources	175,082	140,099
Total assets and deferred outflows of resources	$ 3,620,647	$ 3,657,317
Liabilities, Deferred Inflows of Resources and Net Position		
Current liabilities		
Accounts payable	$ 51,596	$ 56,702
Accrued payroll and fringe benefits	66,300	57,434
Advances from sponsors	34,002	33,979
Unearned revenue	46,314	48,361
Due to State of Hawai'i	6,294	12,510
Current portion of long-term liabilities	55,216	51,923
Other current liabilities	7,229	9,138
Total current liabilities	266,951	270,047
Noncurrent liabilities		
Accrued vacation	45,251	44,618
Accrued workers' compensation	11,747	9,926
Net pension liability	1,144,564	1,089,882
Other postemployment benefits	722,757	650,805
Due to State of Hawai'i	-	195
Revenue bonds payable	543,680	561,470
Premium on bonds payable	14,754	2,972
Note payable	17,000	17,000
Other noncurrent liabilities	17,144	16,819
Total noncurrent liabilities	2,516,897	2,393,687
Total liabilities	2,783,848	2,663,734
Deferred inflows of resources		
Deferred inflows on net pension liability	111,364	151,162
Total deferred inflows of resources	111,364	151,162
Commitments and contingencies		
Net position		
Net investment in capital assets	1,504,935	1,503,902
Restricted		
Nonexpendable	244,396	235,894
Expendable	561,093	644,743
Unrestricted	(1,584,989)	(1,542,118)
Total net position	725,435	842,421
Total liabilities, deferred inflows of resources and net position	$ 3,620,647	$ 3,657,317

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

University of Hawai'i
State of Hawai'i
Consolidated Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2016 and 2015
(All dollars reported in thousands)

	2016	2015
Operating revenues		
Student tuition and fees	$ 403,411	$ 392,471
Less: Scholarship allowances	131,105	129,811
Net student tuition and fees	272,306	262,660
Federal appropriations, grants and contracts	322,266	325,531
State and local grants and contracts	32,831	29,033
Nongovernmental sponsored programs	35,134	36,236
Sales and services of educational departments other	35,763	36,163
Auxiliary enterprises		
Bookstores	20,736	22,467
Student housing (net of scholarship allowances of $1,474 and $1,537)	32,102	31,164
Other auxiliary enterprises revenues	46,186	45,521
Other operating revenues	2,211	2,568
Total operating revenues	799,535	791,343
Operating expenses		
Compensation and benefits	1,113,771	1,093,021
Supplies, services and cost of goods sold	202,157	205,833
Depreciation	124,937	121,378
Telephone and utilities	64,633	72,282
Scholarships and fellowships	43,440	49,302
Travel expenses	33,962	33,022
Repairs and maintenance	28,571	33,545
Rental expenses	12,877	12,747
Other operating expenses	36,205	32,762
Total operating expenses	1,660,553	1,653,892
Operating loss	(861,018)	(862,549)
Nonoperating revenues (expenses)		
State appropriations	441,373	413,148
Federal Pell grants	61,438	66,144
Private gifts	32,382	32,600
Net investment income	679	4,659
Interest expense	(25,064)	(27,523)
Net transfers from (to) State of Hawai'i for		
Fringe benefits	172,248	162,969
Hawai'i Barrel Tax	2,784	2,051
School of Nursing	1,066	133
University of Hawai'i Cancer Center	6,366	6,919
Other	(86)	1,704
Loss on disposal of capital assets	(8,165)	(4,907)
Other, net	(284)	516
Net nonoperating revenues before capital and endowment additions (deductions)	684,737	658,413
Capital – state appropriations	16,547	161,822
Capital – federal grants/subsidies	4,829	4,460
Capital – gifts and grants	1,095	648
Net transfers from (to) State of Hawai'i for capital assets	5,651	(1,026)
Transfers from State of Hawai'i, Tobacco settlement	9,549	9,924
Transfers from State of Hawai'i, University of Hawai'i Cancer Center	7,876	7,884
Transfers from other State agencies	413	-
Transfers from (to) Federal – capital assets	4,081	(5,315)
Additions to permanent endowments	9,254	19,426
Total other revenues	59,295	197,823
Net nonoperating revenues	744,032	856,236
Change in net position	(116,986)	(6,313)
Net position		
Beginning of year	842,421	1,961,526
Adjustment for change in accounting principle (Note 1)	-	(1,112,792)
Beginning of year, as restated	842,421	848,734
End of year	$ 725,435	$ 842,421

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

University of Hawai'i
State of Hawai'i
Consolidated Statements of Cash Flows
Years Ended June 30, 2016 and 2015
(All dollars reported in thousands)

	2016	2015
Cash flows from operating activities		
Student tuition and fees	$ 267,057	$ 261,826
Grants and contracts	395,583	401,284
Other revenues	136,472	141,264
Payments to employees	(870,514)	(862,510)
Payments to suppliers and other	(379,598)	(387,875)
Payments for scholarships and fellowships	(43,440)	(49,302)
Net cash used in operating activities	(494,440)	(495,313)
Cash flows from noncapital financing activities		
State appropriations	441,459	413,884
Gifts and grants for other than capital purposes	109,406	113,855
Transfer from State of Hawai'i for		
Hawai'i Barrel Tax	2,784	2,051
School of Nursing	1,066	133
University of Hawai'i Cancer Center	6,366	6,919
Other	(86)	1,704
Other receipts (disbursements)	(226)	229
Net cash provided by noncapital financing activities	560,769	538,775
Cash flows from capital and related financing activities		
Capital appropriations	85,940	111,762
Capital gifts and grants	5,171	5,112
Proceeds from issuance of capital debt	8,575	-
Purchases of capital assets	(109,459)	(137,954)
Proceeds from sale of capital assets	653	1,245
Principal paid on capital debt	(19,190)	(15,521)
Interest paid on capital debt	(27,046)	(29,871)
Advance from (repayment to) State of Hawai'i	(6,000)	6,000
Transfer from other State agencies	413	-
Transfer from State of Hawai'i for		
Tobacco Settlement	9,549	9,924
University of Hawai'i Cancer Center	7,876	7,884
Net cash used in capital and related financing activities	(43,518)	(41,419)
Cash flows from investing activities		
Interest and dividends on investments, net	7,163	975
Proceeds from sales and maturities of investments	962,297	1,116,678
Purchase of investments	(978,903)	(1,094,192)
Net cash provided by (used in) investing activities	(9,443)	23,461
Net increase in cash and cash equivalents	13,368	25,504
Cash and cash equivalents		
Beginning of year	89,811	64,307
End of year	$ 103,179	$ 89,811

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

University of Hawai'i
State of Hawai'i
Consolidated Statements of Cash Flows
Years Ended June 30, 2016 and 2015
(All dollars reported in thousands)

	2016	2015
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	$ (861,018)	$ (862,549)
Adjustments to reconcile operating loss to net cash used in operating activities		
On behalf payments by State for fringe benefits	195,332	179,007
Depreciation expense	124,937	121,378
Pension and other post retirement health care benefit expense	34,901	48,975
Bad debt expense, net	146	3,454
Changes in operating assets and liabilities		
Accounts receivable	1,542	2,168
Notes and contributions receivable	9	317
Inventories	1,515	(157)
Prepaid expenses and other assets	810	(1,219)
Accounts payable	(3,403)	(4,990)
Accrued payroll and benefits	10,200	923
Accrued workers' compensation liability	2,588	1,244
Advances from sponsors	23	7,343
Other, net	(2,022)	8,793
Net cash used in operating activities	$ (494,440)	$ (495,313)
Supplemental information of noncash transactions		
Noncash contributions	$ 1,951	$ 2,196
Net transfers from (to) State of Hawai'i for capital assets	5,651	(1,026)
Transfers from (to) Federal for capital assets	4,081	(5,315)
Accounts payable for capital assets	18,874	20,577
Bond proceeds deposited immediately into escrow	171,408	-
Defeasance of outstanding revenue bond principal	(163,245)	-

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

1. Organization and Summary of Significant Accounting Policies

Financial Reporting Entity

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

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

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

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

Basis of Presentation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Capital Assets

Capital assets are recorded at cost, or if donated, at an appraised value at the date of the gift. Depreciation of capital assets is provided for on a straight-line basis over the estimated useful lives (3 to 100 years) of the respective assets. The University's policy is to capitalize tangible, nonexpendable personal property having an estimated useful life of more than one year. Interest incurred on tax-exempt construction financing, net of investment income on any unspent financing proceeds, is capitalized as a cost of construction. When taxable debt is incurred specifically for a project, interest is capitalized on amounts expended on the project using the weighted-average cost of outstanding borrowings. The capitalization of interest ceases when the project is substantially complete or construction activity is suspended for more than a brief period. The University incurred interest cost of $25,562 and $29,156 for the years ended June 30, 2016 and 2015, respectively, of which capitalized interest as a cost of construction amounted to $498 and $1,633, respectively. The University does not capitalize works of art or historical treasures that are held for exhibition, education, research and public service. These collections are neither disposed of for financial gain nor encumbered. Accordingly, such collections are not recognized or capitalized for financial statement purposes. Maintenance and repairs, as well as minor renewals, replacements and betterments, are charged to operations. Major renewals, replacements and betterments are capitalized in the year incurred. Capital assets retired or otherwise disposed of are removed from the appropriate asset and related accumulated depreciation accounts. Gains and losses on disposals and the net book value of transfers of capital assets are reflected in operations.

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

Deferred Outflows of Resources

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

Advances from Sponsors

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

Unearned Revenue

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

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

Other Postemployment Benefits
The University applies the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which requires accrual-based measurement and recognition and disclosure of other postemployment benefits ("OPEB") expense, such as retiree medical and dental costs, over the employees' years of service, along with the related liability.

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

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

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

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

- Restricted

  - Nonexpendable – Net position subject to externally imposed stipulations that they be maintained permanently by the University, which includes the University's permanent endowment funds.

  - Expendable – Net position that is restricted for specific purposes by sponsors, donors or law. Restrictions in these assets are released when the University complies with the stipulations required by the sponsor, donor or legislative act.

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

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

Net Position Restricted by Enabling Legislation
GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34*, requires that limitations on the use of net position imposed by enabling legislation be reported as restricted net position. GASB Statement No. 46 also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Restricted net position at June 30, 2016 and 2015 amounted to $805,489 and $880,637, respectively, of which $313,262 and $380,053 were restricted by enabling legislation for capital activity.

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

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

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

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

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

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

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

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

With respect to workers' compensation insurance, the University is self-insured for the first $650 per occurrence and annual aggregate, and obtains excess insurance of $50,000 from a commercial insurance company. The University records a liability for risk financing and insurance related losses if it is determined that a loss has been incurred and the amount can be reasonably estimated. The University uses a third-party actuary to estimate its workers' compensation liability. Changes in the liability are the result of claims payments made during the fiscal year, new claims filed, and changes in the estimates of existing claims. Anticipated payments by the third party for the next fiscal year are considered current and payments thereafter are considered noncurrent. The liability represents the University's best estimate of workers' compensation liabilities based on available information. The University's estimated liability for workers' compensation claims is included in "Other Liabilities" in the accompanying Consolidated Statements of Net Position (see Note 11).

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

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

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

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

New Accounting Pronouncements
In 2016, the University adopted GASB Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. Management has adopted the new standard as presented in the University's financial statements.

In 2015, the University adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. Management has adopted the new standard as presented in the University's consolidated financial statements. Due to the adoption of GASB Statement No. 68 in fiscal year 2015, beginning net position was restated. The beginning net position as of July 1, 2014 was restated by $1,112,792 from $1,961,526 to $848,734.

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

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

The GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*. The Statement establishes an additional blending requirement for the financial statement presentation of component units and applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The University is currently evaluating this accounting pronouncement.

The GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The Statement establishes accounting and financial reporting standards for irrevocable split-interest agreements created through trusts — or other legally enforceable agreements with characteristics that are equivalent to irrevocable split-interest agreements — in which a donor irrevocably transfers resources to an intermediary. The requirements of this Statement are effective for reporting periods beginning after December 15, 2016. The University is currently evaluating this accounting pronouncement.

The GASB issued Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, 68 and 73*. The Statement addresses certain issues that have been raised with respect to Statements No. 67, 68 and 73, and amends certain provisions of GASB Statements No. 67 and 68. The Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee contribution requirements. This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. This statement is effective for reporting periods beginning after June 15, 2016, except for paragraph 7 when employers' pension liability is measured as of a date other than the employer's most recent fiscal year end, which is effective for measurement dates on or after June 15, 2017. The University is currently evaluating this accounting pronouncement.

(All dollars reported in thousands)

Reclassifications

Certain amounts in the 2015 consolidated financial statements have been reclassified to conform to the 2016 presentation. Such reclassifications had no impact on the 2015 change in net position as previously reported, however did impact operating loss and net nonoperating revenues.

	2015 As Previously Reported	Reclassifications	2015 Revised
Operating revenues			
Nongovernmental sponsored programs	$ 31,696	$ 4,540	$ 36,236
Total operating revenues	786,803	4,540	791,343
Operating loss	(867,089)	4,540	(862,549)
Nonoperating revenues			
Private gifts	31,870	730	32,600
Net nonoperating revenues before capital and endowment additions (deductions)	657,683	730	658,413
Capital – gifts and grants	5,918	(5,270)	648
Total other revenues	203,093	(5,270)	197,823
Net nonoperating revenues	860,776	(4,540)	856,236
Cash flows from operating activities			
Net cash used in operating activities	(499,853)	4,540	(495,313)
Cash flows from noncapital financing activities			
Net cash provided by noncapital financing activities	538,045	730	538,775
Cash flows from capital and related financing activities			
Net cash provided by noncapital financing activities	(36,149)	(5,270)	(41,419)

2. Cash and Investments

The carrying amounts of cash and cash equivalents and time certificates of deposit held outside of the State Treasury as of June 30, 2016 and 2015, classified as cash and cash equivalents and operating investments, were $271,416 and $299,528, with corresponding bank balances of $282,084 and $292,908, respectively. The portion of such bank balances covered by the Federal Deposit Insurance Corporation or by collateral held by the State Director of Budget & Finance in the name of the University totaled $276,554 at June 30, 2016 and $282,960 at June 30, 2015. Additional cash equivalent balances of $7,341 at June 30, 2016 and $6,608 at June 30, 2015 represent deposits with investment brokers covered by the Securities Investor Protection Corporation and additional insurance provided by the investment brokers.

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

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

(All dollars reported in thousands)

As a result of market fluctuations, the fair market value of certain donor-restricted endowments was less than the historical cost of such funds by $10,428 and $4,161 at June 30, 2016 and 2015, respectively. These unrealized losses have been recorded as reductions in unrestricted net position. Future market gains will be used to restore this deficiency in unrestricted net position before any net appreciation above the historical cost value of such funds increases restricted expendable net position.

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

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

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

The remaining portion of the donor-restricted endowment fund that is not classified in restricted nonexpendable net position is classified as restricted expendable net position until those amounts are expended and distributed by the University in accordance with its Board-approved spending rate policy and in a manner consistent with the standard of prudence prescribed by HUPMIFA. In fiscal years 2016 and 2015, the University's spending rate policy provided for annual distributions was four and a half percent of the trailing five-year moving average of the endowment fair value.

At June 30, 2016 and 2015, the University's investments were comprised of the following:

	2016		2015	
	Fair Value	**Cost**	**Fair Value**	**Cost**
Money market funds	$ 11,679	$ 11,679	$ 17,880	$ 17,880
Fixed income securities	210,172	207,952	171,488	172,227
Equity securities	5,866	5,143	5,658	5,183
Mutual funds	179,089	178,440	170,153	166,251
Time certificates of deposit	192,518	192,518	210,015	210,015
Limited partnerships	74,376	43,289	75,651	43,105
Absolute return	19,612	14,779	27,814	22,905
Real estate	17,105	21,084	23,957	27,365
Other investments	63,325	56,312	59,868	48,304
Total investments	773,742	731,196	762,484	713,235
Less: Current portion	298,702	297,425	285,241	284,871
Total noncurrent investments	$ 475,040	$ 433,771	$ 477,243	$ 428,364

(All dollars reported in thousands)

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

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

(All dollars reported in thousands)

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

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

(All dollars reported in thousands)

	2016	2015
Summary of net investment income		
Change in unrealized net loss	$ (6,703)	$ (8,232)
Net realized gain	572	8,336
	(6,131)	104
Interest and dividend income	8,640	7,974
Other	(593)	(1,996)
Investment income before management fees	1,916	6,082
Less: Management fees	1,237	1,423
Net investment income	$ 679	$ 4,659

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, 2016 and 2015 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
2016					
Money market funds	$ 11,679	$ 11,679	$ -	$ -	$ -
Fixed income securities	210,172	88,576	90,247	-	31,349
Equity securities	5,866	5,866	-	-	-
Mutual funds	179,089	169,292	-	-	9,797
Time certificates of deposit	192,518	-	-	-	192,518
Limited partnerships	74,376	-	-	-	74,376
Absolute return	19,612	-	-	-	19,612
Real estate	17,105	-	-	6,440	10,665
Other investments	63,325	-	-	2,375	60,950
Total investments	$ 773,742	$ 275,413	$ 90,247	$ 8,815	$ 399,267
2015					
Money market funds	$ 17,880	$ 17,880	$ -	$ -	$ -
Fixed income securities	171,488	62,152	79,109	-	30,227
Equity securities	5,658	5,658	-	-	-
Mutual funds	170,153	160,707	-	-	9,446
Time certificates of deposit	210,015	-	-	-	210,015
Limited partnerships	75,651	-	-	-	75,651
Absolute return	27,814	-	-	-	27,814
Real estate	23,957	-	-	6,215	17,742
Other investments	59,868	-	-	1,631	58,237
Total investments	$ 762,484	$ 246,397	$ 79,109	$ 7,846	$ 429,132

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

- **Mutual funds** –Domestic mutual funds can be redeemed on a quarterly basis, with notification provided between 30 and 60 days prior to redemption. Investments in foreign mutual funds can be redeemed on a monthly basis with notification provided between 10 and 30 days prior to redemption.

- **Limited partnerships and other investments** – Redemption frequency for investments in this class range from monthly to annually, with notification provided between 2 and 90 days prior to redemption. Additionally, certain investments can be redeemed at the discretion of the investment managers.

- **Absolute return and real estate and other investments** – These investments can be redeemed at the discretion of the investment managers. The University through the Foundation has commitments to contribute additional amounts to this class of investments of approximately $26,619 at June 30, 2016.

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

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

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

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

(All dollars reported in thousands)

Concentration Risk

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

Credit Risk

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

The composition of fixed income securities at June 30, 2016 and 2015, along with credit quality ratings, is summarized below:

		Credit Quality Rating					
	Fair Value	U.S. Govt-Exempt	AAA	AA	A	BBB	Not Rated
2016							
U.S. Treasury	$ 88,076	$ 88,076	$ -	$ -	$ -	$ -	$ -
U.S. government agencies	121,536	-	-	121,536	-	-	-
Corporate bonds	560	-	29	117	232	182	-
Mutual bond funds	99,517	-	10,810	-	-	-	88,707
Total fixed income securities	$ 309,689	$ 88,076	$ 10,839	$ 121,653	$ 232	$ 182	$ 88,707

		Credit Quality Rating					
	Fair Value	U.S. Govt-Exempt	AAA	AA	A	BBB	Not Rated
2015							
U.S. Treasury	$ 62,153	$ 62,153	$ -	$ -	$ -	$ -	$ -
U.S. government agencies	108,746	-	-	108,746	-	-	-
Corporate bonds	589	-	27	134	264	164	-
Mutual bond funds	106,767	-	17,097	-	-	-	89,670
Total fixed income securities	$ 278,255	$ 62,153	$ 17,124	$ 108,880	$ 264	$ 164	$ 89,670

Interest Rate Risk

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

(All dollars reported in thousands)

At June 30, 2016, the composition of the University's fixed income investments and maturities are summarized below:

		Investment Maturities (in Years)			
	Fair Value	**Less than 1**	**1 to 5**	**6 to 10**	**More than 10**
U.S. Treasury	$ 88,076	$ 14,213	$ 64,972	$ 8,873	$ 18
U.S. government agencies	121,536	39,431	68,085	4,434	9,586
Corporate bonds	560	59	307	194	-
Mutual bond funds	99,517	17,360	49,248	32,909	-
Total fixed income securities	$ 309,689	$ 71,063	$ 182,612	$ 46,410	$ 9,604

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, 2016 and 2015, the University's exposure to foreign currency risk expressed in U.S. dollars was not significant.

3. Accounts Receivable

The composition of accounts receivable, net of allowance for uncollectable receivables, of $28,278 and $29,005 at June 30, 2016 and 2015, respectively, is summarized as follows:

	2016	**2015**
U.S. government	$ 49,258	$ 55,652
State and local government	8,217	7,211
Private agencies	8,019	7,001
Student tuition and fees	10,147	7,185
Other	11,272	10,670
	$ 86,913	$ 87,719

4. U.S. Government Funding

The federal government reimburses the University for certain overhead costs (e.g., facilities and administrative costs) incurred in support of federally-sponsored programs based on cost reimbursement rates negotiated with the University's cognizant agency, the U.S. Department of Health and Human Services. These reimbursements amounted to approximately $43,579 in 2016 and $44,936 in 2015 and are reported in federal appropriations, grants and contracts revenue.

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

(All dollars reported in thousands)

5. Notes and Contributions Receivable

The composition of notes and contributions receivable at June 30, 2016 and 2015 is summarized as follows:

	2016	2015
Student notes		
Federal loan programs	$ 17,036	$ 18,181
State loan programs	7,901	7,999
University loan funds	68	68
Other notes receivable	52	43
Total student and other notes outstanding	25,057	26,291
Less: Allowance for uncollectible receivables	7,410	7,760
Total student and other notes receivable, net	17,647	18,531
Contributions receivable	45,211	48,066
Less: Allowance for uncollectible pledges	1,557	1,300
Less: Discount to present value	4,261	921
Total contributions receivable, net	39,393	45,845
Total student notes and contributions receivable, net	57,040	64,376
Less: Current portion, net	16,972	16,221
	$ 40,068	$ 48,155

The allowance for uncollectible receivables at June 30, 2016 and 2015 is comprised of:

	2016	2015
Federal Perkins loan program	$ 4,035	$ 4,393
State of Hawai'i Higher Education loans	3,333	3,305
Nursing/Health Profession loans	10	34
Short-term loans	32	28
	$ 7,410	$ 7,760

Payments on contributions receivable at June 30, 2016 are expected to be collected in:

Less than one year	$ 16,012
One year to five years	29,199
	$ 45,211

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

(All dollars reported in thousands)

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

During the years ended June 30, 2016 and 2015, the University distributed $2,484 and $2,668 in student loans through the U.S. Department of Education Federal Perkins Loan Program, respectively, and $156,333 and $157,913 in Direct Loan programs, respectively. These distributions and related funding sources are not included as expenses or revenues in the accompanying financial statements.

As discussed in Note 1 to the consolidated financial statements, pledges for permanent endowments that do not meet eligibility requirements, as defined by GASB Statement No. 33, are not recorded as assets until the related gift is received. Accordingly, permanent endowment pledges totaling approximately $39,020 and $39,960 at June 30, 2016 and 2015, respectively, were not recognized as assets in the accompanying consolidated financial statements because of uncertainties with regard to their realizability, valuation, bequest intentions and other conditional promises until the specified conditions are met.

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

6. Inventories

The inventories and the methods of valuation at June 30, 2016 and 2015 are summarized below:

		2016	**2015**
University of Hawai'i Bookstore merchandise inventory	Lower of cost or market using the first-in, first-out retail inventory method.	$ 7,121	$ 8,396
University of Hawai'i Chemistry Stockroom	Cost applied on the first-in, first-out basis.	885	988
University of Hawai'i Facilities Management Warehouse	Cost applied on the first-in, first-out basis.	927	1,055
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.	699	758
University of Hawai'i other inventory	Lower of cost or market using the weighted average cost method.	618	568
		$ 10,250	$ 11,765

(All dollars reported in thousands)

7. Capital Assets

A summary of capital assets at June 30, 2016 and 2015 is as follows:

	Beginning Balance	Additions	Deductions	Transfers	Ending Balance
2016					
Nondepreciable capital assets					
Land	$ 37,596	$ 3,783	$ -	$ 3,975	$ 45,354
Construction in progress	249,788	78,079	3,915	(141,080)	182,872
Total capital assets not being depreciated	287,384	81,862	3,915	(137,105)	228,226
Depreciable capital assets					
Land improvements	129,013	82	126	-	128,969
Infrastructure	174,376	1,034	-	42,874	218,284
Buildings	2,248,626	17,851	14,545	88,221	2,340,153
Equipment	377,355	13,194	14,114	6,010	382,445
Library materials	164,410	4,426	-	-	168,836
Total capital assets being depreciated	3,093,780	36,587	28,785	137,105	3,238,687
Less: Accumulated depreciation	1,312,473	124,937	23,882	-	1,413,528
Capital assets, net	$ 2,068,691	$ (6,488)	$ 8,818	$ -	$ 2,053,385
2015					
Nondepreciable capital assets					
Land	$ 36,211	$ -	$ -	$ 1,385	$ 37,596
Construction in progress	230,965	100,367	3,303	(78,241)	249,788
Total capital assets not being depreciated	267,176	100,367	3,303	(76,856)	287,384
Depreciable capital assets					
Land improvements	127,590	307	-	1,116	129,013
Infrastructure	170,432	624	-	3,320	174,376
Buildings	2,192,091	13,474	24,063	67,124	2,248,626
Equipment	383,343	13,368	24,652	5,296	377,355
Library materials	161,839	2,571	-	-	164,410
Total capital assets being depreciated	3,035,295	30,344	48,715	76,856	3,093,780
Less: Accumulated depreciation	1,230,621	121,378	39,526	-	1,312,473
Capital assets, net	$ 2,071,850	$ 9,333	$ 12,492	$ -	$ 2,068,691

Capital assets consist of land, land improvements, infrastructure, buildings, equipment, library materials, and construction in progress. Construction in progress ("CIP") additions represent costs for new projects, net of the amount of capital assets placed in service. CIP is not depreciated until the asset is placed in service. Assets acquired are recorded at cost, or if donated, at appraised value at the date of the gift. Land parcels comprising 1,206 acres, or 22 percent of the University's property, are recorded at the State's value of $1 per parcel. Assets owned by the federal government, although in the custody of the University, are not included in the capital asset total.

(All dollars reported in thousands)

8. Other Noncurrent Assets

Other noncurrent assets at June 30, 2016 and 2015 were comprised of:

	2016	2015
Interest in beneficial trusts held by others	$ 16,343	$ 17,044
Prepaid bond insurance	295	317
Other	2,252	2,180
	$ 18,890	$ 19,541

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

Amounts due from and due to the State of Hawai'i at June 30, 2016 and 2015 were as follows:

	2016		2015	
	Due from	Due to	Due from	Due to
State appropriations for current operations	$ 102		$ 188	
State capital appropriations – noncurrent	329,751		399,144	
Total due from State of Hawai'i	$ 329,853		$ 399,332	
Imprest/petty cash advances		$ 80		$ 84
Advance		6,000		12,000
General obligation bonds – current		195		185
Employee fringe adjustments		19		241
Due to State of Hawai'i – current		6,294		12,510
General obligation bonds – noncurrent		-		195
Total due to State of Hawai'i		$ 6,294		$ 12,705

(All dollars reported in thousands)

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

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

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

Activity related to amounts due to the State of Hawai'i for general obligation bonds for the year ended June 30, 2015 is as follows:

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

(All dollars reported in thousands)

General obligation bonds are payable in annual installments, including semi-annual interest payments, with final payment due in July 2017. The bonds mature in designated numerical sequence and are payable from the operations of the University. The interest and principal payments are due as follows:

	Principal	Interest
Series DB	September 1	March 1 and September 1
Series DG	July 1	January 1 and July 1

At June 30, 2016, principal and interest maturities on general obligation bonds were $195 and $0, respectively.

The general obligation bonds have provisions for early redemption. The premiums on bond redemption, as a percentage of the bond principal redeemed, range from 0.5 percent to 2.0 percent.

In June 2005, the State issued $772,600 in general obligation Series DG (refunding bonds), of which the University's portion was approximately $145, with a five percent interest rate to advance refund approximately $152 (University's portion) of outstanding general obligation Series CG bonds (refunded bonds) which have been partially defeased. The net proceeds from the issuance of the refunding bonds were placed in an irrevocable trust and were used to purchase securities of the United States government at various interest rates and maturities sufficient to meet the debt service requirements of the refunded bonds.

In September 2003, the State issued $188,700 in general obligation Series DB bonds (refunding bonds) of which the University's portion was approximately $1,299, with interest rates ranging from 2.80 percent to 5.25 percent to advance refund approximately $1,299 (University's portion) of outstanding general obligation Series CG bonds (refunded bonds) which have been partially defeased. The net proceeds from the issuance of the refunding bonds were placed in an irrevocable trust and were used to purchase securities of the United States government at various interest rates and maturities sufficient to meet the debt service requirements of the refunding bonds.

(All dollars reported in thousands)

11. Long-Term Liabilities

Long-term liability activity for the years ended June 30, 2016 and 2015 is summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
2016					
Bonds payable					
Revenue bonds payable	$ 578,585	$ 166,285	$ 182,250	$ 562,620	$ 18,940
Other liabilities					
Workers' compensation	15,512	4,636	2,048	18,100	6,353
Accrued vacation	73,840	28,219	26,885	75,174	29,923
Net pension liability (Note 14)	1,089,882	148,576	93,894	1,144,564	-
Postemployment health care/life insurance benefits (Note 15)	650,805	117,052	45,100	722,757	-
Note payable	17,000	-	-	17,000	-
Total other liabilities	1,847,039	298,483	167,927	1,977,595	36,276
Total long-term liabilities	$ 2,425,624	$ 464,768	$ 350,177	$ 2,540,215	$ 55,216
2015					
Bonds payable					
Revenue bonds payable	$ 593,930	$ -	$ 15,345	$ 578,585	$ 17,115
Other liabilities					
Workers' compensation	14,268	4,404	3,160	15,512	5,586
Accrued vacation	72,832	26,803	25,795	73,840	29,222
Net pension liability (Note 14)	-	1,329,425	239,543	1,089,882	-
Postemployment health care/life insurance benefits (Note 15)	579,196	113,009	41,400	650,805	-
Note payable	17,000	-	-	17,000	-
Total other liabilities	683,296	1,473,641	309,898	1,847,039	34,808
Total long-term liabilities	$ 1,277,226	$ 1,473,641	$ 325,243	$ 2,425,624	$ 51,923

(All dollars reported in thousands)

Revenue Bonds Payable

The University's revenue bonds payable at June 30, 2016 and 2015 is as follows:

	Series	Date Issued	Authorized	2016	2015
Frear Hall Construction, Student Housing System at Mānoa, Food Service System and Student Housing System at Hilo (interest rate, 3.25% to 5.0%)	2006A	December 13, 2006	$ 100,000	$ 19,970	$ 87,540
University Health & Wellness Center (interest rate, 3.5% to 5.0%)	Ref 2006A	October 25, 2006	133,810	20,590	123,140
Various acquisition and construction projects (interest rate, 2.5% to 6.0%)	2009A	April 15, 2009	100,000	87,340	89,820
University's Cancer Center (interest rate, 2.5% to 6.0%)	2010A-1, 2010A-2	October 7, 2010	138,640	124,590	127,600
Various construction projects (interest rate, 2.5% to 6.0%)	2010B-1, 2010B-2	October 7, 2010	154,090	142,490	145,830
Student Housing System at Mānoa and Telecommunications System (interest rate, 2.0% to 5.0%)	2012A(R)	February 22, 2012	8,575	3,245	4,655
Hilo College of Pharmacy and Law School Expansion and Modernization (interest rate, 1.0% to 4.7%)	2015A	September 24, 2015	8,575	8,575	-
Frear Hall Construction, Student Housing System at Mānoa, Food Service System and Student Housing System at Hilo (interest rate, 3.0% to 5.0%)	2015B(R)	September 24, 2015	47,010	47,010	-
Frear Hall Construction, Student Housing System at Mānoa, Food Service System and Student Housing System at Hilo (interest rate, 0.8% to 3.0%)	2015C(R)	September 24, 2015	17,585	15,945	-
University Health & Wellness Center (interest rate, 0.8% to 2.8%)	2015D(R)	September 24, 2015	25,715	25,465	-
University Health & Wellness Center (interest rate, 5.0%)	2015E(R)	April 20, 2016	67,400	67,400	-
			$ 801,400	$ 562,620	$ 578,585

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

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

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

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

The University receives funds from the State of Hawai'i Tobacco Settlement Special Fund for the payment of principal and interest on the Refunding Series 2006A, Series 2015D(R) and 2015E(R) bonds to finance the cost of construction of the medical school facility and for annual operating expenses incurred by the facility. The funds received from the State of Hawai'i Tobacco Settlement Special Fund for debt service amounted to $9,549 and $9,924 in 2016 and 2015, respectively.

The revenue bonds are paid from certain unrestricted revenues in annual installments, including semi-annual interest payments ranging from $12 to $13,688 with the final payment due in October 2044. Series 2006A, 2009A, 2010, 2012A(R) and Series 2015 bonds interest is payable semi-annually on April 1 and October 1, and the principal is payable on October 1 of each year. The Refunding Series 2006A interest is payable semi-annually on January 15 and July 15, and the principal is payable on July 15 of each year. The Bond Resolution adopted on May 17, 2002 and supplemented, stipulates that all available moneys on deposit in any special fund or revolving fund of the University, excluding moneys on deposit in the University Revenue – Undertakings Fund derived from the University Bond System, are pledged to the payment of the Refunding Series 2006A bonds, interest and premiums (if any). All available moneys on deposit in any special fund or revolving fund of the University, including moneys on deposit in the University Bond System, are pledged to the payment of the Series 2006A, 2009A, 2010, 2012A(R) and Series 2015 bonds, interest and premiums (if any).

(All dollars reported in thousands)

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

At June 30, 2016, future maturities of revenue bonds are as follows:

	Principal	Interest
Year ending June 30,		
2017	$ 18,940	$ 27,200
2018	19,115	26,739
2019	18,360	26,155
2020	18,745	25,533
2021	19,375	24,864
2022–2026	108,485	110,723
2027–2031	130,180	81,589
2032–2036	128,075	46,734
2037–2041	99,435	14,034
2042-2045	1,910	184
	$ 562,620	$ 383,755

Bond Premiums

Activity related to the premiums on general obligation and revenue bonds for the years ended June 30, 2016 and 2015 is as follows:

	Series	Beginning Balance	Additions	Reductions	Ending Balance
2016					
John A. Burns School of Medicine	Ref 2006A	$ 1,183	$ -	$ 992	$ 191
University's Cancer Center	2010A	715	-	263	452
Various construction projects	2010B	1,074	-	366	708
Student Housing	2015B(R)	-	5,639	196	5,443
John A. Burns School of Medicine	2015E(R)	-	8,059	99	7,960
Total bond premiums		$ 2,972	$ 13,698	$ 1,916	$ 14,754
2015					
John A. Burns School of Medicine	Ref 2006A	$ 1,256	$ -	$ 73	$ 1,183
University's Cancer Center	2010A	1,030	-	315	715
Various construction projects	2010B	1,511	-	437	1,074
General obligation	DB	4	-	4	-
General obligation	DG	1	-	1	-
Total bond premiums		$ 3,802	$ -	$ 830	$ 2,972

Note Payable

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

(All dollars reported in thousands)

The Note bears interest at the rate of 1.5 percent per annum and is due and payable semi-annually to the Lender on January 1 and July 1 each year until the Note has been paid in full. Under the terms of the Note, repayment each fiscal year is limited and subject to specific appropriations by the State to make such payments. The Note matures on April 22, 2018, at which time the unpaid principal will be due. As of June 30, 2016 and 2015, $17,000 remained outstanding.

12. Line of Credit (Research Corporation)

The Research Corporation has a revolving line of credit with First Hawaiian Bank in the amount of $5,000 for short-term working capital, expiring on February 1, 2017. The terms of the revolving line of credit require repayment as specified in the credit agreement. All borrowings are collateralized by a security agreement over the Research Corporation's accounts receivable. The rate of interest on borrowings was 3.28 percent at June 30, 2016 and 2015. At June 30, 2016 and 2015, there were no borrowings under this line.

13. Property Leases

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

	Lease Amount
Year ending June 30,	
2017	$ 2,550
2018	2,051
2019	1,202
2020	1,029
2021	555
2022–2026	342
2027–2031	334
Thereafter	1,734
	$ 9,797

Rent expense for outside space for the years ended June 30, 2016 and 2015 approximated $7,904 and $7,540, respectively.

14. Employee Benefits

Employees' Retirement System
General Information on the Pension Plan

Plan Description

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

Benefits Provided

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

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

Noncontributory Class

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

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

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

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

Contributory Class for Members Hired prior to July 1, 2012

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

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

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

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

Contributory Class for Members Hired After June 30, 2012

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

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

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

Hybrid Class for Members Hired Prior to July 1, 2012

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

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

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

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

Hybrid Class for Members Hired After June 30, 2012

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

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

Contributions

Contributions are governed by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rates for fiscal years 2016 and 2015 were 17.00 percent and 16.50 percent, respectively. Contributions to the pension plan from the University for the years ended June 30, 2016 and 2015 were $97,394 and $93,949, respectively.

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

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

At June 30, 2016 and 2015, the University reported a liability of $1,144,564 and $1,089,882, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and 2014, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The University's proportion of the net pension liability was based on a projection of the University's long-term share of contributions to the pension plan relative to projected contributions of all participants, actuarially determined. At June 30, 2015 and 2014, the University's proportion was 13.11 percent and 13.59 percent, respectively, which was a decrease of 0.48 percent and an increase of 0.16 percent from its proportion measured as of June 30, 2014 and 2013, respectively.

There were no changes in other assumptions and inputs that affected the measurement of the total pension liability since the prior measurement date other than the investment return assumption. Fiscal year 2016 was the first year of the three-year phase-in of the investment return assumption. The investment return rate decreased beginning in fiscal year 2016 to 7.65 percent and will continue to decrease to 7.55 percent in fiscal year 2017 and to 7.50 percent in fiscal year 2018 and will remain at 7.5 percent thereafter. There were no other changes between the measurement date, June 30, 2015, and the reporting date, June 30, 2016, that are expected to have a significant effect on the proportionate share of the net pension liability.

(All dollars reported in thousands)

For the years ended June 30, 2016 and 2015, the University recognized pension expense of $84,899 and $87,780, respectively. At June 30, 2016 and 2015, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
2016		
Difference between expected and actual experience	$ 10,720	$ 32,030
Net difference between projected and actual investment earnings on pension plan investments	-	39,056
Change in assumptions	27,018	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	40,278
Contributions subsequent to the measurement date	125,961	-
Total deferred inflows and outflows of resources	$ 163,699	$ 111,364
2015		
Difference between expected and actual experience	$ 13,859	$ -
Net difference between projected and actual investment earnings on pension plan investments	-	126,487
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	24,675
Contributions subsequent to the measurement date	120,989	-
Total deferred inflows and outflows of resources	$ 134,848	$ 151,162

The $125,961 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, 2017. The $120,989 reported as deferred outflows of resources resulting in the University's contributions subsequent to the measurement date was recognized as a reduction of net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30,	
2017	$ 25,553
2018	25,553
2019	25,553
2020	(5,947)
2021	2,914
	$ 73,626

(All dollars reported in thousands)

Actuarial Assumptions

The total pension liability in the June 30, 2015 and 2014 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

	2016	2015
Inflation	3.00 %	3.00 %
Payroll growth rate	3.50 %	3.50 %
Investment rate of return	7.65 %	7.75 %

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

Postretirement mortality rates are based on Client Specific Tables and the 1994 U.S. Group Annuity Mortality Static Tables. Pre-retirement mortality rates are based on custom tables with RP-2000 rates.

The actuarial assumptions used in the June 30, 2015 and 2014 valuations were based on the most recent experience study dated December 20, 2010. Between experience studies, the ERS Board of Trustees elected to lower the investment return assumption effective with the June 30, 2015 valuation.

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

	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	30.0%	8.5%
International equity	26.0%	9.3%
Total fixed-income	20.0%	3.1%
Real estate	7.0% *	9.2%
Private equity	7.0% *	11.9%
Real return	5.0% *	6.7%
Covered calls	5.0%	7.7%
Total	100.0%	

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

(All dollars reported in thousands)

Discount Rate

The discount rate used to measure the net pension liability was 7.65 percent and 7.75 percent for the June 30, 2015 and 2014 measurement date, respectively. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the University will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the University's proportionate share of the net pension liability, calculated using the discount rate of 7.65 percent and 7.75 percent, for the measurement date June 30, 2015 and 2014, respectively, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.65 percent and 6.75 percent, respectively) or one percentage point higher (8.65 percent and 8.75 percent, respectively) than the current rate:

	1% Decrease (6.65%)	Discount Rate (7.65%)	1% Increase (8.65%)
2016			
The University's proportionate share of the net pension liability	$ 1,440,967	$ 1,144,564	$ 848,162

	1% Decrease (6.75%)	Discount Rate (7.75%)	1% Increase (8.75%)
2015			
The University's proportionate share of the net pension liability	$ 1,381,405	$ 1,089,882	$ 798,360

Pension Plan Fiduciary Net Position

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

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

Payable to the Pension Plan
At June 30, 2016, the amount payable to the ERS was $1,184.

Other Benefits
The State absorbs the fringe benefit cost for employees paid from State and federal appropriations. In fiscal years 2015 and 2014, the State appropriated funds to the Department of Budget and Finance to pay for these fringe benefit costs on behalf of the University. Fringe benefit costs included in total revenue and total expenditures amounted to $195,332 and $179,007 for fiscal years 2016 and 2015, respectively.

All regular employees, with certain exceptions, earn vacation leave at the rate of 14 hours for each month of service. Employees who are entitled to annual vacation may accumulate for the succeeding year or years up to 15 working days annual vacation allowance, provided that the total accumulation shall not exceed 90 working days at the end of the calendar year. Accumulated vacation leave earned, but not taken, is reflected as an accrual in the accompanying consolidated financial statements. When termination of services takes place, the employees are paid for their vacation allowance in a lump sum.

Sick leave accumulates at the rate of 14 hours for each full month of service without limit, but can be taken only in the event of an illness and is not convertible to pay upon termination of employment. Accordingly, accumulated sick leave, earned but not taken, is not reflected as an accrual in the accompanying consolidated financial statements. Employees who retire with 60 days of unused sick leave are entitled to three months of service credit in the ERS. For each additional 20 days, or major fraction thereof, of unused sick leave they have in excess of 60 days, their service period is increased by one month. As of June 30, 2016 and 2015, accumulated sick leave approximated $454,343 and $443,641, respectively.

The University's regular employees may enter into deferred compensation arrangements directly with authorized insurance companies or agencies through a payroll deduction plan. Accordingly, the University has no deferred compensation or withholding payable.

The University manages its workers' compensation program. Medical-related payments for fiscal years 2016 and 2015 were $2,480 and $2,377, respectively. Temporary wage loss payments for fiscal years 2016 and 2015 amounted to $1,073 and $795, respectively.

15. Postemployment Health Care and Life Insurance Benefits

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

Plan Description

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

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

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

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

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

(All dollars reported in thousands)

Funding Policy and Annual OPEB Cost

Employer contributions are financed on a pay-as-you-go basis. The University's contributions are calculated as part of the State's total contribution requirements and are reimbursed to the State's General Fund as part of the fringe benefit rate on the University employees' actual salaries. The University's annual OPEB cost is calculated based on the annual required contribution of the employer ("ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table presents the annual OPEB cost, contributions made, the net OPEB liability, and the funding status for the University for the fiscal year ended June 30, 2016:

Annual required contribution	$ 107,059
Interest on net OPEB obligation	45,556
Adjustment to annual required contribution	(35,563)
Annual OPEB cost	117,052
Contributions made	(45,100)
Increase in net OPEB obligation	71,952
Net OPEB obligation	
Beginning of year	650,805
End of year	$ 722,757
Actuarial accrued liability ("AAL") July 1, 2015	$ 1,262,765
Funded OPEB plan assets	(30,076)
Unfunded actuarial accrued liability ("UAAL") July 1, 2015	$ 1,232,689
Funded ratio	2.4%
Covered payroll	$ 572,907
UAAL as percentage of covered payroll	215.2%

The University remitted $68,184 and $57,438 in State assessed OPEB contributions for the years ended June 30, 2016 and 2015, respectively. The University's actuarially determined minimum OPEB contribution was $45,100 and $41,400 for the years ended June 30, 2016 and 2015, respectively. The difference between the State assessed and University actuarially determined OPEB contribution is reported net with Transfers from (to) State for Fringe Benefits in the accompanying Consolidated Statements of Revenues, Expenses and Changes in Net Position.

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year 2016 and the preceding years were as follows:

OPEB Summary

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2016	$117,052	38.5%	$722,757
June 30, 2015	$113,009	36.6%	$650,805
June 30, 2014	$106,832	39.3%	$579,196

(All dollars reported in thousands)

Funded Status

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

Actuarial Methods and Assumptions

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

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

The July 1, 2013 actuarial valuation was used to determine the amounts reported in the University's consolidated financial statements for the years ended June 30, 2016 and 2015. The information on the funded status of the plan is from the July 1, 2015 valuation, the most recent valuation.

Effective July 1, 2016, the active contracts for medical, prescription drug, dental, vision, supplemental medical drug, and life insurance were extended through June 30, 2017.

(All dollars reported in thousands)

16. Other Noncurrent Liabilities

Other noncurrent liabilities at June 30, 2016 and 2015 are comprised of:

	2016	2015
Liabilities under split interest agreements	$ 10,565	$ 9,999
Amounts held for others	3,369	3,645
Other	3,210	3,175
	$ 17,144	$ 16,819

17. State Appropriations

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

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

Act 124, SLH 2016 Section 39, provided $106,789 in general fund appropriations directly to the Department of Budget and Finance to pay for debt service on general obligation bonds issued for the University. As a result, the University itself received no appropriations and made no transfers for debt service on general obligation bonds for the year ended June 30, 2016.

Act 122, SLH 2014 Section 35, provided $106,110 in general fund appropriations directly to the Department of Budget and Finance to pay for debt service on general obligation bonds issued for the University. As a result, the University itself received no appropriations and made no transfers for debt service on general obligation bonds for the year ended June 30, 2015.

The net amount of the University's State general and capital appropriations for the years ended June 30, 2016 and 2015 were $441,373 and $16,547 and $413,148 and $161,822, respectively.

(All dollars reported in thousands)

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

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

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

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

(All dollars reported in thousands)

18. Blended Component Information

The following condensed combining information summarizes the individual components of the University's consolidated financial position, results of operations and cash flows as of and for the years ended June 30, 2016 and 2015:

Condensed Consolidating Statements of Net Position

	2016				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Assets and Deferred Outflows of Resources					
Current assets	$ 468,113	$ 34,760	$ 25,558	$ -	$ 528,431
Interdepartmental receivables	24,967	10,342	39,020	(74,329)	-
Capital assets, net	2,049,087	2,021	2,277	-	2,053,385
Other assets	450,764	-	412,985	-	863,749
Total assets	2,992,931	47,123	479,840	(74,329)	3,445,565
Deferred outflows of resources	175,082	-	-	-	175,082
Total deferred outflows of resources	175,082	-	-	-	175,082
Total assets and deferred outflows of resources	$ 3,168,013	$ 47,123	$ 479,840	$ (74,329)	$ 3,620,647
Liabilities, Deferred Inflows of Resources and Net Position					
Current liabilities	$ 237,548	$ 28,057	$ 1,346	$ -	$ 266,951
Interdepartmental payables	26,637	3,790	2,711	(33,138)	-
Noncurrent liabilities	2,498,297	4,665	13,935	-	2,516,897
Total liabilities	2,762,482	36,512	17,992	(33,138)	2,783,848
Deferred inflows of resources	111,364	-	-	-	111,364
Total deferred inflows of resources	111,364	-	-	-	111,364
Net position					
Net investment in capital assets	1,500,637	2,021	2,277	-	1,504,935
Restricted					
Nonexpendable	10,493	-	272,923	(39,020)	244,396
Expendable	370,406	-	190,687	-	561,093
Unrestricted	(1,587,369)	8,590	(4,039)	(2,171)	(1,584,989)
Total net position	294,167	10,611	461,848	(41,191)	725,435
Total liabilities, deferred inflows of resources and net position	$ 3,168,013	$ 47,123	$ 479,840	$ (74,329)	$ 3,620,647

(All dollars reported in thousands)

	2015				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Assets and Deferred Outflows of Resources					
Current assets	$ 436,106	$ 39,487	$ 28,851	$ -	$ 504,444
Interdepartmental receivables	25,601	4,148	39,960	(69,709)	-
Capital assets, net	2,064,651	1,757	2,283	-	2,068,691
Other assets	520,926	-	423,157	-	944,083
Total assets	3,047,284	45,392	494,251	(69,709)	3,517,218
Deferred outflows of resources	140,099	-	-	-	140,099
Total deferred outflows of resources	140,099	-	-	-	140,099
Total assets and deferred outflows of resources	$ 3,187,383	$ 45,392	$ 494,251	$ (69,709)	$ 3,657,317
Liabilities, Deferred Inflows of Resources and Net Position					
Current liabilities	$ 240,491	$ 28,261	$ 1,295	$ -	$ 270,047
Interdepartmental payables	22,508	2,204	4,972	(29,684)	-
Noncurrent liabilities	2,375,511	4,532	13,644	-	2,393,687
Total liabilities	2,638,510	34,997	19,911	(29,684)	2,663,734
Deferred inflows of resources	151,162	-	-	-	151,162
Total deferred inflows of resources	151,162	-	-	-	151,162
Net position					
Net investment in capital assets	1,499,861	1,757	2,284	-	1,503,902
Restricted					
Nonexpendable	10,493	-	265,361	(39,960)	235,894
Expendable	440,642	-	204,101	-	644,743
Unrestricted	(1,553,285)	8,638	2,594	(65)	(1,542,118)
Total net position	397,711	10,395	474,340	(40,025)	842,421
Total liabilities, deferred inflows of resources and net position	$ 3,187,383	$ 45,392	$ 494,251	$ (69,709)	$ 3,657,317

(All dollars reported in thousands)

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

	2016				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Operating revenues					
Student tuition and fees, net	$ 273,043	$ -	$ -	$ (737)	$ 272,306
Federal appropriations, grants and contracts	322,266	-	-	-	322,266
State and local grants and contracts	31,957	2,129	-	(1,255)	32,831
Nongovernmental sponsored programs	47,070	-	-	(11,936)	35,134
Sales and services of educational departments, other	33,809	4,609	4,954	(7,609)	35,763
Auxiliary enterprises	99,024	-	-	-	99,024
Other operating revenues	727	-	1,484	-	2,211
Total operating revenues	807,896	6,738	6,438	(21,537)	799,535
Operating expenses					
Depreciation	124,553	319	65	-	124,937
Other operating expenses	1,495,316	6,310	57,960	(23,970)	1,535,616
Total operating expenses	1,619,869	6,629	58,025	(23,970)	1,660,553
Operating income (loss)	(811,973)	109	(51,587)	2,433	(861,018)
Nonoperating activity					
Nonoperating revenues (expenses)	483,129	107	30,779	(3,491)	510,524
Capital contributions and additions to permanent and term endowments	21,003	-	8,316	(108)	29,211
Transfers	204,297	-	-	-	204,297
Total nonoperating activity	708,429	107	39,095	(3,599)	744,032
Increase (decrease) in net position	(103,544)	216	(12,492)	(1,166)	(116,986)
Net position					
Beginning of year	397,711	10,395	474,340	(40,025)	842,421
Adjustment for change in accounting principle	-	-	-	-	-
Beginning of year, as restated	397,711	10,395	474,340	(40,025)	842,421
End of year	$ 294,167	$ 10,611	$ 461,848	$ (41,191)	$ 725,435

(All dollars reported in thousands)

	2015				
	University	Research Corporation	Foundation	Consolidation Adjustments	Total
Operating revenues					
Student tuition and fees, net	$ 263,247	$ -	$ -	$ (587)	$ 262,660
Federal appropriations, grants and contracts	325,531	-	-	-	325,531
State and local grants and contracts	28,297	2,125	-	(1,389)	29,033
Nongovernmental sponsored programs	45,729	-	-	(9,493)	36,236
Sales and services of educational departments, other	32,318	4,384	6,844	(7,383)	36,163
Auxiliary enterprises	99,166	-	-	(14)	99,152
Other operating revenues	616	-	1,952	-	2,568
Total operating revenues	794,904	6,509	8,796	(18,866)	791,343
Operating expenses					
Depreciation	121,126	216	36	-	121,378
Other operating expenses	1,498,021	5,915	54,820	(26,242)	1,532,514
Total operating expenses	1,619,147	6,131	54,856	(26,242)	1,653,892
Operating income (loss)	(824,243)	378	(46,060)	7,376	(862,549)
Nonoperating activity					
Nonoperating revenues (expenses)	457,576	91	34,258	(2,381)	489,544
Capital contributions and additions to permanent and term endowments	166,269	(2)	50,027	(35,871)	180,423
Transfers	186,269	(250)	-	250	186,269
Total nonoperating activity	810,114	(161)	84,285	(38,002)	856,236
Increase (decrease) in net position	(14,129)	217	38,225	(30,626)	(6,313)
Net position					
Beginning of year	1,524,632	10,178	436,115	(9,399)	1,961,526
Adjustment for change in accounting principle	(1,112,792)	-	-	-	(1,112,792)
Beginning of year, as restated	411,840	10,178	436,115	(9,399)	848,734
End of year	$ 397,711	$ 10,395	$ 474,340	$ (40,025)	$ 842,421

Condensed Consolidating Statements of Cash Flows

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

(All dollars reported in thousands)

	2015			
	University	**Research Corporation**	**Foundation**	**Total**
Net cash provided by (used in)				
Operating activities	$ (490,480)	$ (5,474)	$ 641	$ (495,313)
Noncapital financing activities	532,159	(250)	6,866	538,775
Capital and related financing activities	(40,717)	(702)	-	(41,419)
Investing activities	23,320	89	52	23,461
Total change in cash	24,282	(6,337)	7,559	25,504
Cash and cash equivalent balances				
Beginning of year	23,146	37,311	3,850	64,307
End of year	$ 47,428	$ 30,974	$ 11,409	$ 89,811

19. Litigation, Other Contingent Liabilities and Commitments

Hawai'i Revised Statutes §304A-108 stipulates that any liability arising from a claim, action or suit brought against the University shall be payable solely from the moneys and property of the University and shall not constitute a general obligation of the State. The Board is not precluded from requesting and securing legislative appropriations to fund the settlement of any such claim or judgment against the University.

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

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

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

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

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

Risk Management

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

Construction and Other Contracts

The University is committed under contracts awarded for construction and other services. These commitments amounted to approximately $217,163 and $165,506 as of June 30, 2016 and 2015.

Collective Bargaining Agreements

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

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

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

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

The Board, as a public employer, is mandated by Chapter 89, HRS, to negotiate and enter into written agreements with exclusive representatives (i.e., unions) on matters of wages, hours and conditions of employment affecting University personnel included in various bargaining units. These written agreements, also known as collective bargaining agreements ("CBA") or successor agreements, including supplemental agreements, memorandums of agreement, and memorandums of understanding, reached outside of these successor agreements, cover wages, hours, contributions to the Employer-Union Trust Fund, and other terms and conditions of employment subject to collective bargaining. In assessing the University's responsibilities to negotiate and administer CBAs, below are several considerations in regards to litigation, contingent liabilities and commitments:

- The Board must participate with exclusive representatives in good-faith negotiations over the issue of wages, hours and conditions of work to the extent mandated by HRS §89-9[a], for University personnel included in the applicable bargaining units;

- CBAs for civil service personnel (BUs 1, 2, 3, 4, 9 and 10) are negotiated by and between the State of Hawai'i (including the Board and other public employers), the respective Counties (including the City and County of Honolulu), the Hawaii Health Systems Corporation, and the Judiciary, with the exclusive representative of each bargaining unit. The exclusive representative for BUs 1 and 10 is the United Public Workers ("UPW") while the exclusive representative for BUs 2, 3, 4 and 9 is the Hawai'i Government Employees Association ("HGEA"). These CBAs for the aforementioned bargaining units are applicable to most civil service personnel working for the State;

- CBAs for faculty members (BU 7) are negotiated by and between the Governor, the University President, and the Board with the University of Hawai'i Professional Assembly who is the exclusive representative for Faculty members. APT personnel (BU 8) are negotiated by and between the Governor, the University President, and the Board with the HGEA who is the exclusive representative for the University's APTs. In contrast to CBAs for civil service personnel, the CBAs for BUs 7 and 8 are applicable only to the University as Board appointees, specifically APT personnel and faculty members of the University;

- Failure of parties to achieve successor agreements during negotiations initiated on behalf of blue collar workers (BU 1) and/or faculty (BU 7) could result in work interruptions and/or stoppages that may hamper or halt University operations since these bargaining units still retain the right to strike;

- If an impasse exists regarding successor negotiations involving bargaining units 2, 3, 4, 8 or 9, the Board, along with the respective exclusive representatives and other public employers is subject to interest arbitration, whereby the decision of the arbitration panel and its cost items are subject to legislative appropriations and approval;

- Once a successor agreement is reached and legislatively approved, the University has a responsibility and commitment to abide by all the terms set forth in the agreement;

- As an employer of employees belonging to multiple bargaining units, the University may sometimes be subject to unforeseen labor costs related to the assertion of the so-called "most-favored nations clause" into particular agreements;

- Improper administration, disputes regarding CBA interpretation, or a lack of adherence to CBAs could result in litigation and associated costs

The current status of the collective bargaining agreements is as follows:

- On June 20, 2014 the University administration and the University of Hawai'i Professional Assembly ("UHPA") tentatively agreed to a two-year successor collective bargaining agreement for Unit 7 faculty covering the period July 1, 2015 to June 30, 2017. The tentative agreement was ratified in support by the Unit 7 faculty members on August 25, 2014. The successor agreement provided for a four percent across the board pay increase in each of the two years, increased the minimum salaries to faculty members paid by rank, and negotiated EUTF contributions. The total cost was subject to legislative appropriations and was funded.

- Interest arbitration proceedings were completed in July 2015 with the Hawaii Government Employees Association ("HGEA") for Unit 8 APT employees of the University for a successor agreement beyond July 1, 2015. The arbitration award and decision dated December 1, 2015 covered the period July 1, 2015 to June 30, 2017. The award and decision provided an across the board increase of four percent effective July 1, 2015 and four percent effective July 1, 2016, one time lump sum bonuses paid to eligible employees, and other terms and conditions.

- The University's employees in Units 1 and 10 are working under a four-year (4) contract that covers the period July 1, 2013 to July 1, 2017. Negotiations for Units 2, 3, 4, and 9 were completed and resulted in ratified and agreed upon successor bargaining contracts for the period July 1, 2015 to June 30, 2017. The aforementioned CBAs stipulated step movements and across-the-board ("ATB") salary increases, or changes to salary schedules, that effectively increase salaries in each year covered by the terms of these agreements which have already been legislatively approved.

The parties recently entered in negotiations over successor agreements for Units 1, 2, 3, 4, 7, 8, 9 and 10. Impasse has been declared for certain units at this point in time.

Required Supplementary Information Other Than Management's Discussion and Analysis

University of Hawai'i
State of Hawai'i
Schedule of Proportionate Share of the Net Pension Liability (Unaudited)
Schedule of Contributions (Unaudited)
Year Ended June 30, 2016
(All dollars reported in thousands)

Net Pension Liability

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

Fiscal Year Ending	Proportionate Share of the Net Pension Liability as a Percentage	Proportionate Share of the Net Pension Liability as an Amount (a)	Annual Covered Payroll (b)	Proportion of the Net Pension Liability as a Percentage of Covered Payroll (a) / (b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2016	13.11%	$1,144,564	$572,907	200%	63.42%
June 30, 2015	13.60%	$1,089,882	$564,736	193%	63.92%
June 30, 2014	13.75%	$1,227,787	$550,758	223%	57.96%

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Contributions

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a) - (b)	Covered Annual Payroll (c)	Contributions as a Percentage of Covered Payroll (a) / (c)
June 30, 2016	$97,394	$97,394	$0	$572,907	17.00%
June 30, 2015	$93,949	$93,949	$0	$564,736	16.64%
June 30, 2014	$88,381	$88,381	$0	$550,758	16.05%

1. **Changes of Benefit Terms**

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

2. **Changes of Assumptions**

   The investment return assumption decreased beginning in fiscal year 2016 from 7.75 percent to 7.65 percent. There were no changes of assumptions in 2015 or 2014.

University of Hawai'i
State of Hawai'i
Schedule of Funding Progress (Unaudited)
Year Ended June 30, 2016
(All dollars reported in thousands)

Postemployment Benefits Other than Pensions

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b) - (a)	Funded Ratio (a) / (b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b) - (a) / (c)
July 1, 2015	$30,076	$1,262,765	$1,232,689	2%	$572,907	215.2%
July 1, 2013	$0	$1,185,790	$1,185,790	0%	$550,758	215.3%
July 1, 2011	$0	$1,860,680	$1,860,680	0%	$503,900	369.3%
July 1, 2009	$0	$1,849,949	$1,849,949	0%	$495,498	373.4%

TRI-ISLE RESOURCE CONSERVATION AND DEVELOPMENT COUNCIL, INC.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015

(WITH INDEPENDENT AUDITOR'S REPORT)

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Takata, Iwata, Hara & Associates, LLC
Certified Public Accountants & Consultants
101 Aupuni Street, Suite 139
Hilo, Hawaii 96720-4260

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Tri-Isle Resource Conservation
and Development Council, Inc.
Kahului, Hawaii

Report on the Financial Statements

We have audited the accompanying financial statement of Tri-Isle Resource Conservation and Development Council. Inc. (a not-for-profit corporation), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tri-Isle Resource Conservation and Development Council, Inc. as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 9, 2016, on our consideration of the Tri-Isle Resource Conservation and Development Council, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Taketa, Iwata, Hara + Associates, LLC

August 9, 2016
Hilo, Hawaii

Tri-Isle Resource Conservation and Development Council, Inc.

Statement of Financial Position

December 31, 2015

Assets

CURRENT ASSETS:	
Cash	$ 992,420
Accounts receivable	566,196
Prepaid expenses	8,400
Total current assets	1,567,016
PROPERTY AND EQUIPMENT, at cost:	
Office Equipment	1,040
Total property and equipment	1,040
Less accumulated depreciation	208
Net property and equipment	832
OTHER ASSETS:	
Certificate of Deposit	70,529
Lease Deposit	1,248
Total other assets	71,777
Total assets	$ 1,639,625

Liabilities and Net Assets

CURRENT LIABILITES:	
Accounts payable	$ 244,271
Accrued expenses	9,849
Deferred revenues	417,566
Total current liabilities	671,686
NET ASSETS:	
Unrestricted net assets	707,689
Temporarily restricted net assets	260,250
Total net assets	967,939
Total liabilities and net assets	$ 1,639,625

See independent auditor's report and accompanying notes to financial statements.

Tri-Isle Resource Conservation and Development Council, Inc

Statement of Activities

For the Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Total
REVENUE AND OTHER SUPPORT			
Grants	$ 2,242,498	$ -	$ 2,242,498
Donations	-	281,547	281,547
Interest income	2,134	-	2,134
Administrative fees	247,704	-	247,704
Fundraising income	95,355	-	95,355
Other income	87,269	-	87,269
Total revenues and other support	2,674,960	281,547	2,956,507
Net assets released from restrictions	439,453	(439,453)	-
	3,114,413	(157,906)	2,956,507
EXPENSES AND LOSSES			
Program services:			
Environmental and watershed protection restoration	679,351	-	679,351
Invasive species mitigation and remediation	365,818	-	365,818
Native forests, ecosystem, and habitat protection restoration	516,476	-	516,476
Indigenous species protection and restoration	327,243	-	327,243
Social, community and economic development	1,042,149	-	1,042,149
Total program services	2,931,037	-	2,931,037
Supporting services:			
Management and general	397,736	-	397,736
Fundraising	28,790	-	28,790
Total supporting services	426,526	-	426,526
Total expenses	3,357,563	-	3,357,563
Loss on disposal of vehicles	6,999	-	6,999
Total expenses and losses	3,364,562	-	3,364,562
CHANGE IN NET ASSETS	(250,149)	(157,906)	(408,055)
NET ASSETS, beginning of the year	957,838	418,156	1,375,994
NET ASSETS, end of the year	$ 707,689	$ 260,250	$ 967,939

See independent auditor's report and accompanying notes to financial statements

Tri-Isle Resource Conservation and Development Council, Inc.

Statement of Functional Expenses

For the Year Ended December 31, 2015

	Environmental and Watershed Protection Restoration	Invasive Species Mitigation and Remediation	Native Forests, Ecosystems, and Habitat Protection Restoration	Indigenous Species Protection and Restoration	Social, Community and Economic Development	Total Program Services	Management and General	Fundraising	Total Support Services	Total
Payroll expenses	$ -	$ -	$ -	$ -	$ 47,500	$ 47,500	$ 188,695	$ -	$ 188,695	$ 236,195
Payroll fringe benefits	-	-	-	-	4,359	4,359	4,446	-	4,446	8,805
Payroll taxes	-	-	-	368	4,828	5,196	16,744	-	16,744	21,940
Total payroll and related expenses	-	-	-	368	56,687	57,055	209,885	-	209,885	266,940
Project expenses	678,655	365,818	516,030	326,875	985,462	2,872,840	3,152	-	3,152	2,875,992
Contractual services	-	-	-	-	-	-	132,980	-	132,980	132,980
Fundraising	-	-	-	-	-	-	-	28,790	28,790	28,790
Occupancy	-	-	-	-	-	-	24,328	-	24,328	24,328
Travel	-	-	-	-	-	-	2,856	-	2,856	2,856
Other expenses	-	-	-	-	-	-	10,268	-	10,268	10,268
Supplies	-	-	-	-	-	-	5,203	-	5,203	5,203
Equipment	-	-		-	-	-	5,142	-	5,142	5,142
Insurance	-	-	-	-	-	-	3,818	-	3,818	3,818
Depreciation	696	-	446	-	-	1,142	104	-	104	1,246
Total	$ 679,351	$ 365,818	$ 516,476	$ 327,243	$ 1,042,149	$ 2,931,037	$ 397,736	$ 28,790	$ 426,526	$ 3,357,563

See independent auditor's report and accompanying notes to financial statements

Tri-Isle Resource Conservation and Development Council, Inc

Statement of Cash Flows

For the Year Ended December 31, 2015

Cash flows from operating activities:	
Cash received from grants	$ 3,106,188
Cash received from donations	281,547
Cash received from others	432,462
Cash paid to employees and vendors	(4,130,365)
Net cash provided used in operating activities	(310,168)
Cash flows from investing activities	
Purchase of certificate of deposit	(70,529)
Net cash provided used in investing activities	(70,529)
Net decrease in cash for the year	(380,697)
Cash at beginning of year	1,373,117
Cash at end of year	$ 992,420

Reconciliation of decrease in net assets to net cash provided used in operating activities	
Decrease in net assets	$ (408,055)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:	
Depreciation and amortization	1,246
Loss on disposal of vehicles	6,999
Change in accounts receivable	886,520
Change in prepaid expenses	(7,639)
Change in accounts payable	(766,015)
Change in accrued expenses	(394)
Change in deferred revenue	(22,830)
Net cash used in operating activities	$ (310,168)

Supplemental Disclosure of Noncash Investing and Financing Activities

There were no noncash investing and financing activities in 2015

See independent auditor's report and accompanying notes to financial statements

TRI-ISLE RESOURCE CONSERVATION
AND DEVELOPMENT COUNCIL, INC.

Notes to Financial Statements

December 31, 2015

(1) Organization

Tri-Isle Resource Conservation and Development Council (the Organization), a 501(c)(3) not-for-profit organization since 1994, helps the community identify problems and opportunities by compiling background information, planning for desired future conditions, securing funding, and implementing projects for the Resource Conservation and Development area, which includes the islands of Maui, Lana'i, Moloka'I, and Kaho'olawe (Maui County). The Organization's membership consists of twelve board members from varied professional and social backgrounds; one member from each of the five Soil and Water Conservation Districts (SWCD) within Maui County; two members, each one respectively representing the communities on the islands of Lana'i and Moloka'i; and five community members from Maui.

The following are descriptions of the Organization's major programs, which are all performed in Maui County. By request, some of the projects in these programs are delivered on other islands in the State of Hawaii.

Environment and Watershed Protection and Restoration

Projects in this category are important to watersheds on each island in Maui County. These watersheds, which are in the uplands, are important to the environmental health of the lands below them. It is crucial that these projects continue to protect all lands and ecosystems of our ahupua'a, the traditional mountain-to-the-sea land divisions on each island. All of Maui County's watersheds are recipients of these projects. It is important to realize that these watershed projects, receive private and public funding support from Federal, State, and County governments.

Invasive Species Eradication, Mitigation and Remediation

Projects in this category become more important each year, as new invasive species on the islands of Maui County, and throughout Hawai'i, are identified. These species not only upset the ecosystems and habitats of our native species, but also infringe on the quality of life of an increasingly urban population. It is important that these projects continue as many of our native flora and fauna continue to be on endangered species lists. These projects also need resources to continue to educate the general public about the importance of conservation, environmental protection, and natural resource development.

Native Forests, Ecosystems, and Habitat Protection and Restoration

The indigenous ecosystems of the islands of Maui County continue to be compromised and are in demise, decreasing in size and less able to positively contribute to the environments and climates so important to island life. These projects need to continue as our native flora and fauna contribute to how our environments and ecosystems are major contributors to the nurturing of our climate and weather. These projects also need resources to continue to educate the general public about the importance of conservation, environmental protection, and natural resource development.

Indigenous Species Protection and Restoration

As a critical number of our native flora and fauna are on endangered species lists, projects in this category help keep these species as viable components within our environments and ecosystems. It is important to understand that we have already lost many of our indigenous species and that we must protect, replenish and repopulate the remaining species on all the island of Maui County. These projects also need resources to continue to educate the general public about the importance of conservation, environmental protection, and natural resource development.

Social, Community, and Economic Development

Maui County is a culturally and ethnically diverse jurisdiction. Our missions was expanded, through a strategic planning process in 2012, to include projects that build, nurture and improve quality of life for the people living in our communities. These projects contribute to social, cultural, environmental, health, and political factors important to civic and community life on all the islands in Maui County.

(2) Summary of Significant Accounting Policies

a. Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this method of accounting, revenue is recognized when earned rather than when received and expenses are recognized when incurred rather than when paid. Donations are recognized as unrestricted when the stipulations of the donations have been met.

b. Use of Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates

c. Net Assets

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted – Net assets which are free from donor-imposed; all revenues, expenses, and gains and losses that are not changes in temporarily or permanently restricted net assets

Temporarily Restricted – Net assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or that can be fulfilled by actions of the Organization pursuant to those stipulations.

Permanently Restricted – Net assets whose use by the Organization is limited by donor-imposed stipulations.

As of December 31, 2015, the Organization had unrestricted and temporarily restricted net assets.

d. Accounts Receivable

Accounts receivable consists of pending reimbursements from federal, state, county, and foundation grants for expenses incurred and billed under the grant award. Accounts receivable also consists of periodic billings as specified under the federal, state, county, and foundation grant awards. No allowance for doubtful accounts was necessary as of December 31, 2015, as management expects to collect all balances.

e. Property and Equipment

Property and equipment are stated at cost, or if contributed, at its fair market value at the date of the donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In absence of such stipulations, contributions of fixed assets are recorded as unrestricted support.

Depreciation is determined using the straight-line method over the estimated useful life of the asset over a period of ten years.

Expenditures for maintenance, repairs, and minor replacements are charged to operations as incurred and expenditures for major replacements and betterments with a useful life in excess of one year are capitalized. Property retired or otherwise disposed of is removed from the appropriate asset and related accumulated depreciation accounts. Gains and losses on sales of assets are reflected in current operations.

Depreciation expense was $1,246 the year ended December 31, 2015.

f. Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence or nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restriction expires, either by a time or purpose restriction imposed by the donor, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The contribution of professional services are recognized if the services (1) create or enhance non-financial assets and (2) require specialized skills that are performed by people with those skills, and would otherwise be purchased by the Organization These contributions would be reflected in the statement of activities and functional expenses at their fair value at the date of the donation. The services of individuals who volunteered their time and performed a variety of tasks that benefited the Organization were not recognized as contributions in the financial statements, since the recognition criteria have not been met

g Revenue Recognition

Government Grants

Government grants are received from government agencies. Revenues on cost reimbursement contracts are recognized when allowable and reimbursable expenses are incurred, and upon meeting the legal and contractual requirements of the funding source These revenues are generally considered exchange transactions, and are recorded as revenues of the unrestricted net asset class. Funding received in advance of applicable revenue recognition criteria is recorded as deferred revenue in the statement of financial position.

Administrative Fee

The Organization applies an administrative fee to the projects that the Organization administers

Other Income

Revenue from other sources is recorded as the services are performed by the Organization

h Deferred Revenue

Deferred revenue represents funds received from government and foundation grants where were not yet earned. Total deferred revenues amounted to $417,566 at December 31, 2015.

i Functional Expenses

The costs for providing program services have been summarized on a functional basis in the statement of activities and detailed in the Statement of Functional Expenses Accordingly, certain costs have been allocated among program services and supporting activities benefited

j Sales Tax

Sales tax (Hawaii general excise tax) is imposed on fundraising income at four percent, which amounted to approximately $3,200 for the year ended December 31, 2015. Sales tax was reported as part of program expenses in the accompanying Statement of Functional Expense

k. Income Tax

The Organization is recognized by the Internal Revenue Service as an exempt organization under Section 501(c)(3) of the Internal Revenue Code The Organization adopted the provisions of FASB ASC 740, the Organization *Income Taxes*. As required by the uncertain tax position guidance in FASB ASC 740, the Organization recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position after an audit For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement with the relevant tax authority. The Organization applied the uncertain tax position guidance in FASB ASC 740 to all tax positions for which the statute of limitations had remained open and has not recognized any additional liability

Tax regulations within each jurisdiction are subject to interpretation of the related tax laws and regulations and require significant judgment to apply. With few exceptions, the Organization's Form 990, *Return of Organization Exempt from Income Tax* is no longer subject to U.S. Federal and State examinations by tax authority for the fiscal years ended December 31, 2012 and prior.

(3) Concentration of Credit Risk

The Organization had approximately $803,000 in cash in excess of the Federal Deposit Insurance Corporation limit as of December 31, 2015. At December 31, 2015, the Organization had account balances at a credit union that was insured by the National Credit Union Insurance Share Fund up to $250,000. There were no amounts exceeding this limit at December 31, 2015

(4) Funding Concentration

The Organization receives a substantial amount of its support from Federal, State, and County government agencies and foundations. Significant reductions, if any, in the level of this support may have an adverse effect on the Organization's programs and activities.

(5) Leases

The Organization leases office space under a noncancellable operating lease through April 30, 2019 The Organization is responsible for common are maintenance, general excise tax, and other fees related to the property The Organization also leases a copy machine under a non-cancellable operating lease through December 31, 2016.

As of December 31, 2015, the future minimum rental payments required under the above operating lease commitment are as follows:

Year ending December 31,	
2016	$ 15,100
2017	12,800
2018	13,200
2019	4,500
	$ 45,600

Premise rent expense amounted to approximately $14,900 and equipment rent expense amounted to approximately $3,000 for the year ended December 31, 2015 was reported as part of occupancy and equipment expense in the Statement of Functional Expenses, respectively.

(6) Temporarily Restricted Net Assets

The Organization's temporarily restricted net assets consist of amounts that are available to the Organization but have a time or purpose restriction imposed by the donor. During the year, project funds are received and spent pursuant to specific requirements for each project.

The temporarily restricted net assets of the Organization as of December 31, 2015 are as follows:

East Maui Watershed	$ 43,899
Hoaloha Aina	44,007
KOOK – Ka Ohana O Kahikinui	22,500
Plant A Wish Maui	16,107
Maui School Garden	11,873
Makawao History Museum	10,870
HI Environ Education	10,065
HIHWNMS	9,871
Maui Forest B	8,717
Malama Hana	8,418
MFBRP	8,278
Teens on Call	8,173
Lanai Performance Academy	6,808
Hui Malama O Waikapu	6,162
Others	44,502
Total	$ 260,250

The temporarily restricted assets utilized during the year ended December 31, 2015 were funded by contributions received during the year ended December 31, 2015 and from the temporarily restricted net assets reported as of the end of the prior year. This resulted in a net reduction in the temporarily restricted net assets for the year ended December 31, 2015 of $150,906. The reduction in the temporarily restricted net assets for the year ended December 31, 2015 was largely due to the reduction in the amount of temporarily restricted contributions received during the year, as compared to the prior year.

(7) Administrative Fees

The Organization's management and general expenses, as reported in the statement of functional expense was primarily funded by the administrative fees charged to the programs.
During the year ended, December 31, 2015, the Organization incurred management and general expenses of $397,736 and recorded administrative fees of $247,704. This contributed to the reduction in unrestricted net assets for the year ended December 31, 2015

(8) Subsequent Events

Management has evaluated subsequent events through August 9, 2016, the date the financial statements were available to be issued. There were no subsequent events that required adjustment of or disclosure in the financial statements

PART II

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

Taketa, Iwata, Hara & Associates, LLC
Certified Public Accountants & Consultants
101 Aupuni Street, Suite 139
Hilo, Hawaii 96720-4260

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors of
Tri-Isle Resource Conservation
and Development Council, Inc.
Kahului, Hawaii

We have audited, in accordance with the 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, the financial statements of Tri-Isle Resource Conservation and Development Council, Inc. (TIRCD), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 9, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the TIRCD's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of TIRCD's internal control. Accordingly, we do not express an opinion on the effectiveness of TIRCD's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of TIRCD's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether TIRCD's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Takata, Iwata, Hara & Associates, LLC

August 9, 2016
Hilo, Hawaii

TRI-ISLE RESOURCE CONSERVATION AND DEVELOPMENT COUNCIL, INC.

FINANCIAL STATEMENTS AND SINGLE AUDIT REPORTS

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

GILFORD SATO & ASSOCIATES, CPAS, INC.
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Tri-Isle Resource Conservation
and Development Council, Inc.
Kahului, Hawaii

Report on the Financial Statements

We have audited the accompanying financial statements of Tri-Isle Resource Conservation and Development Council, Inc. (a not-for-profit corporation), which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tri-Isle Resource Conservation and Development Council, Inc. as of December 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by United States Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2015, on our consideration of the Tri-Isle Resource Conservation and Development Council, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Gifford Sato & Associates, CPAs, Inc.

Honolulu, Hawaii
June 4, 2015

TRI-ISLE RESOURCE CONSERVATION AND DEVELOPMENT COUNCIL, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2014 AND 2013

	2014	2013
ASSETS		
CURRENT ASSETS:		
Cash	$ 1,373,117	$ 1,455,702
Accounts receivable	1,452,716	2,778,292
Prepaid expenses	761	-
Total current assets	2,826,594	4,233,994
PROPERTY AND EQUIPMENT, at cost:		
Vehicles	19,000	19,000
Office equipment	1,040	-
Total property and equipment	20,040	19,000
Less accumulated depreciation	(10,963)	(8,144)
Net property and equipment	9,077	10,856
DEPOSIT	1,248	1,248
Total assets	$ 2,836,919	$ 4,246,098
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 1,010,286	$ 1,938,844
Accrued vacation	10,243	12,171
Deferred revenue	440,396	676,558
Funds held for other	-	25,132
Total current liabilities	1,460,925	2,652,705
NET ASSETS:		
Unrestricted net assets	957,838	1,087,144
Temporarily restricted net assets	418,156	506,249
Total net assets	1,375,994	1,593,393
Total liabilities and net assets	$ 2,836,919	$ 4,246,098

See independent auditor's report and accompanying notes to financial statements.

TRI-ISLE RESOURCE CONSERVATION
AND DEVELOPMENT COUNCIL, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2014

	Unrestricted	Temporarily Restricted	Total
REVENUES AND OTHER SUPPORT:			
Grants	$ 3,857,751	$ -	$ 3,857,751
Donations	-	611,091	611,091
Interest income	1,466	-	1,466
Administrative fee	287,370	-	287,370
Other income	192,688	-	192,688
Total revenues and other support	4,339,275	611,091	4,950,366
Net assets released from restrictions	699,184	(699,184)	-
	5,038,459	(88,093)	4,950,366
EXPENSES AND LOSSES:			
Program services:			
Environmental and watershed protection restoration	1,620,650	-	1,620,650
Invasive species mitigation and remediation	948,072	-	948,072
Native forests, ecosystem, and habitat protection restoration	596,715	-	596,715
Indigenous species protection and restoration	176,540		176,540
Social, community, and economic development	1,380,837	-	1,380,837
Total program services	4,722,814	-	4,722,814
Supporting services:			
Management and general	444,951	-	444,951
Total supporting services	444,951	-	444,951
Total expenses	5,167,765	-	5,167,765
CHANGE IN NET ASSETS	(129,306)	(88,093)	(217,399)
NET ASSETS, beginning of the year	1,087,144	506,249	1,593,393
NET ASSETS, end of the year	$ 957,838	$ 418,156	$ 1,375,994

See independent auditor's report and accompanying notes to financial statements.

TRI-ISLE RESOURCE CONSERVATION
AND DEVELOPMENT COUNCIL, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2013

	Unrestricted	Temporarily Restricted	Total
REVENUES AND OTHER SUPPORT:			
Grants	$ 4,962,009	$ -	$ 4,962,009
Donations	-	527,697	527,697
Interest income	1,335	-	1,335
Administrative fee	321,203	-	321,203
Other income	123,070	-	123,070
Total revenues and other support	5,407,617	527,697	5,935,314
Net assets released from restrictions	563,510	(563,510)	-
	5,971,127	(35,813)	5,935,314
EXPENSES AND LOSSES:			
Program services:			
Environmental and watershed protection restoration	1,894,470	-	1,894,470
Invasive species mitigation and remediation	1,662,278	-	1,662,278
Native forests, ecosystem, and habitat protection restoration	628,547	-	628,547
Indigenous species protection and restoration	231,368		231,368
Social, community, and economic development	1,022,891	-	1,022,891
Total program services	5,439,554	-	5,439,554
Supporting services:			
Management and general	428,912	-	428,912
Fundraising	17,096	-	17,096
Total supporting services	446,008	-	446,008
Total expenses	5,885,562	-	5,885,562
Loss on disposal of equipment	2,923	-	2,923
Total expenses and losses	5,888,485	-	5,888,485
CHANGE IN NET ASSETS	82,642	(35,813)	46,829
NET ASSETS, beginning of the year	1,004,502	542,062	1,546,564
NET ASSETS, end of the year	$ 1,087,144	$ 506,249	$ 1,593,393

See independent auditor's report and accompanying notes to financial statements.

	Environmental and Watershed Protection Restoration	Invasive Species Mitigation and Remediation	Native Forests, Ecosystem, and Habitat Protection Restoration	Indigenous Species Protection and Restoration	Social, Community, and Economic Development	Total Program Services	Management and General	Fundraising
	$ 53,637	$ -	$ 37,539	$ -	$ 55,750	$ 146,926	$ 188,714	$ -
	8,961	-	2,356	-	7,022	18,339	22,426	-
	4,752	-	3,326	-	4,939	13,017	16,418	-
penses	67,350	-	43,221	-	67,711	178,282	227,558	-
	1,553,300	946,718	551,832	176,540	1,295,259	4,523,649	15,380	-
	-	-	-	-	-	-	118,352	-
	-	-	-	-	-	-	28,456	-
	-	1,354	627	-	8,024	10,005	29,672	-
	-	-	1,035	-	-	1,035	11,257	-
	-	-	-	-	-	-	5,200	-
	-	-	-	-	5,275	5,275	4,771	-
	-	-	-	-	2,715	2,715	104	-
	-	-	-	-	1,853	1,853	-	-
	-	-	-	-	-	-	4,201	-
	-	-	-	-	-	-	-	-
	$ 1,620,650	$ 948,072	$ 596,715	$ 176,540	$ 1,380,837	$ 4,722,814	$ 444,951	$ -

	Environmental and Watershed Protection Restoration	Invasive Species Mitigation and Remediation	Native Forests, Ecosystem, and Habitat Protection Restoration	Indigenous Species Protection and Restoration	Social, Community, and Economic Development	Total Program Services	Management and General	Fundraising
	$ 66,916	$ -	$ 36,357	$ -	$ 20,000	$ 123,273	$ 236,407	$ -
	10,937	-	9,074	-	5,512	25,523	29,426	-
	6,859	-	3,130	-	2,012	12,001	22,361	-
xpenses	84,712	-	48,561	-	27,524	160,797	288,194	-
	1,808,998	1,662,278	579,986	230,301	955,880	5,237,443	30,213	-
	-	-	-	-	-	-	26,814	-
	-	-	-	-	-	-	26,717	-
	760	-	-	1,067	38,375	40,202	14,393	-
	-	-	-	-	1,092	1,092	4,802	-
	-	-	-	-	-	-	7,848	-
	-	-	-	-	20	20	9,279	-
	-	-	-	-	-	-	2,714	-
	-	-	-	-	-	-	-	17,096
	-	-	-	-	-	-	3,438	-
	-	-	-	-	-	-	14,500	-
	$ 1,894,470	$ 1,662,278	$ 628,547	$ 231,368	$ 1,022,891	$ 5,439,554	$ 428,912	$ 17,096

TRI-ISLE RESOURCE CONSERVATION AND DEVELOPMENT COUNCIL, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
CASH FLOWS FROM CONTINUING OPERATING ACTIVITIES:		
Change in unrestricted and temporarily restricted net assets	$ (217,399)	$ 46,829
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	2,819	2,714
Loss on disposal of equipment	-	2,923
Decrease (increase) in operating assets:		
Accounts receivable	1,325,576	(1,326,511)
Prepaid expenses	(761)	4,918
Deposit	-	(1,248)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	(928,558)	764,431
Vacation accrual	(1,928)	(5,538)
Deferred revenue	(236,162)	16,666
Funds held for other	(25,132)	25,132
Net cash used in operating activities	(81,545)	(469,684)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(1,040)	-
NET DECREASE IN CASH	(82,585)	(469,684)
CASH, beginning of the year	1,455,702	1,925,386
CASH, end of the year	$ 1,373,117	$ 1,455,702

See independent auditor's report and accompanying notes to financial statements.

TRI-ISLE RESOURCE CONSERVATION
AND DEVELOPMENT COUNCIL, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

1. Organization

Tri-Isle Resource Conservation and Development Council (the Organization), a 501(c)(3) not-for-profit organization since 1994, helps the community identify problems and opportunities by compiling background information, planning for desired future conditions, securing funding, and implementing projects for the Resource Conservation and Development area, which includes the islands of Lanai, Maui, and Molokai (Maui County). The Organization's membership consists of twelve board members from varied professional and social backgrounds; one member from each of the five Soil and Water Conservation Districts (SWCD) within Maui County; two members, each one respectively representing the communities on the islands of Lana'i and Moloka'i; and five community members from Maui.

The following are descriptions of the Organization's major programs, which are all performed in Maui County. By request, some of the projects in these programs are delivered on other islands in the State of Hawaii:

Environment and Watershed Protection and Restoration

Projects in this category are important to watersheds on each island in Maui County. These watersheds, which are in the uplands, are important to the environmental health of the lands below them. It is crucial that these projects continue to protect all lands and ecosystems of our ahupua'a, the traditional mountain-to-the-sea land divisions on each island. All of Maui County's watersheds are recipients of these projects. It is important to realize that these watershed projects, receive public funding support from Federal, State, and County governments.

Invasive Species Eradication, Mitigation and Remediation

Projects in this category become more important each year, as new invasive species on the islands of Maui County, and throughout Hawai'i, are identified. These species not only upset the ecosystems and habitats of our native species, but also infringe on the quality of life of an increasingly urban population. It is important that these projects continue as many of our native flora and fauna continue to be on endangered species lists. These projects also need resources to continue to educate the general public about the importance of conservation, environmental protection, and natural resource development.

Native Forests, Ecosystems, and Habitat Protection and Restoration

The indigenous ecosystems of the islands of Maui County continue to be compromised and are in demise, decreasing in size and less able to positively contribute to the environments and climates so important to island life. These projects need to continue as our native flora and fauna contribute to how our environments and ecosystems are major contributors to the nurturing of our climate and weather. These projects also need resources to continue to educate the general public about the importance of conservation, environmental protection, and natural resource development.

Indigenous Species Protection and Restoration

As a critical number of our native flora and fauna are on endangered species lists, projects in this category help keep these species as viable components within our environments and ecosystems. It is important to understand that we have already lost many of our indigenous species and that we must protect, replenish and repopulate the remaining species on all the island of Maui County. These projects also need resources to continue to educate the general public about the importance of conservation, environmental protection, and natural resource development.

TRI-ISLE RESOURCE CONSERVATION
AND DEVELOPMENT COUNCIL, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

1. Organization (continued)

Social, Community, and Economic Development

Maui County is a culturally and ethnically diverse jurisdiction. Our missions was expanded, through a strategic planning process in 2012, to include projects that build, nurture and improve quality of life for the people living in our communities. These projects contribute to social, cultural, environmental, health, and political factors important to civic and community life on all the islands in Maui County.

2. Summary of Significant Accounting Policies

a. Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this method of accounting, revenue is recognized when earned rather than when received and expenses are recognized when incurred rather than when paid. Donation are recognized as unrestricted when the stipulations of the donations have been met.

b. Use of Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

c. Net Assets

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted – Net assets which are free from donor-imposed restrictions; all revenues, expenses, and gains and losses that are not changes in temporarily or permanently restricted net assets.

Temporarily Restricted – Net assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or that can be fulfilled by actions of the Organization pursuant to those stipulations.

Permanently Restricted – Net assets whose use by the Organization is limited by donor-imposed stipulations.

As of December 31, 2014 and 2013, the Organization had unrestricted and temporarily restricted net assets.

2. Summary of Significant Accounting Policies (continued)

   d. Concentration of Credit Risk

   The Organization had approximately $1,359,000 and $1,277,000 in cash in excess of the Federal Deposit Insurance Corporation limit as of December 31, 2014 and 2013, respectively.

   e. Property and Equipment

   Property and equipment are stated at cost, or if contributed, at its fair market value at the date of the donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In absence of such stipulations, contributions of fixed assets are recorded as unrestricted support.

   Depreciation is determined using the straight-line method over the estimated useful lives of the assets over a period of 3 to 5 years.

   Expenditures for maintenance, repairs, and minor replacements are charged to operations as incurred and expenditures for major replacements and betterments with a useful life in excess of one year are capitalized. Property retired or otherwise disposed of is removed from the appropriate asset and related accumulated depreciation accounts. Gains and losses on sales of assets are reflected in current operations.

   Depreciation expense was approximately $2,800 and $2,700 for the years ended December 31, 2014 and 2013, respectively.

   f. Contributions

   Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence or nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increase those net asset classes. When a temporarily restriction expires, either by a time or purpose restriction imposed by the donor, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

   The contribution of professional services are recognized if the services (1) create or enhance non-financial assets and (2) require specialized skills that are performed by people with those skills, and would otherwise be purchased by the Organization. These contributions would be reflected in the statement of activities and functional expenses at their fair value at the date of the donation. The services of individuals who volunteered their time and performed a variety of tasks that benefited the Organization were not recognized as contributions in the financial statements, since the recognition criteria have not been met.

2. Summary of Significant Accounting Policies (continued)

g. Revenue Recognition

Government Grants

Government grants are received from government agencies. Revenues on cost reimbursement contracts are recognized when allowable and reimbursable expenses are incurred, and upon meeting the legal and contractual requirements of the funding source. These revenues are generally considered exchange transactions, and are recorded as revenues of the unrestricted net asset class. Funding received in advance of applicable revenue recognition criteria is recorded as deferred revenue in the statement of financial position.

Administrative Fee

The Organization applies an administrative fee to the projects that the Organization administers.

Other Income

Revenue from other sources is recorded as the services are performed by the Organization.

h. Functional Expenses

The costs for providing program services have been summarized on a functional basis in the statement of activities and detailed in the statement of functional expenses. Accordingly, certain costs have been allocated among program services and supporting activities benefited.

i. Income Tax

The Organization is recognized by the Internal Revenue Service as an exempt organization under Section 501(c)(3) of the Internal Revenue Code. The Organization adopted the provisions of FASB ASC 740, *Income Taxes*. As required by the uncertain tax position guidance in FASB ASC 740, the Organization recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position after an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement with the relevant tax authority. The Organization applied the uncertain tax position guidance in FASB ASC 740 to all tax positions for which the statute of limitations had remained open and has not recognized any additional liability.

Tax regulations within each jurisdiction are subject to interpretation of the related tax laws and regulations and require significant judgment to apply. With few exceptions, the Organization's Form 990, *Return of Organization Exempt from Income Tax* is no longer subject to U.S. Federal and State examinations by tax authority for the fiscal years ended December 31, 2011 and prior.

2. Summary of Significant Accounting Policies (continued)

   j. Evaluation of Subsequent Events

   Management has reviewed all events that have occurred from January 1, 2015 through the issue date of this financial report. There were no subsequent events that required adjustment of or disclosure in the financial statements.

3. Funds Held for Other

Funds held for other are comprised of funds the Organization received as an agent. The Organization is responsible for receiving and depositing funds, as well as writing checks on behalf of another party. Fund transactions are not included in the statements of activities and the balance of the funds is classified as a liability. The funds are not available for general corporate purposes and are required to be kept in a separate bank account. There were no funds held on behalf of another as of December 31, 2014. The amount held on behalf of other amounted to $25,132 as of December 31, 2013.

4. Leases

The Organization leases office space under a noncancellable operating lease through April 30, 2019. The Organization is responsible for common area maintenance, general excise tax, and other fees related to the property.

As of December 31, 2014, the future minimum rental payments required under the above operating lease commitment are as follows:

Year ending December 31,		
2015	$	11,609
2016		11,958
2017		12,317
2018		12,686
2019		4,270
	$	52,840

Rent expense, which includes premise rent and other charges amounted to approximately $18,600 and $18,200 during the year ended December 31, 2014 and 2013, respectively, included as part of occupancy expense reported on the statement of functional expenses.

TRI-ISLE RESOURCE CONSERVATION
AND DEVELOPMENT COUNCIL, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

5. Temporarily Restricted Net Assets

The Organization's temporarily restricted net assets consist of amounts that are available to the Organization but have a time or purpose restriction imposed by the donor. During the year, project funds are received and spent pursuant to specific requirements for each project.

The temporarily restricted net assets of the Organization as of December 31, 2014 are as follows:

Maui Nui Marine Resources Council	$	78,547
Kealia Pond		36,200
Hoaloha Aina		34,115
East Maui Watershed Partnership		33,068
Maui Forest Bird Recovery Project		31,406
KOOK - Ka Ohana O Kahikinui		25,000
Maui School Garden		15,675
Bicycle Map		15,172
Hawaii Green Growth Initiative		12,551
Hawaii Environmental Education Association		11,103
Others		125,319
	$	418,156

The temporarily restricted net assets of the Organization as of December 31, 2013 are as follows:

Hoaloha Aina	$	16,260
Leeward Haleakala Watershed Restoration Project Management		11,298
East Maui Watershed Partnership		36,553
Maui Forest Bird Recovery Project		30,698
Maui Nui Marine Resources Council		52,701
Lanai Community Golf Tournament		30,543
Maui Forest Bird Recovery Project - Motyka		19,778
Maui Farmers Union United		13,671
Hawaii Environmental Education Association		20,096
Aina Ola Farm / Pono Grown		50,042
Makawao Merchants Association		25,000
Hawaii Green Growth Initiative		32,750
Hawaii Green Growth Initiative Measures		15,000
Others		151,859
	$	506,249

6. Funding Concentration

The Organization receives a substantial amount of its support from Federal, State, and County government agencies and foundations. Significant reductions, if any, in the level of this support may have an adverse effect on the Organization's programs and activities.

SUPPLEMENTAL SCHEDULES

TRI-ISLE RESOURCE CONSERVATION AND DEVELOPMENT COUNCIL, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014

Federal Grant / Pass-through Grantor / Program Title	Federal CFDA Number	Grant Number	Federal Expenditures
DEPARTMENT OF COMMERCE			
Habitat Conservation	11.463	0301.14.046190	$ 10,626
Pass-through from Conservation International Foundation			
Conservation International Congressionally Identified Awards and Programs	11.469	1000092	9,791
Pass-through from Hawaii Community Foundation			
Coral Reef Habitat and Estuary Protection	11.463	13HCF-62995	23,398
Habitat Conservation	11.463	12HCF-59071	11,019
			34,417
Pass-through from State of Hawaii DLNR			
Coral Reef Conservation Program	11.482	C50142	10,000
DEPARTMENT OF THE INTERIOR			
Coastal Program	15.630	F13AC00487	9,086
Conservation Grants Private Stewardship for Imperiled Species	15.632	F07AP00002	20,988
Conservation Grants Private Stewardship for Imperiled Species	15.632	F07AP0001	3,172
			24,160
Economic, Social, and Political Development of the Territories	15.875	D14AP00059	33,196
Partners for Fish and Wildlife *	15.631	FA09AC00003	31,412
Partners for Fish and Wildlife *	15.631	122005G009	9,096
Partners for Fish and Wildlife *	15.631	F08AC00006	50,505
Partners for Fish and Wildlife *	15.631	F09AC00008	110,155
			201,168
U.S. Geological Survey Research and Data Collection	15.808	G12AC0441	52,576

* Major Program

See accompanying notes to the schedule of federal awards.

TRI-ISLE RESOURCE CONSERVATION AND DEVELOPMENT COUNCIL, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014 (CONTINUED)

Federal Grant / Pass-through Grantor / Program Title	Federal CFDA Number	Grant Number	Federal Expenditures
UNITED STATES ENVIRONMENTAL PROTECTION AGENCY			
Pass-through from State of Hawaii, Department of Health and			
Maui County, Department of Water Supply			
Drinking Water State Revolving Fund Clusters *	66.468	WC0750	119,405
Drinking Water State Revolving Fund Clusters *	66.468	WC0749	89,236
			208,641
UNITED STATES DEPARTMENT OF AGRICULTURE			
Forest Health Protection	10.680	10-DG-11052021-232	32,330
Total Federal Expenditures			$ 625,991

* Major Program

See accompanying notes to the schedule of federal awards.

TRI-ISLE RESOURCE CONSERVATION
AND DEVELOPMENT COUNCIL, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the Federal grant activity of Tri-Isle Resource Conservation and Development Council, Inc. (Organization), a not-for-profit organization. The information in this SEFA is presented in accordance with the requirements of the United States Office of Management and Budget (OMB) Circular A-133, *Audit of States, Local Government, and Non-Profit Organizations.* Because the SEFA presents only selected operations of the Organization, it is not intended to, and does not, present the financial position, changes in net position, or cash flows of the Organization.

2. Summary of Significant Accounting Policies

Expenditures reported on the SEFA are reported on the accrual basis of accounting.

3. Amounts Awarded to Sub-Recipients

The Organization passed through to sub-recipients that administered their own projects, the amount of Federal expenditures reported in the SEFA for the year ended December 31, 2014.

SINGLE AUDIT REPORTS

SINGLE AUDIT REPORTS

PART I

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Tri-Isle Resource Conservation
and Development Council, Inc.
Kahului, Hawaii

We have audited, in accordance with the standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards* used by the Comptroller General of the United States of America, the financial statements of Tri-Isle Resource Conservation and Development Council, Inc. (Organization), which comprise the statement of financial position as of December 31, 2014, and the statement of activities, cash flow, and the related notes to the financial statements and have issued our report thereon dated June 4, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purposes of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses, or significant deficiencies and therefore, material weakness or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the schedule of findings and questioned costs as items 2014-001 and 2014-002 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards*.

The Organization's Responses to Findings

The Organization's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Organization's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This report is intended solely for the information and use of the Organization's Board of Directors, others within the Organization, and the grantor or pass-through entities, and is not intended to be, and should not be used by anyone other than these specified parties.

Gifford Sato & Associates, CPAs, Inc.

Honolulu, Hawaii
June 4, 2015

SINGLE AUDIT REPORTS

PART II

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors
Tri-Isle Resource Conservation
and Development Council, Inc.
Kahului, Hawaii

Report on Compliance for Each Major Program

We have audited Tri-Isle Resource Conservation and Development Council, Inc. (Organization) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2014. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirement of laws, regulations, contracts, and grant applicable to its major federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Organization's compliance.

Basis for Qualified Opinion on Major Programs

As described in the accompanying schedule of findings and questioned costs, Organization did not comply with requirements regarding CFDA 66.468 – *Capitalization Grants for Drinking Water State Revolving Funds* and CDFA 15.631 – *Partners for Fish and Wildlife*, as described in finding numbers 2014-003 regarding the sub-recipient monitoring requirement. Compliance with such requirements is necessary, in our opinion, for the Organization to comply with the requirements applicable to those programs.

Qualified Opinion on Major Programs

In our opinion, the Organization, except for the noncompliance described in the Basis of Qualified Opinion on Major Programs paragraph, the Organization complied, in all material aspects, with the requirements referred to above that could have a direct and material effect on CFDA 66.468 – *Capitalization Grants for Drinking Water State Revolving Funds* and CDFA 15.631 – *Partners for Fish and Wildlife* for the year ended December 31, 2014.

Reporting on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be a material weakness.

A *deficiency in internal control over compliance exists* when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2014-003 to be a material weakness.

The Organization's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's responses were not subject to auditing procedures applied in the audit of compliance and, accordingly, we expressed no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

This report is intended solely for the information and use of the Organization's Board of Directors, others within the Organization, and the grantor or pass-through entities and it not intended to be, and should not be used by anyone other than these specified parties.

Gilford Sato & Associates, CPAs, Inc.

Honolulu, Hawaii
June 4, 2015

SINGLE AUDIT REPORTS

PART III

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

TRI-ISLE RESOURCE CONSERVATION
AND DEVELOPMENT COUNCIL, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	__X__ yes ______ no
• Significant deficiencies identified that are not considered to be material weaknesses?	______ yes __X__ none reported
Noncompliance material to financial statements noted?	______ yes __X__ no

Federal Awards

Internal control over major reporting:	
• Material weakness(es) identified?	__X__ yes ______ no
• Significant deficiencies identified that are not considered to be material weakness?	______ yes __X__ none reported
Type of auditor's report issued on compliance for major programs:	Qualified
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133?	__X__ yes ______ no
Identification of major program:	
CFDA Number	Name of Federal Program
66.468	Capitalization Grants for Drinking Water State Revolving Funds
15.631	Partners for Fish and Wildlife
Dollar threshold used to distinguish between Type A and Type B programs?	$300,000
Auditee qualified as low-risk auditee?	______ yes __X__ no

TRI-ISLE RESOURCE CONSERVATION AND DEVELOPMENT COUNCIL, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS

Summary of Financial Statement Findings

Finding Number	Finding
2014-001	Lack of Current and Complete Grants Management Policies and Procedures
2014-002	Inadequate Monitoring of Internal Controls Over the Grants Management Area

TRI-ISLE RESOURCE CONSERVATION
AND DEVELOPMENT COUNCIL, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014

Finding Number: **2014-001**
Area: **Lack of Current and Complete Grants Management Policies and Procedures**

Criteria:

The Organization's control activities over grants management is a key component of internal control. Current written policies and procedures and adherence to those policies and procedures are required to ensure that grants are properly managed and are in compliance with the agreement and applicable regulations, and to provide a basis to properly evaluate the effectiveness of internal controls in this area.

Condition:

During our examination, we noted that the Organization did not have formalized grants management policies and procedures.

Cause:

There appears to be weak internal controls over the grants management process. The Organization does not have a formally documented grants management process, which in turn impacts its ability to efficiently manage and monitor processes.

Effect:

The effect of the above condition is a weak component of internal controls, regarding the Organization's control activities. Weak internal controls over the grants management area may results in noncompliance with laws, regulations, grant agreements, and other contractual arrangements.

Recommendation:

We recommend that the Organization formalize it grants management policies and procedures, to particularly address the United States Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement – Part 3 Compliance Requirements* related to sub-recipient monitoring. We also recommend that the Organization continue to review, revise, and monitor its grants management policies and procedures to reflect changes in its operational processes and changes in regulations that govern Federal, State, and County governmental grant awards. The Organization must also consistently adhere to its policies and procedures in this area to ensure compliance with regulations and grant agreements.

Auditee Response and Corrective Action Plan:

The Executive Director will work with the Project Coordinator to formalize its grants management process to include policies and procedures to address how grants are managed and maintained, report tracking, and compliance with OMB Circular A-133, *Compliance Supplement – Part 3 Compliance Requirements* related to sub-recipient monitoring. The documented grants management process should be presented to the Board Executive Committee (BEC) for approval and subsequent discussion with the Board of Directors. The Organization will conduct training with the personnel involved in the management and accounting of Federal and non-federal grants. This corrective action plan will be completed by September 30, 2015.

TRI-ISLE RESOURCE CONSERVATION
AND DEVELOPMENT COUNCIL, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014

Finding Number:	**2014-001**
Area:	**Lack of Current and Complete Grants Management Policies and Procedures (continued)**

Auditee Contact Person:

John A.H. Tomoso, Executive Director

Finding Number:	**2014-002**
Area:	**Inadequate Monitoring of Internal Controls Over the Grants Management Area**

Criteria:

The Organization's monitoring efforts is a key component of internal controls. Proper monitoring of internal controls over grants management will evaluate whether controls established are operating as designed and implemented, identify internal control deficiencies, and correct the deficiencies on a timely basis.

Condition:

During our examination, we noted that the Organization did not have specific and formalized grants management policies and procedures. Refer to comment 2014-001. The Organization also lacked a process to appropriately monitor internal controls over the grants management area.

Cause:

There appears to be weak internal controls over the monitoring of internal controls over the grants management area.

Effect:

The effect of the above condition is a weak component of internal controls. Weak internal controls over the grants management area may result in noncompliance with laws, regulations, grant agreements, and other contractual arrangements.

Recommendation:

We recommend that the Organization establish a process to evaluate the design and implementation of the Organization's internal controls over the grants management area to ensure that internal controls over this area are operating properly and if deficiencies exist, they are identified and corrected on a timely basis. The process should include staff, management, and BEC. In turn, the BEC and management should keep the Board of Directors informed of any changes in policies and procedures in this area. Lastly, if deficiencies in internal control exist, the BEC and management should notify the Board of Directors of the situation and the corrective action to be taken.

TRI-ISLE RESOURCE CONSERVATION AND DEVELOPMENT COUNCIL, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014

Finding Number: **2014-002**
Area: **Inadequate Monitoring of Internal Controls Over the Grants Management Area (continued)**

Auditee Response and Corrective Action Plan:

The first step to resolve this issue is to complete the development of a documented grants management process. As described in finding 2014-001, the Executive Director will work with the Project Coordinator to develop a documented grants management process that include the operational processes, reporting processes, and processes to ensure compliance with OMB Circular A-133, *Compliance Supplement – Part 3 Compliance Requirements* related to sub-recipient monitoring. The documented grants management process will be presented to the BEC for approval and subsequent discussion with the Board of Directors. The Organization will conduct training with the personnel involved in the management and accounting of Federal and non-federal grants. This corrective action plan for finding 2014-001 will be completed by September 30, 2015.

Once the documented grants management process is implemented beginning October 1, 2015, the Organization will conduct monitoring to ensure that the new process was design and implementation appropriately. In the event the Organization identifies an area that requires improvement, the Organization will review and revise its documented grants management process accordingly. This corrective action plan will be completed by December 31, 2015.

Auditee Contact Person:

John A.H. Tomoso, Executive Director

TRI-ISLE RESOURCE CONSERVATION
AND DEVELOPMENT COUNCIL, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COST

Summary of Federal Award Findings and Questioned Cost

Finding Number	Finding	Questioned Cost
2014-003	Improve Sub-Recipient Monitoring Process	None

TRI-ISLE RESOURCE CONSERVATION
AND DEVELOPMENT COUNCIL, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014

Finding Number:	**2014-003**
Federal Agency:	**Environmental Protection Agency and Department of the Interior**
CFDA Program Numbers:	**66.468 and 15.631**
Program Names:	**Capitalization Grants for Drinking Water and Partners for Fish and Wildlife**
Area:	**Improve Sub-Recipient Monitoring Process**
Questioned Cost:	**None**

Criteria:

The Organization's sub-recipient monitoring process is a key component of internal controls in the grants management area. Sub-recipient monitoring is a critical process to ensure that the Organization is in compliance with regulations such as United States OMB Circular A-133, *Compliance Supplement – Part 3 Compliance Requirements* and OMB Circular A-122 *Cost Principles for Non-Profit Organizations*, and in compliance with the respective grant agreements.

Condition:

During our examination, we noted that the Organization did not formally document its sub-recipient monitoring process to address the sub-recipient monitoring requirements stated in OMB Circular A-133, *Compliance Supplement – Part 3 Compliance Requirements* and in the respective grant agreements.

During our testing of major program expenditures, we did not note any instances of unallowable costs being reported by the Organization. Therefore, there will be no question costs related to the major programs. However, the Organization must address the issue of proper sub-recipient monitoring to ensure compliance with OMB Circular A-133, *Compliance Supplement – Part 3 Compliance Requirements* and OMB Circular A-122 *Cost Principles for Non-Profit Organizations*, and in compliance with the respective grant agreements.

Cause:

There appears to be weak internal controls in the grants management process related to the Organization's sub-recipient monitoring process for those receiving Federal funds from the Organization. In addition, the Organization does not have a formalized documented sub-recipient monitoring process.

TRI-ISLE RESOURCE CONSERVATION
AND DEVELOPMENT COUNCIL, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014

Finding Number:	**2014-003**
Federal Agency:	**Environmental Protection Agency and Department of the Interior**
CFDA Program Numbers:	**66.468 and 15.631**
Program Names:	**Capitalization Grants for Drinking Water and Partners for Fish and Wildlife**
Area:	**Improve Sub-Recipient Monitoring Process (Continued)**
Questioned Cost:	**None**

Effect:

The effect of the above condition is a weak component of internal controls in the grants management area, regarding whether the sub-recipients that received Federal funds from the Organization were properly monitored prior to awarding the Federal funds, during the award period, at the end of the award period. Weak internal controls in this area may result in non-compliance with OMB Circular A-133, *Compliance Supplement – Part 3 Compliance Requirements* and OMB Circular A-122 *Cost Principles for Non-Profit Organizations*, and in compliance with the respective grant agreements. Non-compliance with these guidelines may also result in unallowable costs being incurred, which may lead to questioned costs, return of funds by the Organization, and possible loss of funding in the future.

Recommendation:

We recommend that the Organization review its grants management process to establish and formally document a process to ensure that sub-recipients who receive Federal funds are properly monitored prior to awarding the Federal funds, during the award period, and at the end of the award period.

The process should include a risk assessment of the sub-recipient. The risk assessment should be based on a review of the grant agreement with the grantor or pass-through agency, review of OMB Circular A-133, *Compliance Supplement – Part 3 Compliance Requirements* and OMB Circular A-122 *Cost Principles for Non-Profit Organizations*, an understanding of the background of the sub-recipient that will receive Federal funds from the Organization, a review of similar projects performed by the sub-recipient, and other checks by the Organization as deemed required, such as suspension and debarment. This assessment will determine the approach and extent of the monitoring the Organization will take regarding a particular sub-recipient.

Based on the approach and extent of monitoring of the sub-recipient, the Organization can determine the level of documentation required. Documentation should include checklists, certifications, sub-recipient agreements, understanding of the sub-recipient's history and qualifications, results of desk audits or site visits, correspondence with the sub-recipients, timelines of submission of progress and final reports, analysis of the amount of Federal funds received by the sub-recipient from all sources, standards for submitting cost for reimbursements, and review of progress and final reports.

TRI-ISLE RESOURCE CONSERVATION
AND DEVELOPMENT COUNCIL, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014

Finding Number:	**2014-003**
Federal Agency:	**Environmental Protection Agency and Department of the Interior**
CFDA Program Numbers:	**66.468 and 15.631**
Program Names:	**Capitalization Grants for Drinking Water and Partners for Fish and Wildlife**
Area:	**Improve Sub-Recipient Monitoring Process (Continued)**
Questioned Cost:	**None**

Recommendation (continued):

Training should be provided to management and staff involved with Federal grants and to the sub-recipients regarding OMB Circular A-133, *Compliance Supplement – Part 3 Compliance Requirements* and OMB Circular A-122 *Cost Principles for Non-Profit Organizations*, as they both directly affect the costs incurred by the sub-recipients of the Organization's Federal funds and the related Federal expenditures reported by the Organization.

Auditee Response and Corrective Action Plan:

As described in finding 2014-001, the Executive Director will work with the Project Coordinator to develop a documented grants management process that include the operational processes, reporting processes, and processes to ensure compliance with OMB Circular A-133, *Compliance Supplement – Part 3 Compliance Requirements* related to sub-recipient monitoring. The documented grants management process will be presented to the BEC for approval and subsequent discussion with the Board of Directors. The Organization will conduct training with the personnel involved in the management and accounting of Federal and non-federal grants. This corrective action plan will be completed by September 30, 2015.

Auditee Contact Person:

John A.H. Tomoso, Executive Director

TRI-ISLE RESOURCE CONSERVATION AND DEVELOPMENT COUNCIL, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2014

SECTION IV - SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Financial Statement Findings for the Years Ended December 31, 2013

Finding Number	Finding
2013-001	Improve Oversight of the Accounting, Grants Management, and Financial Reporting Functions

During our examination, we noted there was a change of the Executive Director in the middle of 2013. The former Executive Director was the key person that directed the accounting, grants management, and financial reporting work for the Organization. However, the policies and procedures related to these areas were not properly established and documented. The new Executive Director acknowledged there will be issues particularly in these areas and mentioned that the 2013 audit will be a critical starting point for the Organization to address them.

Recommendation:

We recommend that the BEC, along with the new Executive Director, serve as its governing body over the Organization's accounting, grants management, and financial reporting areas. This will provide proper oversight to ensure that the Organization's policies and procedures are properly established, documented, reviewed on a periodic basis, and updated as required.

The BEC will also provide oversight to ensure that the strategic directions set by the Board of Directors are being met and that the Organization is operating and complying with the applicable laws, regulations, grant agreements, and other contractual arrangements related to these areas.

Status:

The BEC provides oversight of the Organization's direction, strategic planning, fiscal, operational, internal control, and grant management areas and processes. The BEC meets with the Executive Director and Fiscal Consultant on a monthly basis to discuss key matters that affect the Organization and to discuss fiscal matters, such as discussion of the monthly financial statements, review corporate credit card statements, and other fiscal, operational, internal control, and grant management matters. This process was formalized in 2014.

SECTION IV - SUMMARY SCHEDULE OF PRIOR AUDIT FINDING (CONTINUED)

Financial Statement Findings for the Year Ended December 31, 2013 (continued)

Finding Number	Finding
2013-001	Improve Oversight of the Accounting, Grants Management, and Financial Reporting Functions (continued)

Status:

In addition, the Organization implemented a conflict of interest policy and disclosure process in 2015. The Organization is also working to implement a code of conduct policy in 2015. The Organization evaluated and revised the organizational structure and appropriate roles and responsibilities in accordance with the Organization's objectives established by management and overseen by the Board of Directors.

Completed: This finding is no longer applicable.

2013-002	Evaluation of the Accounting, Grants Management, and Financial Reporting Organizational Structure

During our examination, we noted that the Organization's personnel structure in the accounting, grants management, and financial reporting areas were not sufficient to properly handle the functions in these areas. There was a lack of sufficient staff time allotted to each function, which gave rise to the financial statements and compliance findings.

Recommendation:

We recommend that the Organization review its organizational structure and determine the positions that are required to properly manage its business. The Organization should also determine work that needs to be performed, as well as the skill sets of the personnel required to perform the work.

Status:

The Organization evaluated and revised the organizational structure to ensure proper segregation of duties with respect to the internal control policies and procedures developed for the key accounting and grant management areas in 2014. The new structure facilitates its efforts to address the various issues noted in the financial and single audit performed for the year ended December 31, 2013.

Completed: This finding is no longer applicable.

SECTION IV - SUMMARY SCHEDULE OF PRIOR AUDIT FINDING (CONTINUED)

Financial Statement Findings for the Year Ended December 31, 2013 (continued)

Finding Number	Finding
2013-003	Proper Risk Assessment

During our examination, we noted that management did not complete an assessment of its accounting, grants management, and financial reporting areas in terms of the related risks associated with each area.

Proper identification of these objectives and related risks will provide management with critical information that can be used to design the appropriate policies and procedures related to these areas. When designing internal control, management should consider where material misstatements could occur in the financial statements and identify areas where non-compliance may occur, and design appropriate policies and procedures to prevent or detect these errors on a timely basis.

Recommendation:

We recommend that the Organization establish a process to identify and document its objectives for the accounting, grants management, and financial reporting areas and the related risks associated with achieving those objectives, so that the Organization can generate accurate and reliable financial information and comply with laws, regulations, grant agreements, and other contractual arrangements.

Status:

The Organization conducted a risk assessment on the various issues identified as part of the financial statements and single audit conducted for the year ended December 31, 2013. The Organization will also conduct and document its risk assessment each time a significant issue or event occurs. The risk assessment will take into consideration the implications of the significant issue or event on accounting of transactions, internal controls, grant management, financial reporting, and compliance with laws, regulations, grant agreements, and other contractual agreements.

Completed: This finding is no longer applicable.

TRI-ISLE RESOURCE CONSERVATION &
DEVELOPMENT COUNCIL, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COST
FOR THE YEAR ENDED DECEMBER 31, 2014

SECTION IV - SUMMARY SCHEDULE OF PRIOR AUDIT FINDING (CONTINUED)

Financial Statement Findings for the Year Ended December 31, 2013 (continued)

Finding Number **Finding**

2013-004 Lack of Current and Complete Accounting, Grants Management, and Financial Reporting Policies and Procedures

During our examination, we noted that the Organization's accounting, grants management, and financial reporting policies and procedures were not specific or undocumented related to these areas. Some of the decisions on how to handle accounting and grants management issues were made without consideration of internal control to prevent or detect material misstatements to the financial statements on a timely basis and to ensure compliance with Federal regulations and grant agreements.

Recommendation:

We recommend the Organization review and update its policies and procedures over the accounting, grants management, and financial reporting areas on a timely basis. The Organization should also review and determine areas where policies and procedures are missing and develop the appropriate policies and procedures as required. The Organization must also consistently adhere to its policies and procedures in these areas to prevent or detect material misstatements to the financial statements on a timely basis, to issue accurate financial statements on a timely basis, and to ensure compliance with Federal regulations and grant agreements.

Status:

Accounting and Reporting

The Organization developed accounting and reporting policies and procedures (referred to as the Fiscal Policies and Procedures Document) in 2014. Management also understands that the document must be reviewed and updated on a periodic basis, especially when changes in policies and procedures take place.

Completed: The accounting and financial reporting policies and procedures finding is no longer applicable.

TRI-ISLE RESOURCE CONSERVATION & DEVELOPMENT COUNCIL, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COST
FOR THE YEAR ENDED DECEMBER 31, 2014

SECTION IV - SUMMARY SCHEDULE OF PRIOR AUDIT FINDING (CONTINUED)

Financial Statement Findings for the Year Ended December 31, 2013 (continued)

Finding Number	Finding
2013-004	Lack of Current and Complete Accounting, Grants Management, and Financial Reporting Policies and Procedures (continued)

Status (continued):

Grants Management

As described in the current year finding number 2014-001, the Organization is still working to evaluate and document its grants management policies and procedures. The Executive Director will work with the Project Coordinator to develop a documented grants management process that include the operational processes, reporting processes, and processes to ensure compliance with OMB Circular A-133, *Compliance Supplement – Part 3 Compliance Requirements* related to sub-recipient monitoring. The documented grants management process will be presented to the BEC for approval. The Organization will conduct training with the personnel involved in the management and accounting of Federal and non-federal grants.

In-Progress: This corrective action plan will be completed by September 30, 2015. Refer to current year finding number 2014-001

2013-005	Timely Issuance of Complete and Accurate Financial Statements

During our examination, we noted that the Organization could not generate complete and accurate financial statements on a timely basis. This was largely due the accounting staff's inability to record invoices to accounts payable on a timely basis, delays in vendors and sub-recipients submitting invoices for payment, delays in billing accounts receivable, which are on a reimbursement basis: delays in reconciling accounts, the inability to analyze the deferred revenue account and temporarily restricted donation account; the release of the temporarily restricted donations to the unrestricted fund, and the processing of appropriate adjustments as required.

Recommendation:

We recommend the Organization review and develop new policies and procedures over the accounting, grants management, and financial reporting areas to facilitate the timely preparation of complete and accurate financial statements. The Organization should review all of the comments presented in this report and re-evaluate the entire accounting, grants management, and financial reporting functions of the Organization in order to develop a more efficient and effective system to generate financial statements on a timely basis.

The Organization must also consistently adhere to its policies and procedures in these areas to prevent or detect material misstatements in the financial statements on a timely basis, to issue accurate financial statements on a timely basis, and to ensure compliance with Federal regulations and grant agreements.

SECTION IV - SUMMARY SCHEDULE OF PRIOR AUDIT FINDING (CONTINUED)

Financial Statement Findings for the Year Ended December 31, 2013 (continued)

Finding Number	**Finding**
2013-005	Timely Issuance of Complete and Accurate Financial Statements (continued)

Status:

Accounting closes the books of account on a monthly basis in 2014. The financial statements are presented to the Board Executive Committee on a monthly basis.

Completed: This finding is no longer applicable.

2013-006 Inadequate Monitoring of Internal Control over the Accounting, Grants Management, and Financial Reporting Areas

During our examination, we noted that the Organization's policies and procedures for the accounting, grants management, and financial reporting were not formally established or reviewed and updated on a periodic basis for changes in the respective area's processes and procedures.

Recommendation:

We recommend that the Organization establish a process to evaluate the design and implementation of the Organization's internal control over the accounting, grants management, and financial reporting areas, so that deficiencies in the current or new processes can be identified and corrected on a timely basis. The process should include the staff, management, and the Executive Committee. In turn, the BEC and management should keep the Board of Directors informed of the changes in policies and procedures in these areas. Lastly, if deficiencies in internal control exist, the BEC and management should notify the Board of Directors of the situation and the corrective action that will be taken to address the situation noted.

Status:

Accounting and Reporting

The Organization developed accounting and reporting policies and procedures (referred to as the Fiscal Policies and Procedures Document) in 2014. Management will monitor the accounting and reporting policies and procedures on an ongoing basis to ensure that internal controls were properly designed and implemented.

Completed: The accounting and financial reporting policies and procedures finding is no longer applicable.

TRI-ISLE RESOURCE CONSERVATION &
DEVELOPMENT COUNCIL, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COST
FOR THE YEAR ENDED DECEMBER 31, 2014

SECTION IV - SUMMARY SCHEDULE OF PRIOR AUDIT FINDING (CONTINUED)

Financial Statement Findings for the Year Ended December 31, 2013 (continued)

Finding Number	Finding
2013-006	Inadequate Monitoring of Internal Control over the Accounting, Grants Management, and Financial Reporting Areas (continued)

Status (continued)

Grants Management

As described in the current year finding number 2014-001, the first step to resolve this issue is to complete the development of a documented grants management process. The Executive Director will work with the Project Coordinator to develop a documented grants management process that include the operational processes, reporting processes, and processes to ensure compliance with OMB Circular A-133, *Compliance Supplement – Part 3 Compliance Requirements* related to sub-recipient monitoring. The documented grants management process will be presented to the BEC for approval and subsequent discussion with the Board of Directors. The Organization will conduct training with the personnel involved in the management and accounting of Federal and non-federal grants. The resolution of current year finding number 2014-001 will be completed by September 30, 2015.

As described in the current year finding number 2014-002, the Organization will conduct monitoring to ensure that the new process was design and implementation appropriately beginning October 1, 2015. In the event the Organization identifies an area that requires improvement, the Organization will review and revise its documented grants management process accordingly.

In-Progress: This corrective action plan will be completed by December 31, 2015. Refer to current year finding number 2014-002.

TRI-ISLE RESOURCE CONSERVATION & DEVELOPMENT COUNCIL, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COST
FOR THE YEAR ENDED DECEMBER 31, 2014

SECTION IV - SUMMARY SCHEDULE OF PRIOR AUDIT FINDING (CONTINUED)

Financial Statement Findings for the Year Ended December 31, 2013 (continued)

Finding Number	Finding
2013-007	Improve Monitoring of Key Financial Reporting

During our examination, we noted that the Organization did not periodically review key financial reports that affect the financial performance of the Organization. The key financial reports that should be monitored on a periodic basis are the 1) accounts receivable aging schedule, 2) accounts payable aging schedule, 3) Federal grants schedule, and 4) bank reconciliations prepared by Accounting. These reports should be reviewed in conjunction with the balance sheet and statement of activities for the applicable period as well. The Organization also lacked a process to appropriately monitor the internal control over these areas.

During our testing, we noted instances of delays in recording invoices to accounts payable and the timing of the preparation of billings that are on a reimbursement basis. Further delays were noted in submission of the billings to the grantor or pass-through agency as a result of missing performance reports due from the sub-recipients. These delays are impacting the timing of when remittances are received from the grantor or pass-through agencies.

We also noted a significant amount of accounts receivable and accounts payable outstanding for more than 90 days as of December 31, 2013. Accounts receivable outstanding greater than 90 days at the end of the reporting period is an indication of potential collectability and cash flow issues. However, since a large portion of the accounts receivable were from governmental entities (i.e. Federal, State and County), the risk of these receivables being uncollectable is minimal. However, there is a major impact on the Organization's cash flow.

In addition, the Organization is behind in making remittances on some obligations. This is indicated by the amount of accounts payable outstanding greater than 90 days. In one case, the Organization's vendor was not paid, largely due to the delay in receiving funds from the grantor or pass-through agency.

Recommendation:

We recommend that the BEC and management monitor these key financial reports on a periodic basis. In addition to monitoring these reports, the BEC and management should also document their review as indication that the monitor process took place.

SECTION IV - SUMMARY SCHEDULE OF PRIOR AUDIT FINDING (CONTINUED)

Financial Statement Findings for the Year Ended December 31, 2013 (continued)

Finding Number	Finding
2013-007	Improve Monitoring of Key Financial Reporting (continued)

Recommendation (continued):

The Executive Committee and management should also work closely with the staff members that handle the processing of invoices and the processing of accounts receivable to ensure that the invoices and billings are handled on a timely basis. The BEC and management should review the bank reconciliations that are prepared by Accounting on a monthly basis. The bank reconciliation is a key internal control process that should be reviewed by the appropriate level of management or BEC. The monthly preparation of the schedule of Federal grants will ensure that all Federal grants from grantor agencies or pass-through agencies are identified and accounted for by the Organization. This schedule can be used as the basis to discuss and monitor the other grants management aspects, particular with respect to the monitoring of organizations that receive Federal funds from the Organization.

Status:

Accounting closes the books of account on a monthly basis in 2014. The financial statements are presented to the BEC on a monthly basis.

Completed: This finding is no longer applicable.

TRI-ISLE RESOURCE CONSERVATION & DEVELOPMENT COUNCIL, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COST
FOR THE YEAR ENDED DECEMBER 31, 2014

SECTION IV - SUMMARY SCHEDULE OF PRIOR AUDIT FINDING (CONTINUED)

Federal Award Findings and Questioned Cost
Prior Audit Findings for the Year Ended December 31, 2013

Finding Number	Finding	Questioned Cost
2013-008	Improve Sub-Recipient Monitoring Process	None

During our examination, we noted that the Organization did not have a formalized documented sub-recipient monitoring process to address the sub-recipient monitoring requirements stated in OMB A-133, *Compliance Supplement – Part 3 Compliance Requirements* and in the respective grant agreements. It should be noted that the Organization conducted some monitoring, but improvements should be made in their sub-recipient monitoring process with respect to OMB A-133, *Compliance Supplement – Part 3 Compliance Requirements* and the respective grant agreements.

During our testing of major program expenditures, we did not note any instances of unallowable costs being reported by the Organization. Therefore, there will be no questioned costs related to the major programs. However, the Organization must address the issue of proper sub-recipient monitoring to ensure compliance with the OMB A-133, *Compliance Supplement – Part 3 Compliance Requirements* and with the respective grant agreements.

Recommendation:

We recommend that the Organization review its grants management process and formally document a process to ensure that sub-recipients who receive Federal funds from the Organization are properly monitored prior to awarding the Federal funds, during the award period, and at the end of the grant period.

The process should include a risk assessment of each sub-recipient. The risk assessment should be based on a review of the grant agreement with the grantor or pass-through agency, review of OMB A-133, *Compliance Supplement – Part 3 Compliance Requirements*, OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, an understanding of the background of the sub-recipient that will receive Federal funds from the Organization, a review of similar projects performed by the sub-recipient, and other checks by the Organization as deemed required, such as suspension or debarment. This assessment will determine the approach and extent of the monitoring the Organization will take regarding a particular sub-recipient.

SECTION IV - SUMMARY SCHEDULE OF PRIOR AUDIT FINDING (CONTINUED)

Federal Award Findings and Questioned Cost
Prior Audit Findings for the Year Ended December 31, 2013

Finding Number	Finding	Questioned Cost
2013-008	Improve Sub-Recipient Monitoring Process (continued)	None

Recommendation (continued):

Based on the approach and extent of the monitoring of the sub-recipient, the Organization can determine the level of documentation required. Documentation should include checklists, certifications, sub-recipient agreements, understanding of the sub-recipient's history and qualifications, results of desk audits or site visits, correspondence with the sub-recipients, timelines of submission of progress and final reports, analysis of the amount of Federal funds received by the sub-recipient from all sources, standards for submitting costs for reimbursements, and review of progress and final project reports. Training should also be provided to the sub-recipients regarding the OMB A-133, *Compliance Supplement – Part 3 Compliance Requirements*, OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, as they both directly affects the costs incurred by the sub-recipients of the Organization's Federal funds and the related Federal costs reported by the Organization.

Status:

As described in the current year finding number 2014-003, The Executive Director will work with the Project Coordinator to develop a documented grants management process that include the operational processes, reporting processes, and processes to ensure compliance with OMB Circular A-133, *Compliance Supplement – Part 3 Compliance Requirements* related to sub-recipient monitoring. The documented grants management process will be presented to the BEC for approval and subsequent discussion with the Board of Directors. The Organization will conduct training with the personnel involved in the management and accounting of Federal and non-federal grants.

In-Progress: This corrective action plan will be completed by September 30, 2015. Refer to current year finding number 2014-003.

TRI-ISLE RESOURCE CONSERVATION &
DEVELOPMENT COUNCIL, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COST
FOR THE YEAR ENDED DECEMBER 31, 2014

SECTION IV - SUMMARY SCHEDULE OF PRIOR AUDIT FINDING (CONTINUED)

Federal Award Findings and Questioned Cost
Prior Audit Findings for the Year Ended December 31, 2013 (continued)

Finding Number	Finding	Questioned Cost
2013-009	Lack of Suspension and Debarment Process	None

During our examination, we noted that the Organization did not conduct a review to determine whether sub-recipients of the Organization's Federal funds were suspended or debarred prior to receiving Federal funds, during the award period, and at the end of the grant.

Recommendation:

We recommend that the Organization review its grants management process to establish and formally document a process to check sub-recipients prior to and during the award period to determine whether or not the sub-recipient is suspended or debarred from receiving Federal funds. The process should include obtaining a certification from the sub-recipient that they are not suspended or debarred, and perform an independent check utilizing the Federal government's website on a periodic basis, prior to releasing Federal funds, during the award period, and at the completion of the grant.

Status:

The Organization implemented a suspension and debarment process and procedures for all Federal grant sub-recipients in 2014.

Completed: This finding is no longer applicable.

The Nature Conservancy

Consolidated Financial Statements
For the year ended June 30, 2016
And report thereon

pwc

Report of Independent Auditors

To the Board of Directors of
The Nature Conservancy

We have audited the accompanying consolidated financial statements of The Nature Conservancy and its chapters and affiliates (the "Conservancy"), which comprise the consolidated Statement of Financial Position as of June 30, 2016, and the related consolidated Statements of Activities and Cash Flows for the year then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Nature Conservancy and its chapters and affiliates as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying summarized consolidated statements of financial position as of June 30, 2016 and 2015, the summarized consolidated statements of activities for the year ended June 30, 2016 and 2015, and the schedule of functional expenses for the year ended June 30, 2016, with summarized totals for the year ended June 30, 2015 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

We previously audited the consolidated statement of financial position as of June 30, 2015, and the related consolidated statements of activities and changes in net assets and of cash flows for the year then ended (not presented herein), and in our report dated October 9, 2015, we expressed an unmodified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying summarized financial information as of June 30, 2015 and for the year then ended is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

PricewaterhouseCoopers LLP

December 12, 2016

The Nature Conservancy
Consolidated Statement of Financial Position
As of June 30, 2016

(Amounts in thousands)

Assets		
Cash and cash equivalents		$ 67,342
Restricted cash and cash equivalents		14,257
Restricted short-term investments		25,000
Government grants and contracts receivable		33,264
Pledges receivable, net		231,868
Securities pledged under securities lending agreement		24,479
Other assets		55,288
Property and equipment, net of accumulated depreciation and amortization		129,166
Investments		
Investments - Capital fund	794,938	
Investments - Split interest arrangements	284,344	
Investments - Endowment fund	1,115,398	
Total investments		2,194,680
Conservation lands		1,832,270
Conservation easements		2,089,865
Total assets		$ 6,697,479
Liabilities		
Accounts payable and accrued liabilities		$ 129,769
Payable under securities lending agreement		24,479
Deferred revenue and refundable advances		91,899
Bonds and notes payable		361,219
Split interest arrangements payable		174,871
Total liabilities		782,237
Net assets		
Unrestricted		
Undesignated	559,363	
Land, easements, and capital funds	3,440,943	
Board-designated quasi endowment and similar funds	816,123	
Total unrestricted		4,816,429
Temporarily restricted		736,344
Permanently restricted		362,469
Total net assets		5,915,242
Total liabilities and net assets		$ 6,697,479

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

The Nature Conservancy
Consolidated Statement of Activities
For the year ended June 30, 2016

(Amounts in thousands)	Unrestricted	Temporarily restricted	Permanently restricted	Total
Support and revenues				
Dues and contributions	$ 261,715	$ 304,069	$ 12,489	$ 578,273
Contributed goods and services	19,571	5,010	-	24,581
Land and easements contributed for conservation	33,406	-	-	33,406
Government grants and contracts	109,744	-	-	109,744
Investment loss	(28,250)	(31,095)	-	(59,345)
Other income	45,601	-	-	45,601
Total support and revenues before sales of conservation land and easements and net assets released from restrictions	441,787	277,984	12,489	732,260
Sales of conservation land and easements to governments and others	71,690	-	-	71,690
Net assets released from restrictions	272,502	(272,502)	-	-
Total support and revenues	785,979	5,482	12,489	803,950
Expenses				
Program expenses				
Conservation activities and actions	449,722	-	-	449,722
Book value of conservation land and easements sold or donated to governments and others	102,909	-	-	102,909
Total program expenses	552,631	-	-	552,631
Support services expenses				
General and administration	146,862	-	-	146,862
Fund-raising				
General fund-raising	77,214	-	-	77,214
Membership development	35,969	-	-	35,969
Total support services expenses	260,045	-	-	260,045
Total expenses	812,676	-	-	812,676
Increase/(decrease) in net assets	(26,697)	5,482	12,489	(8,726)
Reclassification of net assets	(3,516)	(111)	3,627	-
Total increase/(decrease) in net assets	(30,213)	5,371	16,116	(8,726)
Net assets at beginning of year	4,846,642	730,973	346,353	5,923,968
Net assets at end of year	$ 4,816,429	$ 736,344	$ 362,469	$ 5,915,242

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

The Nature Conservancy
Consolidated Statement of Cash Flows
For the year ended June 30, 2016

(Amounts in thousands)

Reconciliation of change in net assets to cash used in operating activities:			
Change in net assets		$ (8,726)	
Non-cash adjustments:			
Contributed land and easements	$ (36,257)		
Losses on disposition of land, easements, and property	34,792		
Realized/Unrealized investment losses	44,945		
Change in value of split interest investments	1,259		
Change in value of interest rate swaps	13,165		
Depreciation and amortization	14,426	72,330	
Changes in assets and liabilities:			
Increase in receivables	(23,837)		
Decrease in restricted cash	563		
Increase in other assets	(1,762)		
Decrease in split interests arrangements payable	(108)		
Increase in other liabilities	5,273	(19,871)	
Cash provided by (used in) land activities:			
Proceeds from sales of land and easements	78,884		
Purchases of land and easements	(155,555)	(76,671)	
Contributions for long-term purposes		(12,506)	
Net cash used in operating activities			$ (45,444)
Investing activities:			
Proceeds from sale of capital and endowment investments		1,353,497	
Purchases of capital and endowment investments		(1,327,053)	
Purchases of property and equipment, net		(14,833)	
Proceeds from notes receivable		(16,840)	
Net cash used in investing activities			(5,229)
Financing activities:			
Proceeds from securities lending program		9,103	
Repayments of securities lending program		(9,103)	
Purchases of split interest investments		(15,168)	
Proceeds from split interest arrangements		31,009	
Principal payments on debt		(32,242)	
Proceeds from issuance of debt		16,820	
Proceeds from restricted contributions		12,506	
Net cash provided by financing activities			12,925
Net change in cash and cash equivalents			(37,748)
Cash and cash equivalents, beginning of year			105,090
Cash and cash equivalents, end of year			$ 67,342
Supplemental data			
Interest paid			$ 16,262

The accompanying notes are an integral part of these consolidated financial statements.

ACCOUNTING POLICY FOOTNOTES

The following notes present disclosures of the significant accounting policies and related information relating to balances and amounts contained in the consolidated statements of financial position and activities. These notes are an integral part of the consolidated financial statements.

1. ORGANIZATION

The Nature Conservancy ("The Conservancy") is a global conservation organization. The mission of The Conservancy is to conserve the lands and waters on which all life depends. The Conservancy conducts its activities throughout the United States, Canada, Latin America, the Caribbean, Europe, Africa, Asia, and the Pacific.

The Conservancy's primary sources of revenue are contributions from the public (including gifts of land), investment income, government grants, and sales of conservation interests to government agencies or other conservation buyers. These resources are used to help solve critical challenges by significantly improving the health of globally important natural systems that enhance the lives of people around the world. Working with partners – including indigenous communities, governments, and businesses – The Conservancy pursues solutions that protect and restore natural systems, use nature sustainably, and broaden support for conservation.

2. CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements are presented on the accrual basis of accounting and include the accounts of all The Conservancy's chapters and affiliates, both domestic and international, including those which are separately incorporated, receive gifts, and perform conservation activities in the name of The Conservancy. All significant intercompany transactions have been eliminated.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimated amounts.

3. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Cash and Cash Equivalents, Restricted Cash, and Restricted Short-term Investments

Cash represents operating cash held in bank accounts in high quality financial institutions in the United States and 35 other countries. The cash in non-U.S. accounts is uninsured, but is limited per country to amounts that, in the opinion of management, are not material to the financial statements. Cash equivalents represents short-term, highly liquid investments with maturities of three months or less when purchased. Restricted cash represents monies held in trust related to requirements of specific conservation project agreements. Restricted short-term investments represent certificates of deposit held in trust related to requirements of specific conservation project agreements.

Government Grants and Contracts Receivable/Deferred Revenue and Refundable Advances

The Conservancy receives grants and contracts from federal, state, and local agencies to be used for specific programs or land purchases. The excess of reimbursable expenditures over cash receipts is included in government grants receivable, and any excess of cash receipts over reimbursable expenditures is included in deferred revenue and refundable advances.

Pledges Receivable

Pledges receivable represent unconditional promises to give and are reported at fair value by discounting the expected future pledge payments at the prime interest rate at the balance sheet date, and accordingly are categorized as Level 3 assets. The primary unobservable input used in the fair

value measurement of The Conservancy's pledges receivable is the discount rate. Significant fluctuations in the discount rate could result in a material change. The discount rate used in the present value technique to determine fair value of pledges receivable is revised at each measurement date to reflect current market conditions and the creditworthiness of donors. In addition, management evaluates payment history and market conditions to estimate allowances for doubtful pledges. Changes in the fair value of pledges receivable are reported in the consolidated statement of activities as contribution revenue except for changes in the allowance which are reported as program expenses at each subsequent reporting date. Pledges receivable past due by 90 days are, in the opinion of management, not material to the financial statements.

Not recorded as pledges receivable are $94,954,000, that are conditioned upon The Conservancy raising matching gifts or acquiring certain conservation lands. Conditional promises to give are recognized as contributions when the donor-imposed conditions are substantially met.

Securities Lending Agreement
The Conservancy lends certain securities in its investment portfolio to qualified borrowers on a short-term, fully collateralized basis in exchange for interest to help offset custodial fees. Collateral in the form of cash in US dollars, securities issued or guaranteed by the US government, or irrevocable letters of credit issued by banks independent of the borrowers is marked-to-market on a daily basis, and the borrower is required to deliver the difference between the daily market value of the collateral and 102% of the loaned securities' original fair market value if denominated in US dollars or 105% if denominated in foreign currency. The lending agent, in its agreement with The Conservancy, guarantees the repayment of the loan in the event the borrower defaults. The Conservancy retains all the benefits of ownership including rights to dividends, interest, and other cash distributions pertaining to the loaned securities. The Conservancy also retains the right to redeem the loaned securities prior to the stipulated redemption date.

At June 30, 2016, The Conservancy recorded $24,479,000 in securities pledged as collateral under its securities lending program and an equal amount payable to the borrowers under the agreement. These amounts are reflected in assets and liabilities in the consolidated statement of financial position.

Property and Equipment
Property and equipment are carried at cost. Depreciation and amortization is provided using the straight-line method for all depreciable assets over their estimated future lives as follows:

Building and improvements	5 – 30 years
Computer equipment and software	3 – 5 years
Furniture, fixtures, and other	4 – 25 years

Concentration of Credit Risk
The Conservancy's excess cash is invested with high quality institutions, the largest concentrations of which are invested in U.S. Agencies (66.0%), certificates of deposit (22.7%), and Repurchase Agreements (10.7%). 100% of the repurchase agreements are backed by U.S. Treasuries and U.S. Agencies.

Pursuant to its investment policy, The Conservancy's investments cannot have more than 10% of their assets at market value in securities of any one issuer, be they short-term or long-term, other than the U.S. Government and its Agencies. At June 30, 2016, the single largest non-U.S. Government issuer exposure was 5.56% of the Capital and Endowment Fund long term investments. This issue is in the form of a global commingled equity fund.

Investments
Investments are carried at estimated fair market value and reported in three distinct categories:

- *Capital fund* – excess working capital and funds held primarily for the future acquisition of conservation land, easements, and for funding other conservation projects.

- *Split interest arrangements* – donations that are held in trust by The Conservancy or third party trustees, representing beneficial interests in trusts.

- *Endowment fund* – funds held as long-term capital to generate income for The Conservancy's operations.

Endowment Investment and Spending Policies
The Conservancy's Endowment ("Endowment") includes both donor-restricted endowment funds and funds allocated to quasi endowments, which by Board policy function as endowments. The amount of Endowment income provided each year for operations is established by the Finance Committee of the Board, through its adoption of an annual endowment spending rate and spending rate base. The spending rate for the year ended June 30, 2016 was 5.0% of the average fair market value of the 60 months of calendar years 2010 through 2014.

The Conservancy recognizes that risk must be assumed to achieve its stated long-term investment objectives. Therefore, asset allocations and ranges are necessarily diverse, and consider liquidity needs. The Conservancy has considered its ability to withstand short and intermediate term variability and concluded that the portfolio can tolerate some interim fluctuations in market values and rates of return in order to achieve its objectives. However, The Conservancy realizes that market performance varies and that the portfolio's investment objectives may not be achievable during short-term periods.

The Conservancy has chosen not to manage its underlying assets directly, but to utilize independent investment managers. To maintain prudent diversification and to manage risk, The Conservancy's portfolio is divided among 50 to 60 separate managers.

Conservation Lands and Easements
The Conservancy records land and land interests at cost if purchased or at fair value at the date of acquisition, if all or part of the land was received as a donation. Fair value is generally determined by appraisal at the time of acquisition and is not subsequently adjusted. Upon sale or gift, the book value of the land or land interest is reported as a program expense and the related proceeds, if any, are reported as revenue in the consolidated statement of activities.

Conservation land is real property with significant ecological value. These properties are either managed in an effort to protect the natural biological diversity of the property, or transferred to other organizations who will manage the lands in a similar fashion.

Conservation easements are comprised of listed rights and/or restrictions over the owned property that are conveyed by a property owner to The Conservancy, almost always in perpetuity, in order to protect the owned property as a significant natural area, as defined in federal tax regulations. These intangible assets may be sold or transferred to others so long as the assignee agrees to carry out, in perpetuity, the conservation purposes intended by the original grantor. Conservation easements, by their very nature, do not generate material amounts of cash inflow annually.

Bonds and Notes Payable
The Conservancy uses debt, both fixed and variable, primarily to finance the acquisition of conservation lands and easements. Debt is reported at carrying value. At June 30, 2016, The Conservancy is in compliance with all debt covenants.

In order to partially insulate itself from the variable nature of the interest rates on its outstanding debt, The Conservancy has three interest rate swap agreements. The Conservancy pays a fixed rate of 4.373% on $95,375,000 in return for receipt of variable rate interest in the amount of 3- month LIBOR and pays a fixed rate of 2.962% on $190,000,000 in return for receipt of variable rate interest in the amount of 67% of 3-month LIBOR. The Conservancy pays a fixed rate of 3.56% on $25,053,000 in return for receipt of variable rate interest in the amount of 67% of 1-month LIBOR. Maturities of the swap agreements range from 2027 to 2033 and the counterparty to these swaps has the option to terminate at their discretion. The fair value of these interest rate swap agreements are reflected in the accompanying consolidated statement of financial position as accounts payable and accrued liabilities.

Due to the nature of certain variable rate bond agreements, The Conservancy may receive notice of an optional tender on its variable-rate bonds, in which case The Conservancy would have an obligation to purchase the bonds tendered if unable to secure a different source of financing at that time. At June 30, 2016, The Conservancy had a standby liquidity support agreement with a financial institution to support the original principal amount of $50,000,000 of the variable rate demand obligations. Under this agreement, the financial institution agreed to supply additional liquidity to The Conservancy up to that amount, with which The Conservancy could purchase the bonds if The Conservancy could not remarket the bonds. In the event of a draw on the $50,000,000 liquidity support line, the due date would be September 14, 2018.

Interest expense incurred on total notes payable for 2016 was $18,054,000.

Split Interest Arrangements
The Conservancy enters into split interest arrangements whereby donations are held in trust by The Conservancy or third party trustees and invested. Agreed-upon amounts of the invested funds are payable to the donor or the donor's designee for a specified period of time or until the donor's death, after which time The Conservancy may use the investments for operations or a restricted use specified by the donor. The donated trust asset investments are recorded at fair value based on the latest available information.

The Conservancy utilizes the 2012 Individual Annuity Reserving table to actuarially calculate the liability associated with the estimated donor payments under these arrangements. The Conservancy determines the discount rate to be used in the month the split interest arrangements are entered into with the donor and these rates have ranged from 1% to 9%. The present value of the actuarially determined liability resulting from these gifts is recorded at the date of gift and adjusted annually thereafter to reflect fair value.

Net Assets
The Conservancy's net assets are reported in the following three classes:

- *Unrestricted net assets* – Revenues derived from dues, unrestricted contributions, government grants and contracts, investment income (other than the temporarily restricted portion of true endowment investment income), and other inflows of assets whose use by The Conservancy is not limited by donor-imposed restrictions. Certain unrestricted net assets have been designated by the Board of Directors to be maintained as quasi endowment funds.

- *Temporarily restricted net assets* – Contributions and other inflows of assets whose use by The Conservancy is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of The Conservancy, such as usage for specific programs, including certain overhead and indirect costs, or for spending from true endowment investment income.

  When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported on the consolidated statements of activities as net assets released from restrictions.

- *Permanently restricted net assets* – Contributions and other inflows of assets whose use by The Conservancy is limited by donor-imposed stipulations that the principal must be maintained permanently by The Conservancy. The total amount of permanently restricted net assets on the consolidated statements of financial position includes the donor-restricted endowment funds as well as amounts contributed to create a permanent capital fund. This revolving fund is used to finance capital projects and donations to this fund are to be maintained in perpetuity for only this purpose.

Classification of endowment net assets
The Board of Directors of The Conservancy ("Board") has approved management's interpretation of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as enacted by the Council of the District of Columbia. UPMIFA requires the preservation of the fair value of the original gifts as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

The Endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. The Conservancy classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) 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 permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by The Conservancy.

The Conservancy considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the endowment fund;
- The purposes of the institution and the endowment fund;
- General economic conditions;
- The possible effect of inflation or deflation;
- The expected total return from income and appreciation of investments;
- Other resources of the institution; and

- The investment policy of the institution.

Endowments with Eroded Corpus
From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or The Conservancy requires to be retained as principal in perpetuity. Deficiencies of this nature that are netted in unrestricted net assets were $3,034,000 as of June 30, 2016. These deficits resulted from unfavorable market fluctuations that occurred shortly after the investment of newly established endowments and authorized appropriation that was deemed prudent.

4. CONSOLIDATED STATEMENT OF ACTIVITIES

Contributions
Unconditional donor promises to give cash and other assets are reported at fair value at the date that there is sufficient verifiable evidence documenting that a promise was made by the donor and received by The Conservancy. The promises are reported as either temporarily or permanently restricted support if received with donor stipulations that sufficiently limit the use of the donated assets.

The Conservancy recognizes contributed professional services from third parties and contributed goods and trade lands as revenue and as expense or assets, at the fair value of those services or goods when received. Trade lands are real property with minimal ecological value. These properties are sold to provide funds for The Conservancy to carry out its conservation work. During the fiscal year ended June 30, 2016 contributed goods and services totaled $24,581,000 and contributed trade lands that is reflected as Dues and contributions in the accompanying consolidated statement of activities totaled $4,382,000.

Government Grants and Contracts
Government grants and contracts are considered to be exchange transactions, the majority of which are cost-reimbursable grants. Revenue, including approved indirect cost recovery, is recognized when allowable costs have been incurred. The Conservancy's costs incurred under its government grants and contracts are subject to audit by government agencies. Management believes that disallowance of costs, if any, would not be material to the consolidated financial position or consolidated changes in net assets of The Conservancy.

Program expense allocation
Operating expenses are allocated to program and support categories based on separate cost center types as defined below. Conservation land and easements that are acquired by The Conservancy, but not sold or donated, are reflected as an increase in conservation land and easements on the consolidated statements of financial position and are excluded from the program expense categories on the consolidated statements of activities.

The Conservancy accounts for its program expenditures in the following categories:

- *Conservation Activities and Actions* – Expenditures related to the broad spectrum of activities and actions critical to advancing The Conservancy's mission. Expenditures related to understanding, monitoring, maintaining, restoring, and managing natural areas owned by The Conservancy and others are included, as well as expenditures for developing and enhancing The Conservancy's ability to gather and share ecological information and to assess and evaluate threats to natural systems. In addition, this area includes expenditures to mitigate, prevent, or slow the effects of these threats, including investments in the institutional development of domestic and international conservation organizations. Expenditures related to improving public land management and supporting the development of sound global policies, including participating in conferences and events that help establish a common vision for conservation worldwide are included, as well as expenditures associated with community outreach and education of key stakeholders and land users in areas where Conservancy conservation programs reside.

- *General and Administration* – Expenditures related to building and maintaining an efficient business infrastructure, including those related to corporate governance, to support and advance the programmatic conservation objectives of The Conservancy.

- *General Fund-Raising* – Expenditures related to fund-raising strategies that provide the revenue stream for both operations and capital needs to further the accomplishment of The Conservancy's mission and objectives.

- *Membership Development* – Expenditures related to the acquisition and retention of The Conservancy's members primarily through the use of a direct-mail program.

5. COMMITMENTS AND CONTINGENCIES

Litigation
The Conservancy is a party to various litigation arising out of the normal conduct of its operations. In the opinion of The Conservancy's management, the ultimate resolution of these matters will not materially affect the financial position, changes in net assets, or cash flows of The Conservancy.

Leases
The Conservancy has entered into non-cancelable operating leases for office space, which expire at various dates through 2027. Certain of these leases contain rent escalation clauses, usually based on the consumer price index.

Land acquisitions and other commitments
The Conservancy has entered into contracts for the purchase of land and other purchase commitments that have not closed as of June 30, 2016, in the amount of $20,969,000.

The Conservancy has remaining funding commitments to private equity, real estate, and hedge fund investment managers of $179,435,000 at June 30, 2016.

6. RETIREMENT PLANS

The Conservancy's employees are eligible after one month of service to participate in The Nature Conservancy Savings and Retirement Plan (the "Plan"), in which employees can make voluntary, tax-deferred contributions within specified limits. The Plan was established under the provisions of Internal Revenue Code Section 401(k) and has received a favorable determination as to its tax status from the Internal Revenue Service. Certain employees are also eligible to participate in a non-qualified deferred compensation plan created pursuant to Internal Revenue Code Section 457(b). The Conservancy's contributions to the plans were $16,375,000 for the year ended June 30, 2016.

7. INCOME TAXES

The Conservancy has been granted an exemption from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Internal Revenue Service has classified The Conservancy as other than a private foundation. The Conservancy pays a nominal amount of tax relating to several unrelated business income activities, primarily rental income from debt-financed property. The Conservancy takes no tax positions that it considers to be uncertain.

8. SUBSEQUENT EVENTS

All subsequent events were evaluated through December 12, 2016, which is the date the financial statements were issued.

9. RELATED PARTY TRANSACTIONS

The Conservancy recorded $10,172,000 in contribution revenue from current and former Board members during fiscal year ended June 30, 2016. Of this amount, $600,000 is reflected as pledges receivable in the accompanying consolidated statement of financial position.

FOOTNOTE SCHEDULES

The following schedules represent required disclosures of more detailed information regarding certain balances and amounts contained in the consolidated statements of financial position and activities. These are an integral part of the footnotes to the consolidated financial statements.

10. Pledges receivable

As of June 30, 2016 unconditional promises to give were as follows:

(In thousands)

Amounts due in	
Less than one year	$ 141,973
One to five years	101,947
More than five years	664
Subtotal	244,584
Less fair value adjustments:	
Discount of 3.5%	5,966
Allowance for doubtful accounts	6,750
Total	$ 231,868

11. Other assets

Other assets consisted of the following at June 30, 2016:

(In thousands)

Deposits on land	$ 1,232
Trade lands	9,013
Other receivables	3,328
Prepaid expenses	7,958
Notes receivable	27,311
Other assets	6,446
Total	$ 55,288

12. Property and equipment

Property and equipment consisted of the following at June 30, 2016:

(In thousands)

Land for operations	$ 7,210
Buildings and improvements	146,133
Construction in progress	11,640
Computer equipment and software	37,627
Furniture, fixtures, and other	22,223
	224,833
Accumulated depreciation and amortization	(95,667)
Total	$ 129,166

Depreciation and amortization expense was $14,426,000 during the year ended June 30, 2016. Of the total assets listed above, $28,495,000 was fully depreciated at June 30, 2016.

13. Bonds and notes payable

(In thousands)

Unsecured Colorado Educational and Cultural Facilities Authority Revenue Bonds, Tax Exempt, Series 2002A issued in the original principal amount of $25,053,000, variable interest rate pursuant to rate swap, 0.46% as of June 30, 2016, due July 2024.	$ 11,213
Unsecured Colorado Educational and Cultural Facilities Authority Revenue Refunding Bonds, Tax Exempt, Series 2012 issued in the original principal amount of $144,435,000, with a variable interest rate reset weekly, 0.43% as of June 30, 2016, due July 2033.	126,331
Unsecured Taxable Revenue Bonds Series 2009 in the aggregate principal amount of $100,000,000 issued July 1, 2009, fixed rate of 6.30% due July 2019.	100,000
New York State Environmental Facilities Corporation private bonds issued in the aggregate amount of $50,000,000 with a fixed interest rate of 3.90%, due June 2024.	35,044
Loans and mortgages, some of which are collateralized by the land and other assets, and payable in monthly or annaul installments, including interest ranging from 0% to 6.0%; final payments are due at various dates through 2033.	68,899
Conservation Notes, unsecured notes payable in various amounts with interest ranging from 0.00% to 2.0%, due at various dates through 2021.	13,404
Other notes payable without interest due on demand	6,328
Total	$ 361,219

The following schedule of amounts due is based on the maturity dates per the debt agreements:

(In thousands)

2017	$	122,680
2018		17,635
2019		63,206
2020		125,052
2021		6,288
Thereafter		26,358
Total	$	361,219

14. Net assets

Temporarily restricted net assets are available for the following purposes:

(In thousands)

Land acquisition and other conservation projects	$	320,670
Time restricted for periods after June 30		140,372
Time and purpose restricted for periods after June 30		172,770
True endowment gains subject to future Board of Directors' appropriation		102,532
Total	$	736,344

Permanently restricted net assets are restricted in perpetuity; they include donor-restricted endowments and donor-restricted permanent capital funds. The total amount of permanently restricted net assets in the consolidated statement of financial position includes donor-restricted endowment funds of $196,036,000 displayed in the table below, as well as other amounts such as those contributed to create a permanent capital fund. Permanently restricted net assets in the land preservation fund were $166,433,000 as of June 30, 2016.

Endowment funds are categorized in the following net asset classes as of June 30, 2016:

(In thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (3,034)	$ 102,532	$ 196,036	$ 295,534
Board-designated endowment funds	819,157	-	-	819,157
Total endowment funds	$ 816,123	$ 102,532	$ 196,036	$ 1,114,691

Changes in endowment funds by net asset classification for the year ended June 30, 2016 are summarized as follows:

(In thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 863,415	$ 117,534	$ 177,203	$1,158,152
Investment returns	(14,507)	(4,909)	-	(19,416)
Contributions and other revenue	-	-	12,192	12,192
Interfund transfers	9,062	2,936	3,105	15,103
Appropriation of assets for expenditure	(54,701)	-	-	(54,701)
Net assets released from restrictions	13,029	(13,029)	-	-
Subtotal endowment funds	816,298	102,532	192,500	1,111,330
Reclassification of net assets	(175)	-	3,536	3,361
Total endowment funds	$ 816,123	$ 102,532	$ 196,036	$1,114,691

15. Assets and liabilities carried at fair value

Assets and liabilities carried at fair value are classified in the fair value hierarchy based on the lowest level of input that is significant to the valuation.

Fair value for Level 1 is based upon quoted prices in active markets for identical assets and liabilities. Market price data is generally obtained from exchange or dealer markets.

Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and on model-based valuation techniques, for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers, and brokers.

Fair value for Level 3 is based on valuation techniques that use significant inputs that are unobservable as they trade infrequently or not at all.

The Conservancy uses the practical expedient to determine the fair value for some of its investments, which permits the use of Net Asset Value (NAV) without adjustment under certain circumstances.

The Conservancy's investment policy allows for the use of derivatives by investment managers and at the portfolio-level to assist in managing asset allocation and exposures. These derivative exposures are exchange-traded and are reported in the fair value of the overall portfolio within Level 1.

In order to partially insulate itself from the variable nature of the interest rates on its outstanding debt, The Conservancy has three interest rate swap agreements that fix the rates on several variable rate bonds. The Conservancy's interest rate swap arrangements have inputs which can generally be corroborated by observable market data and are therefore classified within Level 2. Such inputs include market prices for reference securities, yield curves, credit curves, measures of volatility, prepayment rates, assumptions for nonperformance risk, and correlations of such inputs. The valuation methods described above may produce fair value calculations that may not be indicative of net realized value or reflective of future fair values. The Conservancy believes the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The use of derivative instruments involves the risk of imperfect correlation in movement in the price of the instruments, interest rates, and the underlying hedged assets. As a results, The Conservancy may not achieve the anticipated benefits of hedging strategies. The Conservacy's derivatives contracts held at June 30, 2016 are not accounted as hedging instruments under GAAP.

The following table lists fair value and relevant notional information of derivatives by contract type, as included in the consolidated statement of financial position and statement of activities.

Summary of derivative investments at June 30, 2016:

($ in thousands)

	Fair value as of June 30, 2016		Changes in Fair Values		As of June 30, 2016		
	Location in Consolidated Statement of Financial Position	**Amount**	**Location in Consolidated Statement of Activities**	**Amount**	**Collateral Amount**	**Notional Value**	**Number of Contracts**
Futures - US Equity	Investments	$ (356)	Investment loss	$ (356)	$ 5,959	$ (139,416)	1,334
Interest rate swaps	Accounts payable and accrued liabilities	50,657	Other income	(13,165)	-	310,428	3

Assets and liabilities categorized by input:

(In thousands)

	Level 1	Level 2	Level 3	Total
Investments:				
Short-term investments	$ 2,238	$ 69,300	$ -	$ 71,538
Repurchase agreements	-	11,905	-	11,905
Fixed income:				
U.S. treasuries	48,762	-	-	48,762
Asset-backed securities	-	48,029	-	48,029
Municipals	-	3,701	-	3,701
Corporate debt	-	184,186	-	184,186
Mortgage-backed securities	-	14,638	-	14,638
U.S. agency bonds	-	104,559	-	104,559
Preferred securities	840	-	-	840
Public equity:				
Consumer discretionary	50,510	-	-	50,510
Consumer staples	11,032	-	-	11,032
Energy	9,090	-	-	9,090
Financial services	23,778	-	-	23,778
Health care	13,085	-	-	13,085
Industrials	22,310	-	-	22,310
Information technology	25,019	-	-	25,019
Materials	13,241	-	-	13,241
Telecom services	3,719	-	-	3,719
Utilities	1,205	-	-	1,205
Other industries	2,144	-	-	2,144
Commingled equity funds	-	-	457,455	457,455
Exchange traded funds	8,526	-	-	8,526
Closed end mutual funds	69,788	-	-	69,788
Derivatives	(337)	-	-	(337)
Hedge funds	-	-	433,352	433,352
Private equity	-	-	218,097	218,097
Private real estate	-	-	59,454	59,454
Split interests, trusteed	150,155	92,196	11,283	253,634
Split interests, non-trusteed	-	-	31,420	31,420
Total investments at fair value	455,105	528,514	1,211,061	2,194,680
Securities pledged under securities lending agreement	$ 24,479	$ -	$ -	$ 24,479
Pledges receivable	-	-	231,868	231,868
Total assets measured at fair value	$ 479,584	$ 528,514	$ 1,442,929	$ 2,451,027
Interest rate swaps liability	$ -	$ 50,657	$ -	$ 50,657
Payable under securities lending agreement	24,479	-	-	24,479
Total liabilities measured at fair value	$ 24,479	$ 50,657	$ -	$ 75,136

Investments included in Level 3 primarily consist of The Conservancy's ownership in alternative investments (principally commingled equity, limited partnership interests in hedge and private equity funds) as well as investments held within private arrangements. The value of certain alternative investments represents the ownership interest in the NAV of the respective partnership. Approximately 77.6% of Level 3 investments held by the partnerships consist of marketable securities and 22.4% are securities that do not have readily determinable fair values. The fair values of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner and are based on appraisals, or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partner taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. The Conservancy has performed significant due diligence around these investments to ensure NAV is an appropriate measure of fair value.

Investments valued using NAV as of June 30, 2016:

(In thousands)	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Global equity funds	$ 225,966	$ -	Daily, weekly, monthly, quarterly	2 days, 7 days, 10 business days, 30 days
International equity funds	200,045	-	Daily, monthly, quarterly	6 business days, 14 days, 60 calendar days, 90 days
Domestic equity funds	31,446	-	Monthly	60 days
Hedge funds	433,352	6,583	Monthly, quarterly, semi-annually, annually, biennially, rolling 2, 3 & 4 years	30 - 90 days
Private equity funds	191,050	140,907	N/A	N/A
Real estate funds	59,454	31,945	N/A	N/A
Total	$ 1,141,313	$ 179,435		

The Conservancy uses a standard charitable gift calculation model and a discount rate that is commensurate with fair value to determine the present value of split interest agreements where The Conservancy serves as trustee. For split interest agreements where The Conservancy is not the trustee, valuations are based on the values reported by third-party trustees, while noting that the valuation techniques for future distributions expected to be received over the term of the agreement and unobservable inputs - such as discount rates, life expectancies, and trust payouts – may vary widely among trustees. There is no market for these agreements, and they are therefore classified within Level 3.

Rollforward of Level 3 financial instruments:

(In thousands)

	Fair value as of June 30, 2015	Realized gains (losses)	Unrealized gains (losses)	Purchases	Sales	Fair value as of June 30, 2016
Commingled equity funds	$ 517,235	$ 42,910	$ (56,078)	$ 38,000	$ (84,612)	$ 457,455
Hedge funds	460,292	7,947	(37,782)	56,751	(53,856)	433,352
Private equity	211,920	25,928	(10,277)	41,566	(51,040)	218,097
Real estate	53,507	3,303	4,752	14,205	(16,313)	59,454
Split interest arrangements	46,570	216	(869)	2,693	(5,907)	42,703
Total	1,289,524	80,304	(100,254)	153,215	(211,728)	1,211,061
Pledges receivable	219,519	-	12,349	-	-	231,868
Total investments and pledges	$1,509,043	$ 80,304	$ (87,905)	$ 153,215	$ (211,728)	$ 1,442,929

Of the net realized and unrealized losses of $7,601,000 in the table above, $19,950,000 are reflected in the accompanying statement of activities as investment losses. The remaining amounts include a $12,349,000 increase in pledges, of which a net $12,599,000 increase is reflected in the accompanying statement of financial position and statement of activities as the result of pledge payments and pledge contributions. The remaining $250,000 decrease is reflected as conservation activities and actions program expense.

Changes in unrealized gains/losses related to Level 3 investments held at June 30, 2016 were $(27,195,000).

Investment losses consisted of the following for the year ended June 30, 2016:

(In thousands)

Dividends and interest income	$ 22,086
Realized and unrealized losses	(44,945)
Change in value of split interest arrangements	(26,186)
Management expenses	(10,300)
Total investment losses	$ (59,345)

16. Leases

The following is a schedule of future minimum lease payments for all operating leases as of June 30, 2016:

(In thousands)		
2017	$	6,050
2018		5,401
2019		3,907
2020		3,578
2021		2,809
Thereafter		5,519
Total minimum lease payments	$	27,264

Rent expense was $12,740,000 for the year ended June 30, 2016.

SUPPLEMENTAL SCHEDULES

Following are supplemental schedules:

Consolidated statements of financial position as of June 30, 2016 (with comparative totals as of June 30, 2015)

Summarized consolidated statements of activities for the year ended June 30, 2016 (with comparative totals for the year ended June 30, 2015)

Schedule of functional expenses as reported in the consolidated statement of activities for the year ended June 30, 2016 by natural account classification (with comparative totals for the year ended June 30, 2015).

While these schedules are not required under Generally Accepted Accounting Principles, they provide useful additional detail to help the user of these financial statements understand how funds are spent, as well as providing prior year comparisons.

The Nature Conservancy
Supplemental Schedule - Consolidated Statements of Financial Position
As of June 30, 2016 and 2015

(Amounts in thousands)	2016	2015
Assets		
Cash and cash equivalents	$ 67,342	$ 105,090
Restricted cash	14,257	14,820
Restricted short-term investments	25,000	25,000
Government grants and contracts receivable	33,264	21,776
Pledges receivable, net	231,868	219,519
Collateral received under securities lending agreement	24,479	33,582
Deposits on land and other assets	55,288	36,546
Property and equipment, net of accumulated depreciation and amortization	129,166	132,261
Investments - Capital fund	794,938	820,909
Investments - Split interest arrangements	284,344	301,444
Investments - Endowment fund	1,115,398	1,160,816
Conservation lands	1,832,270	1,809,805
Conservation easements	2,089,865	2,030,932
Total assets	$ 6,697,479	$ 6,712,500
Liabilities		
Accounts payable and accrued liabilities	$ 129,769	$ 103,482
Payable under securities lending agreement	24,479	33,582
Deferred revenue and refundable advances	91,899	99,748
Bonds and notes payable	361,219	376,741
Split interest arrangements payable	174,871	174,979
Total liabilities	782,237	788,532
Net assets		
Unrestricted		
Undesignated	559,363	8,875
Land, easements, and capital funds	3,440,943	3,969,854
Board-designated quasi endowment and similar funds	816,123	867,913
Total unrestricted	4,816,429	4,846,642
Temporarily restricted	736,344	730,973
Permanently restricted	362,469	346,353
Total net assets	5,915,242	5,923,968
Total liabilities and net assets	$ 6,697,479	$ 6,712,500

The Nature Conservancy
Supplemental Schedule - Summarized Consolidated Statements of Activities
For the years ended June 30, 2016 and 2015

(Amounts in thousands)	2016	2015
Support and revenues		
Dues and contributions	$ 602,854	$ 545,069
Land and easements contributed for conservation	33,406	99,544
Government grants and contracts	109,744	99,209
Investment income	(59,345)	44,199
Sales of conservation land and easements to governments and others	71,690	101,238
Other	45,601	58,296
Total support and revenues	803,950	947,555
Expenses		
Program expenses	552,631	573,205
General and administration	146,862	136,586
Fund-raising		
General fund-raising	77,214	64,793
Membership development	35,969	26,462
Total expenses	812,676	801,046
Increase in net assets	(8,726)	146,509
Net assets at beginning of year	5,923,968	5,777,459
Net assets at end of year	$ 5,915,242	$ 5,923,968

The Nature Conservancy
Supplemental Schedule - Schedules of Functional Expenses
For the year ended June 30, 2016 with summarized totals for the year ended June 30, 2015

(Amounts in thousands)	Program expenses	Support services expenses				Totals	
	Conservation activities and actions	General and administration	Fund-raising: General fund-raising	Fund-raising: Membership development	Total Support services expenses	2016 Total expenses	2015 Total expenses
Personnel	$ 206,724	$ 82,262	$ 57,203	$ 3,782	$ 143,247	$ 349,971	$ 328,647
Contract, professional fees	75,916	10,817	4,340	13,528	28,685	104,601	95,004
Grants and allocations	60,300	42	27	-	69	60,369	63,986
Supplies	8,647	4,182	666	1,076	5,924	14,571	14,339
Telecommunications	1,502	1,341	208	22	1,571	3,073	3,391
Postage and mailing service	1,504	252	342	10,149	10,743	12,247	10,703
Occupancy	2,383	10,106	248	3	10,357	12,740	12,032
Equipment rental and maintenance	3,881	1,485	186	-	1,671	5,552	5,950
Printing and publication	4,641	143	949	6,616	7,708	12,349	10,075
Travel	16,003	4,091	3,085	81	7,257	23,260	22,621
Conferences and meetings	8,869	1,918	2,000	33	3,951	12,820	10,857
Interest	18,096	1	-	-	1	18,097	17,919
Depreciation and amortization	7,276	7,149	1	-	7,150	14,426	8,894
Equipment	2,981	142	2	-	144	3,125	3,763
Taxes and licenses	1,202	1,403	104	28	1,535	2,737	2,504
Utilities, repairs, maintenance, and construction	6,130	2,047	134	-	2,181	8,311	8,651
Insurance	2,932	2,209	41	-	2,250	5,182	4,506
Real estate taxes	4,730	1,018	10	-	1,028	5,758	5,649
Closing costs	954	585	-	-	585	1,539	2,777
Contributed goods and services non-cash expense	5,987	9,225	6,892	633	16,750	22,737	24,787
All other	9,064	6,444	776	18	7,238	16,302	6,797
Subtotal	449,722	146,862	77,214	35,969	260,045	709,767	663,852
Book value of conservation land and easements sold or donated to government and others	102,909	-	-	-	-	102,909	137,194
Total	$ 552,631	$ 146,862	$ 77,214	$ 35,969	$ 260,045	$ 812,676	$ 801,046

The Nature Conservancy

Consolidated Financial Statements
For the year ended June 30, 2015
And report thereon

pwc

Independent Auditor's Report

To the Board of Directors of
The Nature Conservancy:

We have audited the accompanying consolidated financial statements of The Nature Conservancy ("the Conservancy") and its chapters and affiliates, which comprise the Consolidated Statement of Financial Position as of June 30, 2015, and the related Consolidated Statements of Activities and of Cash Flows for the year then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Conservancy's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Conservancy's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Nature Conservancy and its chapters and affiliates as of June 30, 2015, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

pwc

Other Matter

Our audit was conducted for the purpose of forming an opinion on the 2015 consolidated financial statements taken as a whole. The accompanying summarized Consolidated Statements of Financial Position as of June 30, 2015 and 2014, the summarized Consolidated Statements of Activities for the years ended June 30, 2015 and 2014, and the Schedule of Functional Expenses for the year ended June 30, 2015, with summarized totals for the year ended June 30, 2014 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2015 information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole. The 2014 prior year summarized comparative information has been derived from the Conservancy's 2014 consolidated financial statements, and in our reported dated October 10, 2014, we expressed an unqualified opinion on those consolidated financial statements.

PricewaterhouseCoopers LLP

October 9, 2015

The Nature Conservancy
Consolidated Statement of Financial Position
As of June 30, 2015

(Amounts in thousands)

Assets		
Cash and cash equivalents		$ 105,090
Restricted cash and cash equivalents		14,820
Restricted short-term investments		25,000
Government grants and contracts receivable		21,776
Pledges receivable, net		219,519
Securities pledged under securities lending agreement		33,582
Other assets		36,546
Property and equipment, net of accumulated depreciation and amortization		132,261
Investments		
Investments - Capital fund	820,909	
Investments - Split interest arrangements	301,444	
Investments - Endowment fund	1,160,816	
Total investments		2,283,169
Conservation lands		1,809,805
Conservation easements		2,030,932
Total assets		$ 6,712,500
Liabilities		
Accounts payable and accrued liabilities		$ 103,482
Payable under securities lending agreement		33,582
Deferred revenue and refundable advances		99,748
Bonds and notes payable		376,741
Split interest arrangements payable		174,979
Total liabilities		788,532
Net assets		
Unrestricted		
Undesignated	8,875	
Land, easements, and project funds	3,969,854	
Board-designated quasi endowment and similar funds	867,913	
Total unrestricted		4,846,642
Temporarily restricted		730,973
Permanently restricted		346,353
Total net assets		5,923,968
Total liabilities and net assets		$ 6,712,500

The accompanying notes are an integral part of these consolidated financial statements.

The Nature Conservancy
Consolidated Statement of Activities
For the year ended June 30, 2015

(Amounts in thousands)	Unrestricted	Temporarily restricted	Permanently restricted	Total
Support and revenues				
Dues and contributions	$ 241,857	$ 261,787	$ 15,216	$ 518,860
Contributed goods and services	26,209	-	-	26,209
Land and easements contributed for conservation	99,544	-	-	99,544
Government grants and contracts	99,209	-	-	99,209
Investment income/(loss)	68,318	(24,119)	-	44,199
Other income	58,296	-	-	58,296
Total support and revenues before sales of conservation land and easements and net assets released from restrictions	593,433	237,668	15,216	846,317
Sales of conservation land and easements to governments and others	101,238	-	-	101,238
Net assets released from restrictions	262,748	(262,748)	-	-
Total support and revenues	957,419	(25,080)	15,216	947,555
Expenses				
Program expenses				
Conservation activities and actions	436,011	-	-	436,011
Book value of conservation land and easements sold or donated to governments and others	137,194	-	-	137,194
Total program expenses	573,205	-	-	573,205
Support services expenses				
General and administration	136,586	-	-	136,586
Fund-raising				
General fund-raising	64,793	-	-	64,793
Membership development	26,462	-	-	26,462
Total support services expenses	227,841	-	-	227,841
Total expenses	801,046	-	-	801,046
Increase/(decrease) in net assets	156,373	(25,080)	15,216	146,509
Reclassification of net assets	2,197	(224)	(1,973)	-
Total increase in net assets	158,570	(25,304)	13,243	146,509
Net assets at beginning of year	4,688,072	756,277	333,110	5,777,459
Net assets at end of year	$ 4,846,642	$ 730,973	$ 346,353	$ 5,923,968

The accompanying notes are an integral part of these consolidated financial statements.

The Nature Conservancy
Consolidated Statement of Cash Flows
For the year ended June 30, 2015

(Amounts in thousands)

Reconciliation of increase in net assets to cash provided by operating activities:			
Increase in net assets		$ 146,509	
Non-cash adjustments:			
Contributed land and easements	$ (102,386)		
Losses on disposition of land, easements, and property	38,439		
Realized/Unrealized investment gains	(60,000)		
Change in value of split interest investments	(6,030)		
Change in value of interest rate swaps	(515)		
Depreciation and amortization	8,894	(121,598)	
Changes in assets and liabilities:			
Decrease in receivables	3,297		
Decrease in restricted cash	14,484		
Increase in restricted short-term investments	(25,000)		
Increase in other assets	(2,000)		
Increase in split interests arrangements payable	28,447		
Increase in other liabilities	14,526	33,754	
Cash provided by (used in) land activities:			
Proceeds from sales of land and easements	103,896		
Purchases of land and easements	(127,428)	(23,532)	
Contributions for long-term purposes		(15,215)	
Net cash provided by operating activities			19,918
Investing activities:			
Proceeds from sale of capital and endowment investments		3,067,924	
Purchases of capital and endowment investments		(3,177,107)	
Purchases of property and equipment		(20,981)	
Other - net		(5,970)	
Net cash used in investing activities			(136,134)
Financing activities:			
Proceeds from securities lending program		8,558	
Repayments of securities lending program		(8,558)	
Purchases of split interest investments		(19,518)	
Proceeds from split interest arrangements		32,067	
Principal payments on debt		(23,696)	
Proceeds from issuance of debt		37,975	
Proceeds from restricted contributions		15,216	
Net cash provided by financing activities			42,044
Net change in cash and cash equivalents			(74,172)
Cash and cash equivalents, beginning of year			179,262
Cash and cash equivalents, end of year			$ 105,090
Supplemental data			
Interest paid			$ 16,851

The accompanying notes are an integral part of these consolidated financial statements.

ACCOUNTING POLICY FOOTNOTES

The following notes present disclosures of the significant accounting policies and related information relating to balances and amounts contained in the consolidated statements of financial position and activities. These notes are an integral part of the consolidated financial statements.

1. ORGANIZATION

The Nature Conservancy (The Conservancy) is a global conservation organization. The mission of The Conservancy is to conserve the lands and waters on which all life depends. The Conservancy conducts its activities throughout the United States, Canada, Latin America, the Caribbean, Europe, Africa, Asia, and the Pacific.

The Conservancy's primary sources of revenue are contributions from the public (including gifts of land), investment income, government grants, and sales of conservation interests to government agencies or other conservation buyers. These resources are used to help solve critical challenges by significantly improving the health of globally important natural systems that enhance the lives of people around the world. Working with partners – including indigenous communities, governments, and businesses – The Conservancy pursues solutions that protect and restore natural systems, use nature sustainably, and broaden support for conservation.

2. CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements are presented on the accrual basis of accounting and include the accounts of all The Conservancy's chapters and affiliates, both domestic and international, including those which are separately incorporated, receive gifts, and perform conservation activities in the name of The Conservancy. All significant intercompany transactions have been eliminated.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimated amounts.

3. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Cash and Cash Equivalents, Restricted Cash, and Restricted Short-term Investments
Cash represents operating cash held in bank accounts in high quality financial institutions in the United States and 35 other countries. The cash in non-U.S. accounts is uninsured, but is limited per country to amounts that, in the opinion of management, are not material to the financial statements. Cash equivalents represents short-term, highly liquid investments with maturities of three months or less when purchased. Restricted cash represents monies held in trust related to requirements of specific conservation project agreements. Restricted short-term investments represent certificates of deposit held in trust related to requirements of specific conservation project agreements.

Government Grants and Contracts Receivable/Deferred Revenue and Refundable Advances
The Conservancy receives grants and contracts from federal, state, and local agencies to be used for specific programs or land purchases. The excess of reimbursable expenditures over cash receipts is included in government grants receivable, and any excess of cash receipts over reimbursable expenditures is included in deferred revenue and refundable advances.

Pledges Receivable
Pledges receivable represent unconditional promises to give and are reported at fair value by discounting the expected future pledge payments at the prime interest rate at the balance sheet date, and accordingly are categorized as Level 3 assets. The primary unobservable input used in the fair

value measurement of the Conservancy's pledges receivable is the discount rate. Significant fluctuations in the discount rate could result in a material change. The discount rate used in the present value technique to determine fair value of pledges receivable is revised at each measurement date to reflect current market conditions and the creditworthiness of donors. In addition, management evaluates payment history and market conditions to estimate allowances for doubtful pledges. Changes in the fair value of pledges receivable are reported in the consolidated statement of activities as contribution revenue except for changes in the allowance which are reported as program expenses at each subsequent reporting date. Pledges receivable past due by 90 days are, in the opinion of management, not material to the financial statements.

Not recorded as pledges receivable are $48,228,000, that are conditioned upon The Conservancy raising matching gifts or acquiring certain conservation lands. Conditional promises to give are recognized as contributions when the donor-imposed conditions are substantially met.

Securities Lending Agreement
The Conservancy lends certain securities in its investment portfolio to qualified borrowers on a short-term, fully collateralized basis in exchange for interest to help offset custodial fees. Collateral in the form of cash in US dollars, securities issued or guaranteed by the US government, or irrevocable letters of credit issued by banks independent of the borrowers is marked-to-market on a daily basis, and the borrower is required to deliver the difference between the daily market value of the collateral and 102% of the loaned securities' original fair market value if denominated in US dollars or 105% if denominated in foreign currency. The lending agent, in its agreement with The Conservancy, guarantees the repayment of the loan in the event the borrower defaults. The Conservancy retains all the benefits of ownership including rights to dividends, interest, and other cash distributions pertaining to the loaned securities. The Conservancy also retains the right to redeem the loaned securities prior to the stipulated redemption date.

At June 30, 2015, The Conservancy recorded $33,582,000 in securities pledged as collateral under its securities lending program and an equal amount payable to the borrowers under the agreement. These amounts are reflected in assets and liabilities in the consolidated statement of financial position.

Property and Equipment
Property and equipment are carried at cost. Depreciation and amortization is provided using the straight-line method for all depreciable assets over their estimated future lives as follows:

Building and improvements	5 – 30 years
Computer equipment and software	3 – 5 years
Furniture, fixtures, and other	4 – 25 years

Concentration of Credit Risk
The Conservancy's excess cash is invested with high quality institutions, the largest concentrations of which are invested in U.S. Agencies (69.4%), certificates of deposit (26.4%), and Repurchase Agreements (4.2%). 100% of the repurchase agreements are backed by U.S. Treasuries and U.S. Agencies.

Pursuant to its investment policy, The Conservancy's investments cannot have more than 10% of their assets at market value in securities of any one issuer, be they short-term or long-term, other than the U.S. Government and its Agencies. At June 30, 2015, the single largest non-U.S.

Government issuer exposure was 7.01% of the Capital and Endowment Fund investments. This issue is in the form of a global commingled equity fund.

Investments

Investments are carried at estimated fair market value and reported in three distinct categories:

- *Capital fund* – excess working capital and funds held primarily for the future acquisition of conservation land, easements, and for funding other conservation projects.
- *Split interest arrangements* – donations that are held in trust by The Conservancy or third party trustees, representing beneficial interests in trusts.
- *Endowment fund* – funds held as long-term capital to generate income for The Conservancy's operations.

Endowment Investment and Spending Policies

The Conservancy's Endowment (Endowment) includes both donor-restricted endowment funds and funds allocated to quasi endowments, which by Board policy function as endowments. The amount of Endowment income provided each year for operations is established by the Finance Committee of the Board, through its adoption of an annual endowment spending rate and spending rate base. The spending rate for the year ended June 30, 2015 was 5.0% of the average fair market value of the 60 months of calendar years 2009 through 2013.

The Conservancy recognizes that risk must be assumed to achieve its stated long-term investment objectives. Therefore, asset allocations and ranges are necessarily diverse, and consider liquidity needs. The Conservancy has considered its ability to withstand short and intermediate term variability and concluded that the portfolio can tolerate some interim fluctuations in market values and rates of return in order to achieve its objectives. However, The Conservancy realizes that market performance varies and that the portfolio's investment objectives may not be achievable during short-term periods.

The Conservancy has chosen not to manage its underlying assets directly, but to utilize independent investment managers. To maintain prudent diversification and to manage risk, The Conservancy's portfolio is divided among 50 to 60 separate managers.

Conservation Lands and Easements

The Conservancy records land and land interests at cost if purchased or at fair value at the date of acquisition, if all or part of the land was received as a donation. Fair value is generally determined by appraisal at the time of acquisition and is not subsequently adjusted. Upon sale or gift, the book value of the land or land interest is reported as a program expense and the related proceeds, if any, are reported as revenue in the consolidated statement of activities.

Conservation land is real property with significant ecological value. These properties are either managed in an effort to protect the natural biological diversity of the property, or transferred to other organizations who will manage the lands in a similar fashion.

Conservation easements are comprised of listed rights and/or restrictions over the owned property that are conveyed by a property owner to The Conservancy, almost always in perpetuity, in order to

protect the owned property as a significant natural area, as defined in federal tax regulations. These intangible assets may be sold or transferred to others so long as the assignee agrees to carry out, in perpetuity, the conservation purposes intended by the original grantor. Conservation easements, by their very nature, do not generate material amounts of cash inflow annually.

Bonds and Notes Payable

The Conservancy uses debt, both fixed and variable, primarily to finance the acquisition of conservation lands and easements. Debt is reported at carrying value.

In order to partially insulate itself from the variable nature of the interest rates on its outstanding debt, The Conservancy has three interest rate swap agreements. The Conservancy pays a fixed rate of 4.373% on $95,375,000 in return for receipt of variable rate interest in the amount of 3- month LIBOR and pays a fixed rate of 2.962% on $190,000,000 in return for receipt of variable rate interest in the amount of 67% of 3-month LIBOR. The Conservancy pays a fixed rate of 3.56% on $25,053,000 in return for receipt of variable rate interest in the amount of 67% of 1-month LIBOR. Maturities of the swap agreements range from 2027 to 2033 and the counterparty to these swaps has the option to terminate at their discretion. The fair value of these interest rate swap agreements are reflected in the accompanying consolidated statement of position as accounts payable and accrued liabilities.

Due to the nature of certain variable rate bond agreements, The Conservancy may receive notice of an optional tender on its variable-rate bonds, in which case The Conservancy would have an obligation to purchase the bonds tendered if unable to secure a different source of financing at that time. At June 30, 2015, The Conservancy had a standby liquidity support agreement with a financial institution to support the original principal amount of $100,000,000 of the variable rate demand obligations. Under this agreement, the financial institution agreed to supply additional liquidity to The Conservancy up to that amount, with which The Conservancy could purchase the bonds if The Conservancy could not remarket the bonds. In the event of a draw on the $100,000,000 liquidity support line, the due date would be three years from the earlier of the date of the draw or September 13, 2015.

On September 14, 2015, The Conservancy replaced the aforementioned agreement with a standby liquidity support agreement with a financial institution to support the original principal amount of $50,000,000 of the variable rate demand obligations. Under this agreement, the financial institution agreed to supply additional liquidity to The Conservancy up to that amount, with which The Conservancy can purchase the bonds if The Conservancy cannot remarket the bonds. In the event of a draw on the $50,000,000 liquidity support line, the due date would be September 14, 2018.

Interest expense incurred on total notes payable for 2015 was $17,888,000.

Split Interest Arrangements

The Conservancy enters into split interest arrangements whereby donations are held in trust by The Conservancy or third party trustees and invested. Agreed-upon amounts of the invested funds are payable to the donor or the donor's designee for a specified period of time or until the donor's death, after which time The Conservancy may use the investments for operations or a restricted use specified by the donor. The donated trust asset investments are recorded at fair value based on the latest available information.

The Conservancy utilizes an IRS-approved annuity table to actuarially calculate the liability associated with the estimated donor payments under these arrangements. The Conservancy determines the discount rate to be used in the month the split interest arrangements are entered into with the donor and these rates have ranged from 1% to 9%. The present value of the actuarially determined liability resulting from these gifts is recorded at the date of gift and adjusted annually thereafter to reflect fair value.

Net Assets
The Conservancy's net assets are reported in the following three classes:

- *Unrestricted net assets* – Revenues derived from dues, unrestricted contributions, government grants and contracts, investment income (other than the temporarily restricted portion of true endowment investment income), and other inflows of assets whose use by The Conservancy is not limited by donor-imposed restrictions. Certain unrestricted net assets have been designated by the Board of Directors to be maintained as quasi endowment funds.

- *Temporarily restricted net assets* – Contributions and other inflows of assets whose use by The Conservancy is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of The Conservancy, such as usage for specific programs, including certain overhead and indirect costs, or for spending from true endowment investment income.

  When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported on the consolidated statements of activities as net assets released from restrictions.

- *Permanently restricted net assets* – Contributions and other inflows of assets whose use by The Conservancy is limited by donor-imposed stipulations that the principal must be maintained permanently by The Conservancy. The total amount of permanently restricted net assets on the consolidated statements of financial position includes the donor-restricted endowment funds as well as amounts contributed to create a permanent capital fund. This revolving fund is used to finance capital projects and donations to this fund are to be maintained in perpetuity for only this purpose.

Classification of endowment net assets
The Board of Directors of The Conservancy (Board) has approved management's interpretation of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as enacted by the Council of the District of Columbia. UPMIFA requires the preservation of the fair value of the original gifts as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

The Endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. The Conservancy classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) 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 permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by The Conservancy.

The Conservancy considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the endowment fund;
- The purposes of the institution and the endowment fund;
- General economic conditions;
- The possible effect of inflation or deflation;
- The expected total return from income and appreciation of investments;
- Other resources of the institution; and
- The investment policy of the institution.

Endowments with Eroded Corpus
From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or The Conservancy requires to be retained as principal in perpetuity. Deficiencies of this nature that are netted in unrestricted net assets were $1,450,000 as of June 30, 2015. These deficits resulted from unfavorable market fluctuations that occurred shortly after the investment of newly established endowments and authorized appropriation that was deemed prudent.

4. CONSOLIDATED STATEMENT OF ACTIVITIES

Contributions

Unconditional donor promises to give cash and other assets are reported at fair value at the date that there is sufficient verifiable evidence documenting that a promise was made by the donor and received by The Conservancy. The promises are reported as either temporarily or permanently restricted support if received with donor stipulations that sufficiently limit the use of the donated assets.

The Conservancy recognizes contributed professional services from third parties and contributed goods and trade lands as revenue and as expense or assets, at the fair value of those services or goods when received. Trade lands are real property with minimal ecological value. These properties are sold to provide funds for The Conservancy to carry out its conservation work. During 2015 contributed goods and services totaled $26,209,000 and contributed trade lands totaled $2,842,000.

Government Grants and Contracts

Government grants and contracts are considered to be exchange transactions, the majority of which are cost-reimbursable grants. Revenue, including approved indirect cost recovery, is recognized when allowable costs have been incurred. The Conservancy's costs incurred under its government grants and contracts are subject to audit by government agencies. Management believes that disallowance of costs, if any, would not be material to the consolidated financial position or consolidated changes in net assets of The Conservancy.

Program expense allocation

Operating expenses are allocated to program and support categories based on separate cost center types as defined below. Conservation land and easements that are acquired by The Conservancy, but not sold or donated, are reflected as an increase in conservation land and easements on the consolidated statements of financial position and are excluded from the program expense categories on the consolidated statements of activities.

The Conservancy accounts for its program expenditures in the following categories:

- *Conservation Activities and Actions* – Expenditures related to the broad spectrum of activities and actions critical to advancing The Conservancy's mission. Expenditures related to understanding, monitoring, maintaining, restoring, and managing natural areas owned by The Conservancy and others are included, as well as expenditures for developing and enhancing The Conservancy's ability to gather and share ecological information and to assess and evaluate threats to natural systems. In addition, this area includes expenditures to mitigate, prevent, or slow the effects of these threats, including investments in the institutional development of domestic and international conservation organizations. Expenditures related to improving public land management and supporting the development of sound global policies, including participating in conferences and events that help establish a common vision for conservation worldwide are included, as well as expenditures associated with community outreach and education of key stakeholders and land users in areas where Conservancy conservation programs reside.

- *General and Administration* – Expenditures related to building and maintaining an efficient business infrastructure, including those related to corporate governance, to support and advance the programmatic conservation objectives of The Conservancy.

- *General Fund-Raising* – Expenditures related to fund-raising strategies that provide the revenue stream for both operations and capital needs to further the accomplishment of The Conservancy's mission and objectives.

- *Membership Development* – Expenditures related to the acquisition and retention of The Conservancy's members primarily through the use of a direct-mail program.

5. COMMITMENTS AND CONTINGENCIES

Litigation
The Conservancy is a party to various litigations arising out of the normal conduct of its operations. In the opinion of The Conservancy's management, the ultimate resolution of these matters will not materially affect the financial position, changes in net assets, or cash flows of The Conservancy.

Leases
The Conservancy has entered into non-cancelable operating leases for office space, which expire at various dates through 2027. Certain of these leases contain rent escalation clauses, usually based on the consumer price index.

Land acquisitions and other commitments
The Conservancy has entered into contracts for the purchase of land and other purchase commitments that have not closed as of June 30, 2015, in the amount of $65,425,000.

The Conservancy has remaining funding commitments to private equity, real estate, and hedge fund investment managers of $77,206,000 at June 30, 2015.

6. RETIREMENT PLANS

The Conservancy's employees are eligible after one month of service to participate in The Nature Conservancy Savings and Retirement Plan (the Plan), in which employees can make voluntary, tax-deferred contributions within specified limits. The Plan was established under the provisions of Internal Revenue Code Section 401(k) and has received a favorable determination as to its tax status from the Internal Revenue Service. Certain employees are also eligible to participate in a non-qualified deferred compensation plan created pursuant to Internal Revenue Code Section 457(b). The Conservancy's contributions to the plans were $15,113,000 for the year ended June 30, 2015.

7. INCOME TAXES

The Conservancy has been granted an exemption from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Internal Revenue Service has classified The Conservancy as other than a private foundation. The Conservancy pays a nominal amount of tax relating to several unrelated business income activities, primarily rental income from debt-financed property. The Conservancy takes no tax positions that it considers to be uncertain.

8. SUBSEQUENT EVENTS

All subsequent events were evaluated through October 9, 2015, which is the date the financial statements were issued.

FOOTNOTE SCHEDULES

The following schedules represent required disclosures of more detailed information regarding certain balances and amounts contained in the consolidated statements of financial position and activities. These are an integral part of the footnotes to the consolidated financial statements.

9. Pledges receivable

As of June 30, 2015 unconditional promises to give were as follows:

(In thousands)

Amounts due in	
Less than one year	$ 129,002
One to five years	101,335
More than five years	1,418
Subtotal	231,755
Less fair value adjustments:	
Discount of 3.25%	5,736
Allowance for doubtful accounts	6,500
Total	$ 219,519

10. Deposits on land and other assets

Deposits on land and other assets consisted of the following at June 30, 2015:

(In thousands)

Deposits on land	$ 986
Trade lands	8,368
Other receivables	1,471
Prepaid expenses	9,328
Notes receivable	10,740
Other assets	5,653
Total	$ 36,546

11. Property and equipment

Property and equipment consisted of the following at June 30, 2015:

(In thousands)

Land for operations	$ 7,210
Buildings and improvements	139,190
Construction in progress	29,884
Computer equipment and software	12,141
Furniture, fixtures, and other	21,148
	209,573
Accumulated depreciation and amortization	(77,312)
Total	$ 132,261

Depreciation and amortization expense was $8,894,000 during the year ended June 30, 2015. Of the total assets listed above, $21,481,000 was fully depreciated at June 30, 2015.

12. Bonds and notes payable

(In thousands)	
Unsecured Colorado Educational and Cultural Facilities Authority Revenue Bonds, Tax Exempt, Series 2002A issued in the original principal amount of $25,053,000, variable interest rate pursuant to rate swap, 0.08% as of June 30, 2015, due July, 2024.	$ 12,262
Unsecured Colorado Educational and Cultural Facilities Authority Revenue Refunding Bonds, Tax Exempt, Series 2012 issued in the original principal amount of $144,435,000, with a variable interest rate reset weekly, 0.07% as of June 30, 2015, due July, 2033.	133,270
Unsecured Taxable Revenue Bonds Series 2009 in the aggregate principal amount of $100,000,000 issued July 1, 2009, fixed rate of 6.30% due July, 2019.	100,000
New York State Environmental Facilities Corporation private bonds issued in the aggregate amount of $50,000,000 with a fixed interest rate of 3.90%, due June, 2024.	40,338
Loans and mortgages, some of which are collateralized by the land and other assets, and payable in monthly installments, including interest ranging from 0% to 6.0%; final payments are due at various dates through 2033.	63,144
Conservation Notes, unsecured notes payable in various amounts with interest ranging from 0.40% to 2.0%, due at various dates through 2020.	21,399
Other notes payable without interest due on demand	6,328
Total	$ 376,741

The fair value of long-term debt, including current maturities, is estimated based on current market rates offered to or by The Conservancy for similar instruments. The fair value of the Unsecured Taxable Revenue Bonds Series 2009 is $118,835,000 based on market observable inputs at June 30, 2015 and would be characterized within Level 2 if carried at fair value. The fair value of the NY State Environmental Facilities Corporation bonds is $42,483,000 based on the income approach method at June 30, 2015 and would be characterized within Level 2 if carried at fair value. Based on a blended borrowing rate of 4.25% as of June 30, 2015, the fair value of the remaining long-term debt is approximately $233,437,000 and would be characterized within Level 2 if carried at fair value.

The following schedule of amounts due is based on the maturity dates per the debt agreements:

(In thousands)		
2016	$	96,825
2017		67,829
2018		47,049
2019		10,248
2020		122,551
Thereafter		32,239
Total	$	376,741

13. Net assets

Temporarily restricted net assets are available for the following purposes:

(In thousands)		
Land acquisition and other conservation projects	$	270,091
Time restricted for periods after June 30		172,619
Time and purpose restricted for periods after June 30		170,729
True endowment gains subject to future Board of Directors' appropriation		117,534
Total	$	730,973

Permanently restricted net assets are restricted in perpetuity; the income derived from these investments is expendable to support the operations of The Conservancy. The total amount of permanently restricted net assets on the consolidated statement of financial position includes the donor-restricted endowment funds of $177,203,000 displayed in the tables below, as well as other amounts such as those contributed to create a permanent capital fund. This fund, the land preservation fund, is used to finance capital projects and is to be maintained in perpetuity for only this purpose. Permanently restricted net assets in the land preservation fund were $166,136,000 as of June 30, 2015, and the remaining balance of permanently restricted net assets in the land fund was $3,014,000 as of June 30, 2015.

Endowment funds are categorized in the following net asset classes as of June 30, 2015:

(In thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (1,450)	$ 117,534	$ 177,203	$ 293,287
Board-designated endowment funds	864,865	-	-	864,865
Total endowment funds	$ 863,415	$ 117,534	$ 177,203	$ 1,158,152

Changes in endowment funds by net asset classification for the year ended June 30, 2015 are summarized as follows:

(In thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 845,265	$ 113,843	$ 165,838	$1,124,946
Investment returns	44,043	14,931	-	58,974
Contributions and other revenue	239	107	12,044	12,390
Interfund transfers	11,925	1,660	476	14,061
Appropriation of assets for expenditure	(52,293)	-	-	(52,293)
Net assets released from restrictions	13,980	(12,907)	(1,073)	-
Subtotal endowment funds	863,159	117,634	177,285	1,158,078
Reclassification of net assets	256	(100)	(82)	74
Total endowment funds	$ 863,415	$ 117,534	$ 177,203	$1,158,152

14. Assets and liabilities carried at fair value

Assets and liabilities carried at fair value are classified in the fair value hierarchy based on the lowest level of input that is significant to the valuation.

Fair value for Level 1 is based upon quoted prices in active markets for identical assets and liabilities. Market price data is generally obtained from exchange or dealer markets.

Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and on model-based valuation techniques, for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sourees including market participants, dealers, and brokers.

Fair value for Level 3 is based on valuation techniques that use significant inputs that are unobservable as they trade infrequently or not at all.

The Conservancy uses the practical expedient to determine the fair value for some of its investments, which permits the use of Net Asset Value (NAV) without adjustment under certain circumstances.

In order to partially insulate itself from the variable nature of the interest rates on its outstanding debt, The Conservancy has three interest rate swap agreements that fix the rates on several variable rate bonds. Interest rate swaps are valued using both observable and unobservable inputs, such as quotations received from the counterparty, dealers or brokers, whenever available and considered reliable. In instances where models are used, the value of the interest rate swap depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, yield curves, credit curves, measures of volatility, prepayment rates, assumptions for nonperformance risk, and correlations of such inputs. The Conservancy's interest rate swap arrangements have inputs which can generally be corroborated by market data and are therefore classified within Level 2.

Fair value of interest rate swaps at June 30, 2015:

(In thousands)		
Interest rate contracts		
Consolidated Statement of Financial Position location:		
Accounts payable and accrued liabilities	$	37,492
Change in fair value in Consolidated Statement of Activities		
Other income	$	515

Assets and liabilities categorized by input level:

(In thousands)

	Level 1	Level 2	Level 3	Total
Investments:				
Short-term investments	$ 1,644	$ 78,062	$ -	$ 79,706
Repurchase agreements	-	4,061	-	4,061
Fixed income:				
U.S. treasuries	43,521	-	-	43,521
Asset-backed securities	-	44,185	-	44,185
Taxable Municipals	-	693	-	693
Corporate debt	-	199,736	-	199,736
Mortgage-backed securities	-	16,094	-	16,094
U.S. agency bonds	-	114,184	-	114,184
Public equity:				
Consumer discretionary	43,059	-	-	43,059
Consumer staples	8,852	-	-	8,852
Energy	8,435	-	-	8,435
Financial services	19,910	-	-	19,910
Health care	9,345	-	-	9,345
Industrials	27,672	-	-	27,672
Information technology	19,403	-	-	19,403
Materials	13,427	-	-	13,427
Utilities	1,685	-	-	1,685
Other industries	614	-	-	614
Commingled equity funds	-	-	517,235	517,235
Exchange traded funds	12,568	-	-	12,568
Closed end mutual funds	70,910	-	-	70,910
Hedge funds	-	-	460,292	460,292
Private equity	-	-	211,920	211,920
Private real estate	-	-	53,507	53,507
Split interests, trusteed	152,627	102,958	13,727	269,312
Split interests, non-trusteed	-	-	32,843	32,843
Total investments at fair value	433,672	559,973	1,289,524	2,283,169
Securities pledged under securities lending agreement	$ 33,582	$ -	$ -	$ 33,582
Pledges receivable	-	-	219,519	219,519
Total assets measured at fair value	$ 467,254	$ 559,973	$ 1,509,043	$ 2,536,270
Interest rate swaps liability	$ -	$ 37,492	$ -	$ 37,492
Payable under securities lending agreement	33,582	-	-	33,582
Total liabilities measured at fair value	$ 33,582	$ 37,492	$ -	$ 71,074

Investments included in Level 3 primarily consist of The Conservancy's ownership in alternative investments (principally limited partnership interests in hedge and private equity funds) as well as investments held within private arrangements. The value of certain alternative investments represents the ownership interest in the NAV of the respective partnership. Approximately 77.6% of Level 3 investments held by the partnerships consist of marketable securities and 22.4% are securities that do not have readily determinable fair values. The fair values of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner and are based on appraisals, or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partner taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. The Conservancy has performed significant due diligence around these investments to ensure NAV is an appropriate measure of fair value.

Investments valued using NAV as of June 30, 2015:

(In thousands)	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Global equity funds	$ 265,560	$ -	Daily, weekly, monthly, quarterly	2 days, 7 days, 10 business days, 30 days
International equity funds	219,570	-	Daily, monthly, quarterly	6 business days, 14 days, 60 calendar days, 90 days
Domestic equity funds	32,105	-	Monthly	60 days
Hedge funds	460,292	13,333	Monthly, quarterly, semi-annually, annually, biennially, rolling 2, 3 & 4 years	30 - 90 days
Private equity funds	195,879	35,630	N/A	N/A
Real estate funds	53,507	28,243	N/A	N/A
Total	$ 1,226,913	$ 77,206		

The Conservancy uses a standard charitable gift calculation model and the IRS discount rate to determine the present value of split interest agreements where The Conservancy serves as trustee. For split interest agreements where The Conservancy is not the trustee, valuations are based on the values reported by third-party trustees, while noting that the valuation techniques for future distributions expected to be received over the term of the agreement and unobservable inputs - such as discount rates, life expectancies, and trust payouts – may vary widely among trustees. There is no market for these agreements, and they are therefore classified within Level 3.

Rollforward of Level 3 financial instruments:

(In thousands)

	Fair value as of June 30, 2014	Realized gains (losses)	Unrealized gains (losses)	Purchases	Sales	Fair value as of June 30, 2015
Commingled equity funds	$ 411,973	$ 4,779	$ 9,753	$ 159,557	$ (68,827)	$ 517,235
Hedge funds	244,839	32,162	9,159	297,392	(123,260)	460,292
Private equity	202,281	28,024	(523)	29,977	(47,839)	211,920
Real estate	44,547	2,261	3,039	19,199	(15,539)	53,507
Split interest arrangements	48,855	-	60	2,920	(5,265)	46,570
Total	952,495	67,226	21,488	509,045	(260,730)	1,289,524
Pledges receivable	222,770	-	(3,251)	-	-	219,519
Total investments and pledges	$1,175,265	$ 67,226	$ 18,237	$ 509,045	$ (260,730)	$ 1,509,043

Of the net realized and unrealized gains of $85,463,000 in the table above, $88,714,000 are reflected in the accompanying statement of activities as investment gains. The remaining amounts include a $3,251,000 decrease in pledges, of which a net $2,751,000 decrease is reflected in the accompanying statement of financial position and statement of activities as the result of pledge payments and pledge contributions. The remaining $500,000 decrease is reflected as conservation activities and actions program expense.

Investment gains consisted of the following for the year ended June 30, 2015:

(In thousands)

Dividends and interest income	$ 23,249
Realized and unrealized gains (net of expenses of $12,656)	60,000
Change in value of split interest arrangements	(39,050)
Total investment income	$ 44,199

15. Leases

The following is a schedule of future minimum lease payments for all operating leases as of June 30, 2015:

(In thousands)

2016	$ 6,297
2017	4,985
2018	4,426
2019	3,084
2020	2,795
Thereafter	$ 6,258
Total minimum lease payments	$ 27,845

Rent expense was $12,032,000 for the year ended June 30, 2015.

SUPPLEMENTAL SCHEDULES

Following are supplemental schedules:

Consolidated statements of financial position as of June 30, 2015 (with comparative totals as of June 30, 2014)

Summarized consolidated statements of activities for the year ended June 30, 2015 (with comparative totals for the year ended June 30, 2014)

Schedule of functional expenses as reported in the consolidated statement of activities for the year ended June 30, 2015 by natural account classification (with comparative totals for the year ended June 30, 2014).

While these schedules are not required under Generally Accepted Accounting Principles, they provide useful additional detail to help the user of these financial statements understand how funds are spent, as well as providing prior year comparisons.

The Nature Conservancy
Supplemental Schedule - Consolidated Statements of Financial Position
As of June 30, 2015 and 2014

(Amounts in thousands)	2015	2014
Assets		
Cash and cash equivalents	$ 105,090	$ 179,262
Restricted cash	14,820	29,304
Restricted short-term investments	25,000	-
Government grants and contracts receivable	21,776	21,822
Pledges receivable, net	219,519	222,770
Collateral received under securities lending agreement	33,582	42,140
Deposits on land and other assets	36,546	27,493
Property and equipment, net of accumulated depreciation and amortization	132,261	123,269
Investments - Capital fund	820,909	684,932
Investments - Split interest arrangements	301,444	307,963
Investments - Endowment fund	1,160,816	1,127,610
Conservation lands	1,809,805	1,815,004
Conservation easements	2,030,932	1,937,343
Total assets	$ 6,712,500	$ 6,518,912
Liabilities		
Accounts payable and accrued liabilities	$ 103,482	$ 100,161
Payable under securities lending agreement	33,582	42,140
Deferred revenue and refundable advances	99,748	89,058
Bonds and notes payable	376,741	363,562
Split interest arrangements payable	174,979	146,532
Total liabilities	788,532	741,453
Net assets		
Unrestricted		
Undesignated	8,875	17,952
Land, easements, and project funds	3,969,854	3,820,356
Board-designated quasi endowment and similar funds	867,913	849,764
Total unrestricted	4,846,642	4,688,072
Temporarily restricted	730,973	756,277
Permanently restricted	346,353	333,110
Total net assets	5,923,968	5,777,459
Total liabilities and net assets	$ 6,712,500	$ 6,518,912

The Nature Conservancy
Supplemental Schedule - Summarized Consolidated Statements of Activities
For the years ended June 30, 2015 and 2014

(Amounts in thousands)	2015	2014
Support and revenues		
Dues and contributions	$ 545,069	$ 560,417
Land and easements contributed for conservation	99,544	57,614
Government grants and contracts	99,209	120,687
Investment income	44,199	235,213
Sales of conservation land and easements to governments and others	101,238	80,915
Other	58,296	59,433
Total support and revenues	947,555	1,114,279
Expenses		
Program expenses	573,205	541,179
General and administration	136,586	121,776
Fund-raising		
General fund-raising	64,793	67,099
Membership development	26,462	27,817
Total expenses	801,046	757,871
Increase in net assets	146,509	356,408
Net assets at beginning of year	5,777,459	5,421,051
Net assets at end of year	$ 5,923,968	$ 5,777,459

The Nature Conservancy
Supplemental Schedule - Schedules of Functional Expenses
For the year ended June 30, 2015 with summarized totals for the year ended June 30, 2014

(Amounts in thousands)	Program expenses	Support services expenses				Totals	
	Conservation activities and actions	General and administration	Fund-raising: General fund-raising	Fund-raising: Membership development	Total Support services expenses	2015 Total expenses	2014 Total expenses
Personnel	$ 194.826	$ 77.743	$ 52.695	$ 3.383	$ 133.821	$ 328.647	$ 309.859
Contract, professional fees	72.136	10.650	4.428	7.790	22.868	95.004	87.783
Grants and allocations	63.877	89	20	-	109	63.986	49.425
Supplies	8.774	3.667	615	1.283	5.565	14.339	14.733
Telecommunications	1.603	1.511	242	35	1.788	3.391	3.511
Postage and mailing service	1.718	305	394	8.286	8.985	10.703	10.749
Occupancy	2.141	9.669	219	3	9.891	12.032	11.646
Equipment rental and maintenance	4.512	1.270	168	-	1.438	5.950	5.886
Printing and publication	3.801	217	967	5.090	6.274	10.075	11.163
Travel	16.390	3.579	2.565	87	6.231	22.621	22.120
Conferences and meetings	7.675	1.885	1.276	21	3.182	10.857	11.483
Interest	17.919	-	-	-	-	17.919	18.618
Depreciation and amortization	7.082	1.507	305	-	1.812	8.894	9.468
Equipment	3.472	253	38	-	291	3.763	3.060
Taxes and licenses	1.148	1.268	80	8	1.356	2.504	2.065
Utilities, repairs, maintenance, and construction	6.209	2.281	161	-	2.442	8.651	9.261
Insurance	2.767	1.702	37	-	1.739	4.506	4.141
Real estate taxes	4.704	937	8	-	945	5.649	6.501
Closing costs	2.197	580	-	-	580	2.777	1.565
Contributed goods and services non-cash expense	11.413	12.485	419	470	13.374	24.787	20.494
All other	1.647	4.988	156	6	5.150	6.797	4.590
Subtotal	436.011	136.586	64.793	26.462	227.841	663.852	618.121
Book value of conservation land and easements sold or donated to government and others	137.194	-	-	-	-	137.194	139.750
Total	$ 573.205	$ 136.586	$ 64.793	$ 26.462	$ 227.841	$ 801.046	$ 757.871

The Nature Conservancy

Consolidated Financial Statements
For the year ended June 30, 2014
And report thereon

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Independent Auditor's Report

To the Board of Directors of
The Nature Conservancy

We have audited the accompanying consolidated financial statements of The Nature Conservancy and its chapters and affiliates ("The Conservancy"), which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities and of cash flows for the year then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Conservancy's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Conservancy's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Nature Conservancy and its chapters and affiliates at June 30, 2014, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matter

Our audit was conducted for the purpose of forming an opinion on the 2014 consolidated financial statements taken as a whole. The accompanying summarized consolidated statements of financial position as of June 30, 2014 and 2013, the summarized consolidated statements of activities for the years ended June 30, 2014 and 2013, and the schedule of functional expenses for the year ended June 30, 2014, with summarized totals for the year ended June 30, 2013 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2014 information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole. The 2013 prior year summarized comparative information has been derived from the Conservancy's 2013 consolidated financial statements, and in our report dated October 17, 2013, we expressed an unqualified opinion on those consolidated financial statements.

PricewaterhouseCoopers LLP

October 10, 2014

The Nature Conservancy
Consolidated Statement of Financial Position
As of June 30, 2014

(Amounts in thousands)

Assets		
Cash and cash equivalents		$ 179,262
Restricted cash		29,304
Government grants and contracts receivable		21,822
Pledges receivable, net		222,770
Collateral received under securities lending agreement		42,140
Deposits on land and other assets		27,493
Property and equipment, net of accumulated depreciation and amortization		123,269
Investments		
Investments - Capital fund	684,932	
Investments - Split interest arrangements	307,963	
Investments - Endowment fund	1,127,610	
Total investments		2,120,505
Conservation lands		1,815,004
Conservation easements		1,937,343
Total assets		$ 6,518,912
Liabilities		
Accounts payable and accrued liabilities		$ 100,161
Payable under securities lending agreement		42,140
Deferred revenue and refundable advances		89,058
Bonds and notes payable		363,562
Split interest arrangements		146,532
Total liabilities		741,453
Net assets		
Unrestricted		
Undesignated	17,952	
Land, easements, and project funds	3,820,356	
Board-designated quasi endowment and similar funds	849,764	
Total unrestricted		4,688,072
Temporarily restricted		756,277
Permanently restricted		333,110
Total net assets		5,777,459
Total liabilities and net assets		$ 6,518,912

The accompanying notes are an integral part of these consolidated financial statements.

The Nature Conservancy
Consolidated Statement of Activities
For the year ended June 30, 2014

(Amounts in thousands)	Unrestricted	Temporarily restricted	Permanently restricted	Total
Support and revenues				
Dues and contributions	$ 248,721	$ 271,976	$ 16,815	$ 537,512
Contributed goods and services	22,905	-	-	22,905
Land and easements contributed for conservation	57,614	-	-	57,614
Government grants and contracts	120,687	-	-	120,687
Investment income	185,593	49,620	-	235,213
Other income	59,433	-	-	59,433
Total support and revenues before sales of conservation land and easements and net assets released from restrictions	694,953	321,596	16,815	1,033,364
Sales of conservation land and easements to governments and others	80,915	-	-	80,915
Net assets released from restrictions	200,235	(200,235)	-	-
Total support and revenues	976,103	121,361	16,815	1,114,279
Expenses				
Program expenses				
Conservation activities and actions	401,429	-	-	401,429
Book value of conservation land and easements sold or donated to governments and others	139,750	-	-	139,750
Total program expenses	541,179	-	-	541,179
Support services expenses				
General and administration	121,776	-	-	121,776
Fund-raising				
General fund-raising	67,099	-	-	67,099
Membership development	27,817	-	-	27,817
Total support services expenses	216,692	-	-	216,692
Total expenses	757,871	-	-	757,871
Increase in net assets	218,232	121,361	16,815	356,408
Reclassification of net assets	(162)	-	162	-
Total increase in net assets	218,070	121,361	16,977	356,408
Net assets at beginning of year	4,470,002	634,916	316,133	5,421,051
Net assets at end of year	$ 4,688,072	$ 756,277	$ 333,110	$ 5,777,459

The accompanying notes are an integral part of these consolidated financial statements.

The Nature Conservancy
Consolidated Statement of Cash Flows
For the year ended June 30, 2014

(Amounts in thousands)

Reconciliation of increase in net assets to cash provided by operating activities:			
Increase in net assets		$ 356,408	
Non-cash adjustments:			
Contributed land and easements	$ (60,214)		
Losses on sales of land, easements, and property	61,155		
Realized/Unrealized investment gains	(198,392)		
Change in value of split interest agreements	(10,499)		
Change in value of interest rate swaps	(3,513)		
Depreciation and amortization	9,468	(201,995)	
Changes in assets and liabilities:			
Increase in receivables	(41,968)		
Decrease in restricted cash	316		
Decrease in other assets	2,518		
Increase in split interests	2,658		
Decrease in other liabilities	(145)	(36,621)	
Cash provided by (used in) land activities:			
Proceeds from sales of land and easements	87,497		
Purchases of land and easements	(103,646)	(16,149)	
Contributions for long-term purposes		(16,816)	
Net cash provided by operating activities			$ 84,827
Investing activities:			
Proceeds from sale of investments		1,581,602	
Purchases of investments		(1,557,652)	
Purchases of property and equipment		(30,576)	
Other - net		(10,789)	
Net cash used in investing activities			(17,415)
Financing activities:			
Proceeds from securities lending program		7,029	
Repayments of securities lending program		(7,029)	
Principal payments on debt		(21,449)	
Proceeds from issuance of debt		8,765	
Proceeds from restricted contributions		16,816	
Net cash provided by financing activities			4,132
Net change in cash and cash equivalents			71,544
Cash and cash equivalents, beginning of year			107,718
Cash and cash equivalents, end of year			$ 179,262
Supplemental data			
Interest paid			$ 17,325

The accompanying notes are an integral part of these consolidated financial statements.

ACCOUNTING POLICY FOOTNOTES

The following notes present disclosures of the significant accounting policies and related information relating to balances and amounts contained in the consolidated statements of financial position and activities. These notes are an integral part of the consolidated financial statements.

1. ORGANIZATION

The Nature Conservancy (The Conservancy) is a global conservation organization. The mission of The Conservancy is to conserve the lands and waters on which all life depends. The Conservancy conducts its activities throughout the United States, Canada, Latin America, the Caribbean, Africa, Asia, and the Pacific.

The Conservancy's primary sources of revenue are contributions from the public (including gifts of land), investment income, government grants, and sales of conservation interests to government agencies or other conservation buyers. These resources are used to help solve critical challenges by significantly improving the health of globally important natural systems that enhance the lives of people around the world. Under its conservation framework, The Conservancy concentrates on four global challenges: conserving critical lands, restoring oceans, securing fresh water, and reducing the impact of climate change. Working with partners – including indigenous communities, governments, and businesses – The Conservancy pursues solutions that protect and restore natural systems, use nature sustainably, and broaden support for conservation.

2. CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements are presented on the accrual basis of accounting and include the accounts of all The Conservancy's chapters and affiliates, both domestic and international, including those which are separately incorporated, receive gifts, and perform conservation activities in the name of The Conservancy. All significant intercompany transactions have been eliminated.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimated amounts.

3. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Cash, Cash Equivalents, and Restricted Cash

Cash represents operating cash held in bank accounts in high quality financial institutions in the United States and 34 other countries. The cash in non-U.S. accounts is uninsured, but is limited per country to amounts that, in the opinion of management, are not material to the financial statements. Cash equivalents represents short-term, highly liquid investments with maturities of three months or less when purchased. Restricted cash represents monies held in trust related to requirements of specific conservation project agreements.

Government Grants and Contracts Receivable/Deferred Revenue and Refundable Advances

The Conservancy receives grants and contracts from federal, state, and local agencies to be used for specific programs or land purchases. The excess of reimbursable expenditures over cash receipts is included in government grants receivable, and any excess of cash receipts over reimbursable expenditures is included in deferred revenue and refundable advances.

Pledges Receivable

Pledges receivable represent unconditional promises to give and are reported at fair value by discounting the expected future pledge payments at the prime interest rate at the balance sheet date, and accordingly are categorized as Level 3 assets. The primary unobservable input used in the fair value measurement of the Conservancy's pledges receivable is the discount rate. Significant fluctuations in the discount rate could result in a material change. The discount rate used in the present value technique to determine fair value of pledges receivable is revised at each measurement date to reflect current market conditions and the creditworthiness of donors. In addition, management evaluates payment history and market conditions to estimate allowances for doubtful pledges. Changes in the fair value of pledges receivable are reported in the statement of activities as contribution revenue except for changes in the allowance which are reported as program expenses at each subsequent reporting date. Pledges receivable past due by 90 days are, in the opinion of management, not material to the financial statements.

Not recorded as pledges receivable are $54,946,000, that are conditioned upon The Conservancy raising matching gifts or acquiring certain conservation lands. Conditional promises to give are recognized as contributions when the donor-imposed conditions are substantially met.

Securities Lending Agreement
The Conservancy lends certain securities in its investment portfolio to qualified borrowers on a short-term, fully collateralized basis in exchange for interest to help offset custodial fees. Collateral in the form of cash in US dollars, securities issued or guaranteed by the US government, or irrevocable letters of credit issued by banks independent of the borrowers is marked-to-market on a daily basis, and the borrower is required to deliver the difference between the daily market value of the collateral and 102% of the loaned securities' original fair market value if denominated in US dollars or 105% if denominated in foreign currency. The lending agent, in its agreement with The Conservancy, guarantees the repayment of the loan in the event the borrower defaults. The Conservancy retains all the benefits of ownership including rights to dividends, interest, and other cash distributions pertaining to the loaned securities. The Conservancy also retains the right to redeem the loaned securities prior to the stipulated redemption date.

At June 30, 2014, The Conservancy recorded $42,140,000 in collateral received under its securities lending program and an equal amount payable to the borrowers under the agreement. These amounts are reflected in assets and liabilities in the consolidated statement of financial position.

Property and Equipment
Property and equipment are carried at cost. Depreciation and amortization is provided using the straight-line method for all depreciable assets over their estimated future lives as follows:

Building and improvements	5 – 30 years
Computer equipment and software	3 – 5 years
Furniture, fixtures, and other	4 – 25 years

Concentration of Credit Risk
The Conservancy's excess cash is invested with high quality institutions, the largest concentrations of which are invested in U.S. Agencies (70.5%) and Repurchase Agreements (29.4%); 82.4% of the repurchase agreements are backed by U.S. Treasuries and U.S. Agencies.

Pursuant to its investment policy, The Conservancy's investments cannot have more than 10% of their assets at market value in securities of any one issuer, be they short-term or long-term, other than the U.S. Government and its Agencies. At June 30, 2014, the single largest non-U.S.

Government issuer exposure was 7.55% of the Capital and Endowment Fund investments. This issue is in the form of a global commingled equity fund.

Investments
Investments are carried at estimated fair market value and reported in three distinct categories:

- *Capital fund* – funds held primarily for the future acquisition of conservation land, easements, and for funding other conservation projects.
- *Split interest arrangements* – donations that are held in trust by The Conservancy or third party trustees, representing beneficial interests in trusts.
- *Endowment fund* – funds held as long-term capital to generate income for The Conservancy's operations.

Endowment Investment and Spending Policies
The Conservancy's Endowment (Endowment) includes both donor-restricted endowment funds and funds designated by the Board of Directors (Board) to function as endowments. The amount of Endowment income provided each year for operations is established by the Finance Committee of the Board, through its adoption of an annual endowment spending rate and spending rate base. The spending rate for the year ended June 30, 2014 was 5.0% of the average fair market value of the 60 months of calendar years 2008 through 2012.

The Conservancy recognizes that risk must be assumed to achieve its stated long-term investment objectives. Therefore, asset allocations and ranges are necessarily diverse, and consider liquidity needs. The Conservancy has considered its ability to withstand short and intermediate term variability and concluded that the portfolio can tolerate some interim fluctuations in market values and rates of return in order to achieve its objectives. However, The Conservancy realizes that market performance varies and that the portfolio's investment objectives may not be achievable during short-term periods.

The Conservancy has chosen not to manage its underlying assets directly, but to utilize independent investment managers. To maintain prudent diversification and to manage risk, The Conservancy's portfolio is divided among roughly 50 separate managers.

Conservation Lands and Easements
The Conservancy records land and land interests at cost if purchased or at fair value at the date of acquisition, if all or part of the land was received as a donation. Fair value is generally determined by appraisal at the time of acquisition and is not subsequently adjusted. Upon sale or gift, the book value of the land or land interest is reported as a program expense and the related proceeds, if any, are reported as revenue in the consolidated statement of activities.

Conservation land is real property with significant ecological value. These properties are either managed in an effort to protect the natural biological diversity of the property, or transferred to other organizations who will manage the lands in a similar fashion.

Conservation easements are comprised of listed rights and/or restrictions over the owned property that are conveyed by a property owner to The Conservancy, almost always in perpetuity, in order to

protect the owned property as a significant natural area, as defined in federal tax regulations. These intangible assets may be sold or transferred to others so long as the assignee agrees to carry out, in perpetuity, the conservation purposes intended by the original grantor. Conservation easements, by their very nature, do not generate material amounts of cash inflow annually.

Bonds and Notes Payable

The Conservancy uses debt, both fixed and variable, primarily to finance the acquisition of conservation lands and easements. Debt is reported at carrying value.

In order to partially insulate itself from the variable nature of the interest rates on its outstanding debt, The Conservancy has three interest rate swap agreements. The Conservancy pays a fixed rate of 4.373% on $95,375,000 in return for receipt of variable rate interest in the amount of 3- month LIBOR and pays a fixed rate of 2.962% on $190,000,000 in return for receipt of variable rate interest in the amount of 67% of 3-month LIBOR. The Conservancy pays a fixed rate of 3.56% on $25,053,000 in return for receipt of variable rate interest in the amount of 67% of 1-month LIBOR. Maturities of the swap agreements range from 2027 to 2033 and the counterparty to these swaps has the option to terminate at their discretion. The fair value of these interest rate swap agreements are reflected in the accompanying consolidated statement of position as accounts payable and accrued liabilities.

Due to the nature of certain variable-rate bond agreements, The Conservancy may receive notice of an optional tender on its variable-rate bonds, in which case The Conservancy would have an obligation to purchase the bonds tendered if unable to secure alternate financing at that time. The Conservancy entered into a standby liquidity support agreement with a financial institution to support $100,000,000 of the original principal amount of the variable rate demand obligations. Under this agreement, the financial institution agreed to supply additional liquidity to The Conservancy up to that amount, with which The Conservancy can purchase the bonds if The Conservancy cannot remarket the bonds. In the event of a draw on the $100,000,000 liquidity support line, the due date would be three years from the earlier of the date of the draw or September 13, 2015.

Interest expense incurred on total notes payable for 2014 was $18,601,000.

Split Interest Arrangements

The Conservancy enters into split interest arrangements whereby donations are held in trust by The Conservancy or third party trustees and invested. Agreed-upon amounts of the invested funds are payable to the donor or the donor's designee for a specified period of time or until the donor's death, after which time The Conservancy may use the investments for operations or a restricted use specified by the donor. The donated trust asset investments are recorded at fair value based on the latest available information.

The Conservancy utilizes an IRS-approved annuity table to actuarially calculate the liability associated with the estimated donor payments under these arrangements. The Conservancy determines the discount rate to be used in the month the split interest arrangements are entered into with the donor and these rates have ranged from 1% to 9%. The present value of the actuarially determined liability resulting from these gifts is recorded at the date of gift and adjusted annually thereafter to reflect fair value.

Net Assets
The Conservancy's net assets are reported in the following three classes:

- *Unrestricted net assets* – Revenues derived from dues, unrestricted contributions, government grants and contracts, investment income (other than the temporarily restricted portion of true endowment investment income), and other inflows of assets whose use by The Conservancy is not limited by donor-imposed restrictions. Certain unrestricted net assets have been designated by the Board of Directors to be maintained as quasi endowment funds.

- *Temporarily restricted net assets* – Contributions and other inflows of assets whose use by The Conservancy is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of The Conservancy, such as usage for specific programs, including certain overhead and indirect costs, or for spending from true endowment investment income.

  When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported on the consolidated statement of activities as net assets released from restrictions.

- *Permanently restricted net assets* – Contributions and other inflows of assets whose use by The Conservancy is limited by donor-imposed stipulations that the principal must be maintained permanently by The Conservancy. The total amount of permanently restricted net assets on the consolidated statement of financial position includes the donor-restricted endowment funds as well as amounts contributed to create a permanent capital fund. This revolving fund is used to finance capital projects and donations to this fund are to be maintained in perpetuity for only this purpose.

Classification of endowment net assets
The Board of Directors of The Conservancy (Board) has approved management's interpretation of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as enacted by the Council of the District of Columbia. UPMIFA requires the preservation of the fair value of the original gifts as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

The Endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. The Conservancy classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) 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 permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by The Conservancy. The Conservancy considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the endowment fund;
- The purposes of the institution and the endowment fund;
- General economic conditions;
- The possible effect of inflation or deflation;

- The expected total return from income and appreciation of investments;
- Other resources of the institution; and
- The investment policy of the institution.

Endowments with Eroded Corpus
From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or The Conservancy requires to be retained as principal in perpetuity. Deficiencies of this nature that are netted in unrestricted net assets were $1,613,000 as of June 30, 2014. These deficits resulted from unfavorable market fluctuations that occurred shortly after the investment of newly established endowments and authorized appropriation that was deemed prudent.

4. CONSOLIDATED STATEMENT OF ACTIVITIES

Contributions
Unconditional donor promises to give cash and other assets are reported at fair value at the date that there is sufficient verifiable evidence documenting that a promise was made by the donor and received by The Conservancy. The promises are reported as either temporarily or permanently restricted support if received with donor stipulations that sufficiently limit the use of the donated assets.

The Conservancy recognizes contributed professional services from third parties and contributed goods and trade lands as revenue and as expense or assets, at the fair value of those services or goods when received. Trade lands are real property with minimal ecological value. These properties are sold to provide funds for The Conservancy to carry out its conservation work. During 2014 contributed goods and services totaled $22,905,000 and contributed trade lands totaled $2,600,000.

Government Grants and Contracts
Government grants and contracts are considered to be exchange transactions, the majority of which are cost-reimbursable grants. Revenue, including approved indirect cost recovery, is recognized when allowable costs have been incurred. The Conservancy's costs incurred under its government grants and contracts are subject to audit by government agencies. Management believes that disallowance of costs, if any, would not be material to the consolidated financial position or consolidated changes in net assets of The Conservancy.

Program expense allocation
Operating expenses are allocated to program and support categories based on separate cost center types as defined below. Conservation land and easements that are acquired by The Conservancy, but not sold or donated, are reflected as an increase in conservation land and easements on the consolidated statement of financial position and are excluded from the program expense categories on the consolidated statement of activities.

The Conservancy accounts for its program expenditures in the following categories:

- *Conservation Activities and Actions* – Expenditures related to the broad spectrum of activities and actions critical to advancing The Conservancy's mission. Expenditures related to understanding, monitoring, maintaining, restoring, and managing natural areas owned by The Conservancy and others are included, as well as expenditures for developing and enhancing

The Conservancy's ability to gather and share ecological information and to assess and evaluate threats to natural systems. In addition, this area includes expenditures to mitigate, prevent, or slow the effects of these threats, including investments in the institutional development of domestic and international conservation organizations. Expenditures related to improving public land management and supporting the development of sound global policies, including participating in conferences and events that help establish a common vision for conservation worldwide are included, as well as expenditures associated with community outreach and education of key stakeholders and land users in areas where Conservancy conservation programs reside.

- *General and Administration* – Expenditures related to building and maintaining an efficient business infrastructure, including those related to corporate governance, to support and advance the programmatic conservation objectives of The Conservancy.

- *General Fund-Raising* – Expenditures related to fund-raising strategies that provide the revenue stream for both operations and capital needs to further the accomplishment of The Conservancy's mission and objectives.

- *Membership Development* – Expenditures related to the acquisition and retention of The Conservancy's members primarily through the use of a direct-mail program.

5. COMMITMENTS AND CONTINGENCIES

Litigation
The Conservancy is a party to various litigations arising out of the normal conduct of its operations. In the opinion of The Conservancy's management, the ultimate resolution of these matters will not materially affect the financial position, changes in net assets, or cash flows of The Conservancy.

Leases
The Conservancy has entered into non-cancelable operating leases for office space, which expire at various dates through 2025. Certain of these leases contain rent escalation clauses, usually based on the consumer price index.

Land acquisitions and other commitments
The Conservancy has entered into contracts for the purchase of land and other purchase commitments that have not closed as of June 30, 2014, in the amount of $39,184,000.

The Conservancy has remaining funding commitments to private equity, real estate, and hedge fund investment managers of $84,049,000 at June 30, 2014.

6. RETIREMENT PLANS

The Conservancy's employees are eligible after one month of service to participate in The Nature Conservancy Savings and Retirement Plan (the Plan), in which employees can make voluntary, tax-deferred contributions within specified limits. The Plan was established under the provisions of Internal Revenue Code Section 401(k) and has received a favorable determination as to its tax status from the Internal Revenue Service. Certain employees are also eligible to participate in a non-qualified deferred compensation plan created pursuant to Internal Revenue Code Section 457(b). The Conservancy's contributions to the plans were $13,877,000 for the year ended June 30, 2014.

7. INCOME TAXES

The Conservancy has been granted an exemption from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Internal Revenue Service has classified The Conservancy as other than a private foundation. The Conservancy pays a nominal amount of tax relating to several unrelated business income activities, primarily rental income from debt-financed property. The Conservancy takes no tax positions that it considers to be uncertain.

8. SUBSEQUENT EVENTS

All subsequent events were evaluated through October 10, 2014, which is the date the financial statements were issued.

FOOTNOTE SCHEDULES

The following schedules represent required disclosures of more detailed information regarding certain balances and amounts contained in the consolidated statements of financial position and activities. These are an integral part of the footnotes to the consolidated financial statements.

9. Pledges receivable

As of June 30, 2014 unconditional promises to give were as follows:

(In thousands)

Amounts due in	
Less than one year	$ 137,316
One to five years	93,535
More than five years	3,457
Subtotal	234,308
Less fair value adjustments:	
Discount of 3.25%	5,538
Allowance for doubtful accounts	6,000
Total	$ 222,770

10. Deposits on land and other assets

Deposits on land and other assets consisted of the following at June 30, 2014:

(In thousands)

Deposits on land	$ 1,018
Trade lands	7,043
Other receivables	2,162
Prepaid expenses	9,515
Notes receivable	4,968
Other assets	2,787
Total	$ 27,493

11. Property and equipment

Property and equipment consisted of the following at June 30, 2014:

(In thousands)

Land for operations	$ 7,260
Buildings and improvements	135,807
Construction in progress	20,455
Computer equipment and software	11,804
Furniture, fixtures, and other	17,754
	193,080
Accumulated depreciation and amortization	(69,811)
Total	$ 123,269

Depreciation and amortization expense was $9,468,000 during the year ended June 30, 2014. Of the total assets listed above, $11,791,000 was fully depreciated at June 30, 2014.

12. Bonds and notes payable

(In thousands)

Unsecured Colorado Educational and Cultural Facilities Authority Revenue Bonds, Tax Exempt, Series 2002A issued in the original principal amount of \$25,053,000 to refund the Industrial Development Authority of Arlington County (IDA) Tax Exempt Revenue Bonds Series 1997A and portions of the IDA Revenue Bonds Taxable Series 1997B; variable interest rate pursuant to rate swap, 0.08% as of June 30, 2014, due July, 2024.	\$ 13,277
Unsecured Colorado Educational and Cultural Facilities Authority Revenue Refunding Bonds, Tax Exempt, Series 2012 issued in the original principal amount of \$144,435,000, with a variable interest rate reset weekly, 0.08% as of June 30, 2014, due July, 2033.	136,965
Unsecured Taxable Revenue Bonds Series 2009 in the aggregate principal amount of \$100,000,000 issued July 1, 2009 to refund the Extendible Floating Rate Notes, Taxable Revenue Bonds Series EXL5 on October 5, 2009; fixed rate of 6.30% due July, 2019.	100,000
New York State Environmental Facilities Corporation private bonds issued in the aggregate amount of \$50,000,000 with a fixed interest rate of 3.90%, due June, 2024.	45,353
Loans and mortgages, some of which are collateralized by the land, and payable in monthly installments, including interest ranging from 0% to 6.0%; final payments are due at various dates through 2033.	36,582
Conservation Notes, unsecured notes payable in various amounts with interest ranging from 0.75% to 2.0%, due at various dates through 2019.	24,999
Other notes payable without interest due on demand	6,386
Total	\$ 363,562

The fair value of long-term debt, including current maturities, is estimated based on current market rates offered to or by The Conservancy for similar instruments. The fair value of the Unsecured Taxable Revenue Bonds Series 2009 is \$122,199,000 based on market observable inputs at June 30, 2014 and would be characterized within Level 2 if carried at fair value. The fair value of the NY State Environmental Facilities Corporation bonds is \$47,676,000 based on the income approach method at June 30, 2014 and would be characterized within Level 2 if carried at fair value. Based on a blended borrowing rate of 4.24% as of June 30, 2014, the fair value of the remaining long-term debt is approximately \$216,081,000 and would be characterized within Level 2 if carried at fair value.

The following schedule of amounts due is based on the maturity dates per the debt agreements:

(In thousands)		
2015	$	98,858
2016		52,529
2017		65,643
2018		13,100
2019		7,383
Thereafter		126,049
Total	$	363,562

13. Net assets

Temporarily restricted net assets are available for the following purposes:

(In thousands)		
Land acquisition and other conservation projects	$	262,231
Time restricted for periods after June 30		217,319
Time and purpose restricted for periods after June 30		162,884
True endowment gains subject to future Board of Directors' appropriation		113,843
Total	$	756,277

Permanently restricted net assets are restricted in perpetuity; the income derived from these investments is expendable to support the operations of The Conservancy. The total amount of permanently restricted net assets on the consolidated statement of financial position includes the donor-restricted endowment funds of $165,838,000 displayed in the tables below, as well as other amounts such as those contributed to create a permanent capital fund. This fund, the land preservation fund, is used to finance capital projects and is to be maintained in perpetuity for only this purpose. Permanently restricted net assets in the land preservation fund were $163,536,000 as of June 30, 2014, and the remaining of balance of permanently restricted net assets in the land fund was $3,736,000 as of June 30, 2014.

Endowment funds are categorized in the following net asset classes as of June 30, 2014:

(In thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (1,613)	$ 113,843	$ 165,838	$ 278,068
Board-designated endowment funds	846,878	-	-	846,878
Total endowment funds	$ 845,265	$ 113,843	$ 165,838	$ 1,124,946

Changes in endowment funds by net asset classification for the year ended June 30, 2014 are summarized as follows:

(In thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 749,672	$ 87,961	$ 155,549	$ 993,182
Investment returns	121,984	39,120	-	161,104
Contributions and other revenue	155	442	10,127	10,724
Interfund transfers	8,582	2,409	-	10,991
Appropriation of assets for expenditure	(51,201)	-	-	(51,201)
Net assets released from restrictions	16,089	(16,089)	-	-
Subtotal endowment funds	845,281	113,843	165,676	1,124,800
Reclassification of net assets	(16)	-	162	146
Total endowment funds	$ 845,265	$ 113,843	$ 165,838	$1,124,946

14. Assets and liabilities carried at fair value

Assets and liabilities carried at fair value are classified in the fair value hierarchy based on the lowest level of input that is significant to the valuation.

Fair value for Level 1 is based upon quoted prices in active markets for identical assets and liabilities. Market price data is generally obtained from exchange or dealer markets.

Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and on model-based valuation techniques, for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers, and brokers.

Fair value for Level 3 is based on valuation techniques that use significant inputs that are unobservable as they trade infrequently or not at all.

The Conservancy uses the practical expedient to determine the fair value for some of its investments, which permits the use of Net Asset Value (NAV) without adjustment under certain circumstances.

In order to partially insulate itself from the variable nature of the interest rates on its outstanding debt, The Conservancy has three interest rate swap agreements that fix the rates on several variable rate bonds. Interest rate swaps are valued using both observable and unobservable inputs, such as quotations received from the counterparty, dealers or brokers, whenever available and considered reliable. In instances where models are used, the value of the interest rate swap depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, yield curves, credit curves, measures of volatility, prepayment rates, assumptions for nonperformance risk, and correlations of such inputs. The Conservancy's interest rate swap arrangements have inputs which can generally be corroborated by market data and are therefore classified within Level 2.

Fair value of interest rate swaps at June 30, 2014:

(In thousands)

Interest rate contracts		
Consolidated Statement of Financial Position location:		
Accounts payable and accrued liabilities	$	38,008
Change in fair value in Consolidated Statement of Activities		
Other income	$	3,513

Assets and liabilities categorized by input level:

(In thousands)

	Level 1	Level 2	Level 3	Total
Investments:				
Short-term investments	$ 513	$ 20,586	$ -	$ 21,099
Repurchase agreements	-	8,965	-	8,965
Fixed income:				
U.S. treasuries	42,872	-	-	42,872
Asset-backed securities	-	4,281	-	4,281
Corporate debt	-	294,806	-	294,806
Mortgage-backed securities	-	14,007	-	14,007
U.S. agency bonds	-	132,390	-	132,390
Public equity:				
Consumer discretionary	34,088	-	-	34,088
Consumer staples	10,557	-	-	10,557
Energy	8,289	-	-	8,289
Financial services	22,223	-	-	22,223
Health care	15,318	-	-	15,318
Industrials	47,761	-	-	47,761
Information technology	12,607	-	-	12,607
Materials	13,539	-	-	13,539
Utilities	1,333	-	-	1,333
Other industries	269	-	-	269
Commingled equity funds	-	-	411,973	411,973
Mutual funds	148,275	-	-	148,275
Closed end mutual funds	75,513	-	-	75,513
Hedge funds	-	-	244,839	244,839
Private equity	-	-	202,281	202,281
Private real estate	-	-	44,547	44,547
Split interests, trusteed	143,704	116,114	15,586	275,404
Split interests, non-trusteed	-	-	33,269	33,269
Total investments at fair value	576,861	591,149	952,495	2,120,505
Collateral received under securities lending agreement	$ 42,140	$ -	$ -	$ 42,140
Pledges receivable	-	-	222,770	222,770
Total assets measured at fair value	$ 619,001	$ 591,149	$ 1,175,265	$ 2,385,415
Interest rate swaps liability	$ -	$ 38,008	$ -	$ 38,008
Payable under securities lending agreement	42,140	-	-	42,140
Total liabilities measured at fair value	$ 42,140	$ 38,008	$ -	$ 80,148

Investments included in Level 3 primarily consist of The Conservancy's ownership in alternative investments (principally limited partnership interests in hedge and private equity funds) as well as public equity investments held within private arrangements. The value of certain alternative investments represents the ownership interest in the NAV of the respective partnership. Approximately 72.44% of Level 3 investments held by the partnerships consist of marketable securities and 27.56% are securities that do not have readily determinable fair values. The fair values of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner and are based on appraisals, or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partner taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. The Conservancy has performed significant due diligence around these investments to ensure NAV is an appropriate measure of fair value.

Investments valued using NAV as of June 30, 2014:

(In thousands)	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Global equity funds	$ 193,651	$ -	Monthly, quarterly	10 business days, 30 days
International equity funds	218,322	-	Monthly	6 business days, on 15th of prior month, 60 calendar days, 90 days
Bond funds	50,632	-	Daily	Daily
Hedge funds	244,839	18,605	Monthly, quarterly, semi-annually, rolling 2, 3 & 4 years	45 - 90 days
Private equity funds	201,075	36,061	N/A	N/A
Real estate funds	44,547	29,383	N/A	N/A
Total	$ 953,066	$ 84,049		

The Conservancy uses a standard charitable gift calculation model and the IRS discount rate to determine the present value of split interest agreements where The Conservancy serves as trustee. For split interest agreements where The Conservancy is not the trustee, valuations are based on the values reported by third-party trustees, while noting that the valuation techniques for future distributions expected to be received over the term of the agreement and unobservable inputs - such as discount rates, life expectancies, and trust payouts – may vary widely among trustees. There is no market for these agreements, and they are therefore classified within Level 3.

Rollforward of Level 3 financial instruments:

(In thousands)

	Fair value as of June 30, 2013	Realized gains (losses)	Unrealized gains (losses)	Purchases	Sales	Fair value as of June 30, 2014
Commingled equity funds	$ 290,852	$ 364	$ 62,076	$ 60,000	$ (1,319)	$ 411,973
Hedge funds	180,090	2,382	35,014	57,905	(30,552)	244,839
Private equity	191,310	15,774	24,075	16,352	(45,230)	202,281
Real estate	30,536	1,232	4,686	14,775	(6,682)	44,547
Split interest arrangements	55,034	11	(4,674)	1,449	(2,965)	48,855
Total	747,822	19,763	121,177	150,481	(86,748)	952,495
Pledges receivable	178,082	-	44,688	-	-	222,770
Total investments and pledges	$ 925,904	$ 19,763	$ 165,865	$ 150,481	$ (86,748)	$ 1,175,265

Of the net realized and unrealized gains of $185,628,000 in the table above, $140,940,000 are reflected in the accompanying consolidated statement of activities as investment gains. The remaining amounts include a net $44,688,000 increase in pledges, of which a $45,188,000 increase is reflected in the accompanying consolidated statement of activities as dues and contributions and a $500,000 decrease is reflected as conservation activities and actions program expense.

Investment gains consisted of the following for the year ended June 30, 2014:

(In thousands)

Dividends and interest income	$ 26,322
Realized and unrealized gains (net of expenses of $12,379)	198,392
Change in value of split interest arrangements	10,499
Total investment gains	$ 235,213

15. Leases

The following is a schedule of future minimum lease payments for all operating leases as of June 30, 2014:

(In thousands)

2015	$ 7,091
2016	4,870
2017	3,459
2018	2,808
2019	1,894
Thereafter	$ 4,902
Total minimum lease payments	$ 25,024

Rent expense was $11,646,000 for the year ended June 30, 2014.

SUPPLEMENTAL SCHEDULES

Following are supplemental schedules:

Consolidated statements of financial position as of June 30, 2014 (with comparative totals as of June 30, 2013).

Summarized consolidated statements of activities for the year ended June 30, 2014 (with comparative totals for the year ended June 30, 2013).

Schedule of functional expenses as reported in the consolidated statement of activities for the year ended June 30, 2014 by natural account classification (with comparative totals for the year ended June 30, 2013).

While these schedules are not required under Generally Accepted Accounting Principles, they provide useful additional detail to help the user of these financial statements understand how funds are spent, as well as providing prior year comparisons.

The Nature Conservancy
Supplemental Schedule - Consolidated Statements of Financial Position
As of June 30, 2014 and 2013

(Amounts in thousands)	2014	2013
Assets		
Cash and cash equivalents	$ 179,262	$ 107,718
Restricted cash	29,304	29,620
Government grants and contracts receivable	21,822	24,542
Pledges receivable, net	222,770	178,082
Collateral received under securities lending agreement	42,140	49,169
Deposits on land and other assets	27,493	31,275
Property and equipment, net of accumulated depreciation and amortization	123,269	105,317
Investments - Capital fund	684,932	644,254
Investments - Split interest arrangements	307,963	286,263
Investments - Endowment fund	1,127,610	995,846
Conservation lands	1,815,004	1,865,034
Conservation easements	1,937,343	1,866,197
Total assets	$ 6,518,912	$ 6,183,317
Liabilities		
Accounts payable and accrued liabilities	$ 100,161	$ 100,801
Payable under securities lending agreement	42,140	49,169
Deferred revenue and refundable advances	89,058	92,076
Bonds and notes payable	363,562	376,346
Split interest arrangements	146,532	143,874
Total liabilities	741,453	762,266
Net assets		
Unrestricted		
Undesignated	17,952	(48,284)
Land, easements, and project funds	3,820,356	3,764,115
Board-designated quasi endowment and similar funds	849,764	754,171
Total unrestricted	4,688,072	4,470,002
Temporarily restricted	756,277	634,916
Permanently restricted	333,110	316,133
Total net assets	5,777,459	5,421,051
Total liabilities and net assets	$ 6,518,912	$ 6,183,317

The Nature Conservancy
Supplemental Schedule - Summarized Consolidated Statements of Activities
For the years ended June 30, 2014 and 2013

(Amounts in thousands)	2014	2013
Support and revenues		
Dues and contributions	$ 560,417	$ 439,052
Land and easements contributed for conservation	57,614	73,386
Government grants and contracts	120,687	120,717
Investment income	235,213	116,725
Sales of conservation land and easements to governments and others	80,915	108,628
Other	59,433	90,663
Total support and revenues	1,114,279	949,171
Expenses		
Program expenses	541,179	560,201
General and administration	121,776	115,448
Fund-raising		
General fund-raising	67,099	66,910
Membership development	27,817	22,101
Total expenses	757,871	764,660
Increase in net assets	356,408	184,511
Net assets at beginning of year	5,421,051	5,236,540
Net assets at end of year	$ 5,777,459	$ 5,421,051

The Nature Conservancy
Supplemental Schedule - Schedules of Functional Expenses
For the year ended June 30, 2014 with summarized totals for the year ended June 30, 2013

(Amounts in thousands)	Program expenses	Support services expenses				Totals	
	Conservation activities and actions	General and administration	Fund-raising: General fund-raising	Fund-raising: Membership development	Total Support services expenses	2014 Total expenses	2013 Total expenses
Personnel	$ 182,150	$ 71,353	$ 52,115	$ 4,241	$ 127,709	$ 309,859	$ 298,381
Contract, professional fees	65,972	12,331	3,034	6,446	21,811	87,783	79,333
Grants and allocations	49,287	111	27	-	138	49,425	44,873
Supplies	8,150	4,026	594	1,963	6,583	14,733	13,279
Telecommunications	1,761	1,506	227	17	1,750	3,511	4,305
Postage and mailing service	1,579	281	395	8,494	9,170	10,749	8,996
Occupancy	1,966	9,438	242	-	9,680	11,646	12,139
Equipment rental and maintenance	4,300	1,390	195	1	1,586	5,886	5,966
Printing and publication	4,034	264	956	5,909	7,129	11,163	9,196
Travel	15,642	3,390	2,960	128	6,478	22,120	20,847
Conferences and meetings	7,277	2,087	2,096	23	4,206	11,483	10,277
Interest	18,612	6	-	-	6	18,618	19,004
Depreciation and amortization	7,121	1,858	489	-	2,347	9,468	8,170
Equipment	2,911	125	24	-	149	3,060	2,649
Taxes and licenses	983	981	81	20	1,082	2,065	1,884
Utilities, repairs, maintenance, and construction	7,110	1,986	165	-	2,151	9,261	6,900
Insurance	2,535	1,556	49	1	1,606	4,141	3,964
Real estate taxes	5,578	914	9	-	923	6,501	5,429
Closing costs	1,026	539	-	-	539	1,565	3,128
Contributed goods and services non-cash expense	10,005	6,572	3,347	570	10,489	20,494	28,244
All other	3,430	1,062	94	4	1,160	4,590	16,385
Subtotal	401,429	121,776	67,099	27,817	216,692	618,121	603,349
Book value of conservation land and easements sold or donated to government and others	139,750	-	-	-	-	139,750	161,311
Total	$ 541,179	$ 121,776	$ 67,099	$ 27,817	$ 216,692	$ 757,871	$ 764,660

STATE OF HAWAII
STATE PROCUREMENT OFFICE

CERTIFICATE OF VENDOR COMPLIANCE

This document presents the compliance status of the vendor identified below on the issue date with respect to certificates required from the Hawaii Department of Taxation (DOTAX), the Internal Revenue Service, the Hawaii Department of Labor and Industrial Relations (DLIR), and the Hawaii Department of Commerce and Consumer Affairs (DCCA).

Vendor Name: **THE NATURE CONSERVANCY**

DBA/Trade Name: **THE NATURE CONSERVANCY**

Issue Date: **08/28/2015**

Status: **Compliant**

Hawaii Tax#:
FEIN/SSN#: XX-XXX2652
UI#: XXXXXX1123
DCCA FILE#: 2202

Status of Compliance for this Vendor on issue date:

Form	Department(s)	Status
A-6	Hawaii Department of Taxation	Compliant
	Internal Revenue Service	Compliant
COGS	Hawaii Department of Commerce & Consumer Affairs	Exempt
LIR27	Hawaii Department of Labor & Industrial Relations	Compliant

Status Legend:

Status	Description
Exempt	The entity is exempt from this requirement
Compliant	The entity is compliant with this requirement or the entity is in agreement with agency and actively working towards compliance
Pending	The entity is compliant with DLIR requirement
Submitted	The entity has applied for the certificate but it is awaiting approval
Not Compliant	The entity is not in compliance with the requirement and should contact the issuing agency for more information

United States Department of the Interior
INTERIOR BUSINESS CENTER
Indirect Cost Services
2180 Harvard Street, Suite 430
Sacramento, CA 95815

Interior Business Center

July 27, 2015

Ms. Laura Travis, Director, Grants Services Network
The Nature Conservancy
4245 N. Fairfax Drive, Suite 100
Arlington, VA 22203-1606

Dear Ms. Travis:

Enclosed is the signed original Negotiated Indirect Cost Rate Agreement that was processed by our office. If you have any questions concerning this agreement, please refer to the signature page for the name and contact number of the negotiator.

As a recipient of federal funds, the regulations require you to maintain a current indirect cost rate agreement. For provisional/final indirect cost rates, Indirect Cost Proposals should be submitted on an annual basis, and they are due within six (6) months after the close of your fiscal year. For predetermined rates and approved rate extensions, proposals are due in our office six (6) months prior to the expiration of your current rate agreement. Please note that proposals are processed on a first-in, first-out basis.

Common fiscal year end dates and proposal due dates are listed below:

Fiscal Year End Date	Proposal Due Date
September 30th	March 31st
December 31st	June 30th
June 30th	December 31st

Please visit our Web site at http://www.doi.gov/ibc/services/Indirect_Cost_Services for guidance and updates on submitting future indirect cost proposals. The website includes helpful tools such as a completeness checklist, indirect cost and lobbying certificates, sample proposals, Excel worksheet templates, and links to other Web sites.

Sincerely,

Deborah A. Moberly

Deborah A. Moberly
Office Chief

Enclosure

Ref: J:\Other (Non-Profit, Guam,VI,Puerto Rico)\Nonprofit\Nature Conservancy (Nacoh629)\FY 14F 16P\Naco-Issuel tr.14F 16P.docx

Phone: (916) 566-7111
Fax: (916)566-7110
Email: ICS@ibc.doi.gov
Internet: http://www.doi.gov/ibc/services/Indirect_Cost_services

Nonprofit Organization
Indirect Cost Negotiation Agreement

EIN: 53-0242652

Organization:

The Nature Conservancy
4245 N. Fairfax Drive, Suite 100
Arlington, VA 22203-1606

Date: July 27, 2015

Report No(s).: 15-A-0929 14F
15-A-0930 16P

Filing Ref.:
Last Negotiation Agreement dated June 20, 2014

The indirect cost rates contained herein are for use on grants, contracts, and other agreements with the Federal Government to which 2 CFR Part 200 apply for fiscal years beginning on or after December 26, 2014 subject to the limitations contained in Section II.A. of this agreement. Applicable OMB Circulars and the regulations at 2 CFR 230 will continue to apply to federal funds awarded prior to December 26, 2014. The rates were negotiated by the U.S. Department of the Interior, Interior Business Center, and the subject organization in accordance with the authority contained in applicable regulations.

Section I: Rates

Type	Effective Period From	Effective Period To	Rate	Locations	Applicable To
Fixed Carryforward	07/01/15	06/30/16	21.80% 1/	All	All Programs
		Fringe Benefit Rates			
Final	07/01/13	06/30/14	42.32% 2/	All	Regular Salaries
Final	07/01/13	06/30/14	12.84% 3/	All	Short-Term Salaries
Final	07/01/13	06/30/14	11.32% 4/	All	Foreign Salaries
Provisional	07/01/15	06/30/16	40.00% 2/	All	Regular Salaries
Provisional	07/01/15	06/30/16	12.00% 3/	All	Short-Term Salaries
Provisional	07/01/15	06/30/16	11.00% 4/	All	Foreign Salaries

1/Base: Total direct costs, less external transfers and the value of land sold or donated to government agencies and other conservation organizations. Equipment costs valued between $5,000 and $50,000 are included in the base limited to the first year of capitalization. **All subawards, regardless of dollar amounts, are included in the base.**

2/Base: Total salaries and wages for regular employees.

3/Base: Total salaries and wages for short-term employees.

4/Base: Total salaries and wages for foreign employees.

Note: The foreign salaries fringe benefit rates refer to benefits that are paid centrally by TNC's headquarters. Additional benefits are paid locally by TNC's foreign locations which are charged directly to government awards.

Treatment of fringe benefits: Fringe benefits applicable to direct salaries and wages are treated as direct costs; fringe benefits applicable to indirect salaries and wages are treated as indirect costs.

Treatment of Paid Absences: (a) For employees paid on TNC's U.S. payroll, the costs of vacation, holiday and sick leave pay are included in the organization's fringe benefit rate and are not included in the direct costs of salaries and wages. Claims for direct salaries and wages must exclude those amounts paid or accrued to employees for periods when they are on vacation, holiday or sick leave. Other paid absences are billed directly. (b) For employees paid on local payrolls in other country programs, paid absences are billed directly.

Section II: General

A. **Limitations:** Use of the rate(s) contained in this agreement is subject to any applicable statutory limitations. Acceptance of the rate(s) agreed to herein is predicated upon these conditions: (1) no costs other than those incurred by the subject organization were included in its indirect cost rate proposal, (2) all such costs are the legal obligations of the grantee/contractor, (3) similar types of costs have been accorded consistent treatment, and (4) the same costs that have been treated as indirect costs have not been claimed as direct costs (for example, supplies can be charged directly to a program or activity as long as these costs are not part of the supply costs included in the indirect cost pool for central administration).

B. **Audit:** All costs (direct and indirect, federal and non-federal) are subject to audit. Adjustments to amounts resulting from audit of the cost allocation plan or indirect cost rate proposal upon which the negotiation of this agreement was based will be compensated for in a subsequent negotiation.

C. **Changes:** The rate(s) contained in this agreement are based on the organizational structure and the accounting system in effect at the time the proposal was submitted. Changes in organizational structure, or changes in the method of accounting for costs which affect the amount of reimbursement resulting from use of the rate(s) in this agreement, require the prior approval of the responsible negotiation agency. Failure to obtain such approval may result in subsequent audit disallowance.

D. **Rate Type:**
1. Fixed Carryforward Rate: The fixed carryforward rate is based on an estimate of the costs that will be incurred during the period for which the rate applies. When the actual costs for such period have been determined, an adjustment will be made to the rate for a future period, if necessary, to compensate for the difference between the costs used to establish the fixed rate and the actual costs.

2. Provisional/Final Rate: Within six (6) months after year end, a final indirect cost rate proposal must be submitted based on actual costs. Billings and charges to contracts and grants must be adjusted if the final rate varies from the provisional rate. If the final rate is greater than the provisional rate and there are no funds available to cover the additional indirect costs, the organization may not recover all indirect costs. Conversely, if the final rate is less than the provisional rate, the organization will be required to pay back the difference to the funding agency.

3. Predetermined Rate: A predetermined rate is an indirect cost rate applicable to a specified current or future period, usually the organization's fiscal year. The rate is based on an estimate of the costs to be incurred during the period. A predetermined rate is not subject to adjustment. (Because of legal constraints, predetermined rates are not permitted for Federal contracts; they may, however, be used for grants or cooperative agreements.)

4. Rate Extension: Only final and predetermined rates may be eligible for consideration of rate extensions. Requests for rate extensions of a current rate will be reviewed on a case-by-case basis. If an extension is granted, the non-Federal entity may not request a rate review until the extension period ends. In the last year of a rate extension period, the non-Federal entity must submit a new rate proposal for the next fiscal period.

E. **Agency Notification:** Copies of this document may be provided to other federal offices as a means of notifying them of the agreement contained herein.

F. **Record Keeping:** Organizations must maintain accounting records that demonstrate that each type of cost has been treated consistently either as a direct cost or an indirect cost. Records pertaining to the costs of program administration, such as salaries, travel, and related costs, should be kept on an annual basis.

G. **Reimbursement Ceilings:** Grantee/contractor program agreements providing for ceilings on indirect cost rates or reimbursement amounts are subject to the ceilings stipulated in the contract or grant agreements. If the ceiling rate is higher than the negotiated rate in Section I of this agreement, the negotiated rate will be used to determine the maximum allowable indirect cost.

H. **Use of Other Rates:** If any federal programs are reimbursing indirect costs to this grantee/contractor by a measure other than the approved rate(s) in this agreement, the grantee/contractor should credit such costs to the affected programs, and the approved rate(s) should be used to identify the maximum amount of indirect cost allocable to these programs.

I. **Other:**
1. The purpose of an indirect cost rate is to facilitate the allocation and billing of indirect costs. Approval of the indirect cost rate does not mean that an organization can recover more than the actual costs of a particular program or activity.

2. Programs received or initiated by the organization subsequent to the negotiation of this agreement are subject to the approved indirect cost rate(s) if the programs receive administrative support from the indirect cost pool. It should be noted that this could result in an adjustment to a future rate.

3. This Negotiation Agreement is entered into under the terms of an Interagency Agreement between the U.S. Department of the Interior and the cognizant agency. No presumption of federal cognizance over audits or indirect cost negotiations arises as a result of this Agreement.

4. Organizations that have previously established indirect cost rates-exclusive of the 10% *de minimis* rate must submit a new indirect cost proposal to the cognizant agency for indirect costs within six (6) months after the close of each fiscal year.

Section III: Acceptance

Listed below are the signatures of acceptance for this agreement:

By the Nonprofit Organization:

The Nature Conservancy
Grantee/Contractor

/s/
Signature

[illegible]
Name (Type or Print)

[illegible]
Title

[illegible]
Date

By the Cognizant Federal Government Agency:

U.S. Department of the Interior
Cognizant Agency

Deborah A. Moberly /s/
Signature

Deborah A. Moberly
Name

Office Chief
Office of Indirect Cost Services
Title

U.S. Department of the Interior
Interior Business Center
Agency

JUL 27 2015
Date

Negotiated by Stacy Frost
Telephone (916) 566-7002

The Nature Conservancy

Consolidated Financial Statements
For the year ended June 30, 2015
And report thereon

Independent Auditor's Report

To the Board of Directors of
The Nature Conservancy:

We have audited the accompanying consolidated financial statements of The Nature Conservancy ("the Conservancy") and its chapters and affiliates, which comprise the Consolidated Statement of Financial Position as of June 30, 2015, and the related Consolidated Statements of Activities and of Cash Flows for the year then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Conservancy's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Conservancy's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Nature Conservancy and its chapters and affiliates as of June 30, 2015, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

pwc

Other Matter

Our audit was conducted for the purpose of forming an opinion on the 2015 consolidated financial statements taken as a whole. The accompanying summarized Consolidated Statements of Financial Position as of June 30, 2015 and 2014, the summarized Consolidated Statements of Activities for the years ended June 30, 2015 and 2014, and the Schedule of Functional Expenses for the year ended June 30, 2015, with summarized totals for the year ended June 30, 2014 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The information is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2015 information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole. The 2014 prior year summarized comparative information has been derived from the Conservancy's 2014 consolidated financial statements, and in our reported dated October 10, 2014, we expressed an unqualified opinion on those consolidated financial statements.

PricewaterhouseCoopers LLP

October 9, 2015

The Nature Conservancy
Consolidated Statement of Financial Position
As of June 30, 2015

(Amounts in thousands)

Assets		
Cash and cash equivalents		$ 105,090
Restricted cash and cash equivalents		14,820
Restricted short-term investments		25,000
Government grants and contracts receivable		21,776
Pledges receivable, net		219,519
Securities pledged under securities lending agreement		33,582
Other assets		36,546
Property and equipment, net of accumulated depreciation and amortization		132,261
Investments		
Investments - Capital fund	820,909	
Investments - Split interest arrangements	301,444	
Investments - Endowment fund	1,160,816	
Total investments		2,283,169
Conservation lands		1,809,805
Conservation easements		2,030,932
Total assets		$ 6,712,500
Liabilities		
Accounts payable and accrued liabilities		$ 103,482
Payable under securities lending agreement		33,582
Deferred revenue and refundable advances		99,748
Bonds and notes payable		376,741
Split interest arrangements payable		174,979
Total liabilities		788,532
Net assets		
Unrestricted		
Undesignated	8,875	
Land, easements, and project funds	3,969,854	
Board-designated quasi endowment and similar funds	867,913	
Total unrestricted		4,846,642
Temporarily restricted		730,973
Permanently restricted		346,353
Total net assets		5,923,968
Total liabilities and net assets		$ 6,712,500

The accompanying notes are an integral part of these consolidated financial statements.

The Nature Conservancy
Consolidated Statement of Activities
For the year ended June 30, 2015

(Amounts in thousands)	Unrestricted	Temporarily restricted	Permanently restricted	Total
Support and revenues				
Dues and contributions	$ 241,857	$ 261,787	$ 15,216	$ 518,860
Contributed goods and services	26,209	-	-	26,209
Land and easements contributed for conservation	99,544	-	-	99,544
Government grants and contracts	99,209	-	-	99,209
Investment income/(loss)	68,318	(24,119)	-	44,199
Other income	58,296	-	-	58,296
Total support and revenues before sales of conservation land and easements and net assets released from restrictions	593,433	237,668	15,216	846,317
Sales of conservation land and easements to governments and others	101,238	-	-	101,238
Net assets released from restrictions	262,748	(262,748)	-	-
Total support and revenues	957,419	(25,080)	15,216	947,555
Expenses				
Program expenses				
Conservation activities and actions	436,011	-	-	436,011
Book value of conservation land and easements sold or donated to governments and others	137,194	-	-	137,194
Total program expenses	573,205	-	-	573,205
Support services expenses				
General and administration	136,586	-	-	136,586
Fund-raising				
General fund-raising	64,793	-	-	64,793
Membership development	26,462	-	-	26,462
Total support services expenses	227,841	-	-	227,841
Total expenses	801,046	-	-	801,046
Increase/(decrease) in net assets	156,373	(25,080)	15,216	146,509
Reclassification of net assets	2,197	(224)	(1,973)	-
Total increase in net assets	158,570	(25,304)	13,243	146,509
Net assets at beginning of year	4,688,072	756,277	333,110	5,777,459
Net assets at end of year	$ 4,846,642	$ 730,973	$ 346,353	$ 5,923,968

The accompanying notes are an integral part of these consolidated financial statements.

The Nature Conservancy
Consolidated Statement of Cash Flows
For the year ended June 30, 2015

(Amounts in thousands)

Reconciliation of increase in net assets to cash provided by operating activities:			
Increase in net assets		$ 146,509	
Non-cash adjustments:			
Contributed land and easements	$ (102,386)		
Losses on disposition of land, easements, and property	38,439		
Realized/Unrealized investment gains	(60,000)		
Change in value of split interest investments	(6,030)		
Change in value of interest rate swaps	(515)		
Depreciation and amortization	8,894	(121,598)	
Changes in assets and liabilities:			
Decrease in receivables	3,297		
Decrease in restricted cash	14,484		
Increase in restricted short-term investments	(25,000)		
Increase in other assets	(2,000)		
Increase in split interests arrangements payable	28,447		
Increase in other liabilities	14,526	33,754	
Cash provided by (used in) land activities:			
Proceeds from sales of land and easements	103,896		
Purchases of land and easements	(127,428)	(23,532)	
Contributions for long-term purposes		(15,215)	
Net cash provided by operating activities			19,918
Investing activities:			
Proceeds from sale of capital and endowment investments		3,067,924	
Purchases of capital and endowment investments		(3,177,107)	
Purchases of property and equipment		(20,981)	
Other - net		(5,970)	
Net cash used in investing activities			(136,134)
Financing activities:			
Proceeds from securities lending program		8,558	
Repayments of securities lending program		(8,558)	
Purchases of split interest investments		(19,518)	
Proceeds from split interest arrangements		32,067	
Principal payments on debt		(23,696)	
Proceeds from issuance of debt		37,975	
Proceeds from restricted contributions		15,216	
Net cash provided by financing activities			42,044
Net change in cash and cash equivalents			(74,172)
Cash and cash equivalents, beginning of year			179,262
Cash and cash equivalents, end of year			$ 105,090
Supplemental data			
Interest paid			$ 16,851

The accompanying notes are an integral part of these consolidated financial statements.

ACCOUNTING POLICY FOOTNOTES

The following notes present disclosures of the significant accounting policies and related information relating to balances and amounts contained in the consolidated statements of financial position and activities. These notes are an integral part of the consolidated financial statements.

1. ORGANIZATION

The Nature Conservancy (The Conservancy) is a global conservation organization. The mission of The Conservancy is to conserve the lands and waters on which all life depends. The Conservancy conducts its activities throughout the United States, Canada, Latin America, the Caribbean, Europe, Africa, Asia, and the Pacific.

The Conservancy's primary sources of revenue are contributions from the public (including gifts of land), investment income, government grants, and sales of conservation interests to government agencies or other conservation buyers. These resources are used to help solve critical challenges by significantly improving the health of globally important natural systems that enhance the lives of people around the world. Working with partners – including indigenous communities, governments, and businesses – The Conservancy pursues solutions that protect and restore natural systems, use nature sustainably, and broaden support for conservation.

2. CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements are presented on the accrual basis of accounting and include the accounts of all The Conservancy's chapters and affiliates, both domestic and international, including those which are separately incorporated, receive gifts, and perform conservation activities in the name of The Conservancy. All significant intercompany transactions have been eliminated.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimated amounts.

3. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Cash and Cash Equivalents, Restricted Cash, and Restricted Short-term Investments
Cash represents operating cash held in bank accounts in high quality financial institutions in the United States and 35 other countries. The cash in non-U.S. accounts is uninsured, but is limited per country to amounts that, in the opinion of management, are not material to the financial statements. Cash equivalents represents short-term, highly liquid investments with maturities of three months or less when purchased. Restricted cash represents monies held in trust related to requirements of specific conservation project agreements. Restricted short-term investments represent certificates of deposit held in trust related to requirements of specific conservation project agreements.

Government Grants and Contracts Receivable/Deferred Revenue and Refundable Advances
The Conservancy receives grants and contracts from federal, state, and local agencies to be used for specific programs or land purchases. The excess of reimbursable expenditures over cash receipts is included in government grants receivable, and any excess of cash receipts over reimbursable expenditures is included in deferred revenue and refundable advances.

Pledges Receivable
Pledges receivable represent unconditional promises to give and are reported at fair value by discounting the expected future pledge payments at the prime interest rate at the balance sheet date, and accordingly are categorized as Level 3 assets. The primary unobservable input used in the fair

value measurement of the Conservancy's pledges receivable is the discount rate. Significant fluctuations in the discount rate could result in a material change. The discount rate used in the present value technique to determine fair value of pledges receivable is revised at each measurement date to reflect current market conditions and the creditworthiness of donors. In addition, management evaluates payment history and market conditions to estimate allowances for doubtful pledges. Changes in the fair value of pledges receivable are reported in the consolidated statement of activities as contribution revenue except for changes in the allowance which are reported as program expenses at each subsequent reporting date. Pledges receivable past due by 90 days are, in the opinion of management, not material to the financial statements.

Not recorded as pledges receivable are $48,228,000, that are conditioned upon The Conservancy raising matching gifts or acquiring certain conservation lands. Conditional promises to give are recognized as contributions when the donor-imposed conditions are substantially met.

Securities Lending Agreement
The Conservancy lends certain securities in its investment portfolio to qualified borrowers on a short-term, fully collateralized basis in exchange for interest to help offset custodial fees. Collateral in the form of cash in US dollars, securities issued or guaranteed by the US government, or irrevocable letters of credit issued by banks independent of the borrowers is marked-to-market on a daily basis, and the borrower is required to deliver the difference between the daily market value of the collateral and 102% of the loaned securities' original fair market value if denominated in US dollars or 105% if denominated in foreign currency. The lending agent, in its agreement with The Conservancy, guarantees the repayment of the loan in the event the borrower defaults. The Conservancy retains all the benefits of ownership including rights to dividends, interest, and other cash distributions pertaining to the loaned securities. The Conservancy also retains the right to redeem the loaned securities prior to the stipulated redemption date.

At June 30, 2015, The Conservancy recorded $33,582,000 in securities pledged as collateral under its securities lending program and an equal amount payable to the borrowers under the agreement. These amounts are reflected in assets and liabilities in the consolidated statement of financial position.

Property and Equipment
Property and equipment are carried at cost. Depreciation and amortization is provided using the straight-line method for all depreciable assets over their estimated future lives as follows:

Building and improvements	5 – 30 years
Computer equipment and software	3 – 5 years
Furniture, fixtures, and other	4 – 25 years

Concentration of Credit Risk
The Conservancy's excess cash is invested with high quality institutions, the largest concentrations of which are invested in U.S. Agencies (69.4%), certificates of deposit (26.4%), and Repurchase Agreements (4.2%). 100% of the repurchase agreements are backed by U.S. Treasuries and U.S. Agencies.

Pursuant to its investment policy, The Conservancy's investments cannot have more than 10% of their assets at market value in securities of any one issuer, be they short-term or long-term, other than the U.S. Government and its Agencies. At June 30, 2015, the single largest non-U.S.

Government issuer exposure was 7.01% of the Capital and Endowment Fund investments. This issue is in the form of a global commingled equity fund.

Investments

Investments are carried at estimated fair market value and reported in three distinct categories:

- *Capital fund* – excess working capital and funds held primarily for the future acquisition of conservation land, easements, and for funding other conservation projects.

- *Split interest arrangements* – donations that are held in trust by The Conservancy or third party trustees, representing beneficial interests in trusts.

- *Endowment fund* – funds held as long-term capital to generate income for The Conservancy's operations.

Endowment Investment and Spending Policies

The Conservancy's Endowment (Endowment) includes both donor-restricted endowment funds and funds allocated to quasi endowments, which by Board policy function as endowments. The amount of Endowment income provided each year for operations is established by the Finance Committee of the Board, through its adoption of an annual endowment spending rate and spending rate base. The spending rate for the year ended June 30, 2015 was 5.0% of the average fair market value of the 60 months of calendar years 2009 through 2013.

The Conservancy recognizes that risk must be assumed to achieve its stated long-term investment objectives. Therefore, asset allocations and ranges are necessarily diverse, and consider liquidity needs. The Conservancy has considered its ability to withstand short and intermediate term variability and concluded that the portfolio can tolerate some interim fluctuations in market values and rates of return in order to achieve its objectives. However, The Conservancy realizes that market performance varies and that the portfolio's investment objectives may not be achievable during short-term periods.

The Conservancy has chosen not to manage its underlying assets directly, but to utilize independent investment managers. To maintain prudent diversification and to manage risk, The Conservancy's portfolio is divided among 50 to 60 separate managers.

Conservation Lands and Easements

The Conservancy records land and land interests at cost if purchased or at fair value at the date of acquisition, if all or part of the land was received as a donation. Fair value is generally determined by appraisal at the time of acquisition and is not subsequently adjusted. Upon sale or gift, the book value of the land or land interest is reported as a program expense and the related proceeds, if any, are reported as revenue in the consolidated statement of activities.

Conservation land is real property with significant ecological value. These properties are either managed in an effort to protect the natural biological diversity of the property, or transferred to other organizations who will manage the lands in a similar fashion.

Conservation easements are comprised of listed rights and/or restrictions over the owned property that are conveyed by a property owner to The Conservancy, almost always in perpetuity, in order to

protect the owned property as a significant natural area, as defined in federal tax regulations. These intangible assets may be sold or transferred to others so long as the assignee agrees to carry out, in perpetuity, the conservation purposes intended by the original grantor. Conservation easements, by their very nature, do not generate material amounts of cash inflow annually.

Bonds and Notes Payable

The Conservancy uses debt, both fixed and variable, primarily to finance the acquisition of conservation lands and easements. Debt is reported at carrying value.

In order to partially insulate itself from the variable nature of the interest rates on its outstanding debt, The Conservancy has three interest rate swap agreements. The Conservancy pays a fixed rate of 4.373% on $95,375,000 in return for receipt of variable rate interest in the amount of 3- month LIBOR and pays a fixed rate of 2.962% on $190,000,000 in return for receipt of variable rate interest in the amount of 67% of 3-month LIBOR. The Conservancy pays a fixed rate of 3.56% on $25,053,000 in return for receipt of variable rate interest in the amount of 67% of 1-month LIBOR. Maturities of the swap agreements range from 2027 to 2033 and the counterparty to these swaps has the option to terminate at their discretion. The fair value of these interest rate swap agreements are reflected in the accompanying consolidated statement of position as accounts payable and accrued liabilities.

Due to the nature of certain variable rate bond agreements, The Conservancy may receive notice of an optional tender on its variable-rate bonds, in which case The Conservancy would have an obligation to purchase the bonds tendered if unable to secure a different source of financing at that time. At June 30, 2015, The Conservancy had a standby liquidity support agreement with a financial institution to support the original principal amount of $100,000,000 of the variable rate demand obligations. Under this agreement, the financial institution agreed to supply additional liquidity to The Conservancy up to that amount, with which The Conservancy could purchase the bonds if The Conservancy could not remarket the bonds. In the event of a draw on the $100,000,000 liquidity support line, the due date would be three years from the earlier of the date of the draw or September 13, 2015.

On September 14, 2015, The Conservancy replaced the aforementioned agreement with a standby liquidity support agreement with a financial institution to support the original principal amount of $50,000,000 of the variable rate demand obligations. Under this agreement, the financial institution agreed to supply additional liquidity to The Conservancy up to that amount, with which The Conservancy can purchase the bonds if The Conservancy cannot remarket the bonds. In the event of a draw on the $50,000,000 liquidity support line, the due date would be September 14, 2018.

Interest expense incurred on total notes payable for 2015 was $17,888,000.

Split Interest Arrangements

The Conservancy enters into split interest arrangements whereby donations are held in trust by The Conservancy or third party trustees and invested. Agreed-upon amounts of the invested funds are payable to the donor or the donor's designee for a specified period of time or until the donor's death, after which time The Conservancy may use the investments for operations or a restricted use specified by the donor. The donated trust asset investments are recorded at fair value based on the latest available information.

The Conservancy utilizes an IRS-approved annuity table to actuarially calculate the liability associated with the estimated donor payments under these arrangements. The Conservancy determines the discount rate to be used in the month the split interest arrangements are entered into with the donor and these rates have ranged from 1% to 9%. The present value of the actuarially determined liability resulting from these gifts is recorded at the date of gift and adjusted annually thereafter to reflect fair value.

Net Assets
The Conservancy's net assets are reported in the following three classes:

- *Unrestricted net assets* – Revenues derived from dues, unrestricted contributions, government grants and contracts, investment income (other than the temporarily restricted portion of true endowment investment income), and other inflows of assets whose use by The Conservancy is not limited by donor-imposed restrictions. Certain unrestricted net assets have been designated by the Board of Directors to be maintained as quasi endowment funds.

- *Temporarily restricted net assets* – Contributions and other inflows of assets whose use by The Conservancy is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of The Conservancy, such as usage for specific programs, including certain overhead and indirect costs, or for spending from true endowment investment income.

  When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported on the consolidated statements of activities as net assets released from restrictions.

- *Permanently restricted net assets* – Contributions and other inflows of assets whose use by The Conservancy is limited by donor-imposed stipulations that the principal must be maintained permanently by The Conservancy. The total amount of permanently restricted net assets on the consolidated statements of financial position includes the donor-restricted endowment funds as well as amounts contributed to create a permanent capital fund. This revolving fund is used to finance capital projects and donations to this fund are to be maintained in perpetuity for only this purpose.

Classification of endowment net assets
The Board of Directors of The Conservancy (Board) has approved management's interpretation of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as enacted by the Council of the District of Columbia. UPMIFA requires the preservation of the fair value of the original gifts as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

The Endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. The Conservancy classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) 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 permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by The Conservancy.

The Conservancy considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the endowment fund;
- The purposes of the institution and the endowment fund;
- General economic conditions;
- The possible effect of inflation or deflation;
- The expected total return from income and appreciation of investments;
- Other resources of the institution; and
- The investment policy of the institution.

Endowments with Eroded Corpus
From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or The Conservancy requires to be retained as principal in perpetuity. Deficiencies of this nature that are netted in unrestricted net assets were $1,450,000 as of June 30, 2015. These deficits resulted from unfavorable market fluctuations that occurred shortly after the investment of newly established endowments and authorized appropriation that was deemed prudent.

4. CONSOLIDATED STATEMENT OF ACTIVITIES

Contributions
Unconditional donor promises to give cash and other assets are reported at fair value at the date that there is sufficient verifiable evidence documenting that a promise was made by the donor and received by The Conservancy. The promises are reported as either temporarily or permanently restricted support if received with donor stipulations that sufficiently limit the use of the donated assets.

The Conservancy recognizes contributed professional services from third parties and contributed goods and trade lands as revenue and as expense or assets, at the fair value of those services or goods when received. Trade lands are real property with minimal ecological value. These properties are sold to provide funds for The Conservancy to carry out its conservation work. During 2015 contributed goods and services totaled $26,209,000 and contributed trade lands totaled $2,842,000.

Government Grants and Contracts
Government grants and contracts are considered to be exchange transactions, the majority of which are cost-reimbursable grants. Revenue, including approved indirect cost recovery, is recognized when allowable costs have been incurred. The Conservancy's costs incurred under its government grants and contracts are subject to audit by government agencies. Management believes that disallowance of costs, if any, would not be material to the consolidated financial position or consolidated changes in net assets of The Conservancy.

Program expense allocation
Operating expenses are allocated to program and support categories based on separate cost center types as defined below. Conservation land and easements that are acquired by The Conservancy, but

not sold or donated, are reflected as an increase in conservation land and easements on the consolidated statements of financial position and are excluded from the program expense categories on the consolidated statements of activities.

The Conservancy accounts for its program expenditures in the following categories:

- *Conservation Activities and Actions* – Expenditures related to the broad spectrum of activities and actions critical to advancing The Conservancy's mission. Expenditures related to understanding, monitoring, maintaining, restoring, and managing natural areas owned by The Conservancy and others are included, as well as expenditures for developing and enhancing The Conservancy's ability to gather and share ecological information and to assess and evaluate threats to natural systems. In addition, this area includes expenditures to mitigate, prevent, or slow the effects of these threats, including investments in the institutional development of domestic and international conservation organizations. Expenditures related to improving public land management and supporting the development of sound global policies, including participating in conferences and events that help establish a common vision for conservation worldwide are included, as well as expenditures associated with community outreach and education of key stakeholders and land users in areas where Conservancy conservation programs reside.

- *General and Administration* – Expenditures related to building and maintaining an efficient business infrastructure, including those related to corporate governance, to support and advance the programmatic conservation objectives of The Conservancy.

- *General Fund-Raising* – Expenditures related to fund-raising strategies that provide the revenue stream for both operations and capital needs to further the accomplishment of The Conservancy's mission and objectives.

- *Membership Development* – Expenditures related to the acquisition and retention of The Conservancy's members primarily through the use of a direct-mail program.

5. COMMITMENTS AND CONTINGENCIES

Litigation
The Conservancy is a party to various litigations arising out of the normal conduct of its operations. In the opinion of The Conservancy's management, the ultimate resolution of these matters will not materially affect the financial position, changes in net assets, or cash flows of The Conservancy.

Leases
The Conservancy has entered into non-cancelable operating leases for office space, which expire at various dates through 2027. Certain of these leases contain rent escalation clauses, usually based on the consumer price index.

Land acquisitions and other commitments
The Conservancy has entered into contracts for the purchase of land and other purchase commitments that have not closed as of June 30, 2015, in the amount of $65,425,000.

The Conservancy has remaining funding commitments to private equity, real estate, and hedge fund investment managers of $77,206,000 at June 30, 2015.

6. RETIREMENT PLANS

The Conservancy's employees are eligible after one month of service to participate in The Nature Conservancy Savings and Retirement Plan (the Plan), in which employees can make voluntary, tax-deferred contributions within specified limits. The Plan was established under the provisions of Internal Revenue Code Section 401(k) and has received a favorable determination as to its tax status from the Internal Revenue Service. Certain employees are also eligible to participate in a non-qualified deferred compensation plan created pursuant to Internal Revenue Code Section 457(b). The Conservancy's contributions to the plans were $15,113,000 for the year ended June 30, 2015.

7. INCOME TAXES

The Conservancy has been granted an exemption from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Internal Revenue Service has classified The Conservancy as other than a private foundation. The Conservancy pays a nominal amount of tax relating to several unrelated business income activities, primarily rental income from debt-financed property. The Conservancy takes no tax positions that it considers to be uncertain.

8. SUBSEQUENT EVENTS

All subsequent events were evaluated through October 9, 2015, which is the date the financial statements were issued.

FOOTNOTE SCHEDULES

The following schedules represent required disclosures of more detailed information regarding certain balances and amounts contained in the consolidated statements of financial position and activities. These are an integral part of the footnotes to the consolidated financial statements.

9. Pledges receivable

As of June 30, 2015 unconditional promises to give were as follows:

(In thousands)

Amounts due in		
Less than one year	$	129,002
One to five years		101,335
More than five years		1,418
Subtotal		231,755
Less fair value adjustments:		
Discount of 3.25%		5,736
Allowance for doubtful accounts		6,500
Total	$	219,519

10. Deposits on land and other assets

Deposits on land and other assets consisted of the following at June 30, 2015:

(In thousands)

Deposits on land	$	986
Trade lands		8,368
Other receivables		1,471
Prepaid expenses		9,328
Notes receivable		10,740
Other assets		5,653
Total	$	36,546

11. Property and equipment

Property and equipment consisted of the following at June 30, 2015:

(In thousands)

Land for operations	$	7,210
Buildings and improvements		139,190
Construction in progress		29,884
Computer equipment and software		12,141
Furniture, fixtures, and other		21,148
		209,573
Accumulated depreciation and amortization		(77,312)
Total	$	132,261

Depreciation and amortization expense was $8,894,000 during the year ended June 30, 2015. Of the total assets listed above, $21,481,000 was fully depreciated at June 30, 2015.

12. Bonds and notes payable

(In thousands)	
Unsecured Colorado Educational and Cultural Facilities Authority Revenue Bonds, Tax Exempt, Series 2002A issued in the original principal amount of $25,053,000, variable interest rate pursuant to rate swap, 0.08% as of June 30, 2015, due July, 2024.	$ 12,262
Unsecured Colorado Educational and Cultural Facilities Authority Revenue Refunding Bonds, Tax Exempt, Series 2012 issued in the original principal amount of $144,435,000, with a variable interest rate reset weekly, 0.07% as of June 30, 2015, due July, 2033.	133,270
Unsecured Taxable Revenue Bonds Series 2009 in the aggregate principal amount of $100,000,000 issued July 1, 2009, fixed rate of 6.30% due July, 2019.	100,000
New York State Environmental Facilities Corporation private bonds issued in the aggregate amount of $50,000,000 with a fixed interest rate of 3.90%, due June, 2024.	40,338
Loans and mortgages, some of which are collateralized by the land and other assets, and payable in monthly installments, including interest ranging from 0% to 6.0%; final payments are due at various dates through 2033.	63,144
Conservation Notes, unsecured notes payable in various amounts with interest ranging from 0.40% to 2.0%, due at various dates through 2020.	21,399
Other notes payable without interest due on demand	6,328
Total	$ 376,741

The fair value of long-term debt, including current maturities, is estimated based on current market rates offered to or by The Conservancy for similar instruments. The fair value of the Unsecured Taxable Revenue Bonds Series 2009 is $118,835,000 based on market observable inputs at June 30, 2015 and would be characterized within Level 2 if carried at fair value. The fair value of the NY State Environmental Facilities Corporation bonds is $42,483,000 based on the income approach method at June 30, 2015 and would be characterized within Level 2 if carried at fair value. Based on a blended borrowing rate of 4.25% as of June 30, 2015, the fair value of the remaining long-term debt is approximately $233,437,000 and would be characterized within Level 2 if carried at fair value.

The following schedule of amounts due is based on the maturity dates per the debt agreements:

(In thousands)		
2016	$	96,825
2017		67,829
2018		47,049
2019		10,248
2020		122,551
Thereafter		32,239
Total	$	376,741

13. Net assets

Temporarily restricted net assets are available for the following purposes:

(In thousands)		
Land acquisition and other conservation projects	$	270,091
Time restricted for periods after June 30		172,619
Time and purpose restricted for periods after June 30		170,729
True endowment gains subject to future Board of Directors' appropriation		117,534
Total	$	730,973

Permanently restricted net assets are restricted in perpetuity; the income derived from these investments is expendable to support the operations of The Conservancy. The total amount of permanently restricted net assets on the consolidated statement of financial position includes the donor-restricted endowment funds of $177,203,000 displayed in the tables below, as well as other amounts such as those contributed to create a permanent capital fund. This fund, the land preservation fund, is used to finance capital projects and is to be maintained in perpetuity for only this purpose. Permanently restricted net assets in the land preservation fund were $166,136,000 as of June 30, 2015, and the remaining balance of permanently restricted net assets in the land fund was $3,014,000 as of June 30, 2015.

Endowment funds are categorized in the following net asset classes as of June 30, 2015:

(In thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (1,450)	$ 117,534	$ 177,203	$ 293,287
Board-designated endowment funds	864,865	-	-	864,865
Total endowment funds	$ 863,415	$ 117,534	$ 177,203	$ 1,158,152

Changes in endowment funds by net asset classification for the year ended June 30, 2015 are summarized as follows:

(In thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 845,265	$ 113,843	$ 165,838	$ 1,124,946
Investment returns	44,043	14,931	-	58,974
Contributions and other revenue	239	107	12,044	12,390
Interfund transfers	11,925	1,660	476	14,061
Appropriation of assets for expenditure	(52,293)	-	-	(52,293)
Net assets released from restrictions	13,980	(12,907)	(1,073)	-
Subtotal endowment funds	863,159	117,634	177,285	1,158,078
Reclassification of net assets	256	(100)	(82)	74
Total endowment funds	$ 863,415	$ 117,534	$ 177,203	$ 1,158,152

14. Assets and liabilities carried at fair value

Assets and liabilities carried at fair value are classified in the fair value hierarchy based on the lowest level of input that is significant to the valuation.

Fair value for Level 1 is based upon quoted prices in active markets for identical assets and liabilities. Market price data is generally obtained from exchange or dealer markets.

Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and on model-based valuation techniques, for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers, and brokers.

Fair value for Level 3 is based on valuation techniques that use significant inputs that are unobservable as they trade infrequently or not at all.

The Conservancy uses the practical expedient to determine the fair value for some of its investments, which permits the use of Net Asset Value (NAV) without adjustment under certain circumstances.

In order to partially insulate itself from the variable nature of the interest rates on its outstanding debt, The Conservancy has three interest rate swap agreements that fix the rates on several variable rate bonds. Interest rate swaps are valued using both observable and unobservable inputs, such as quotations received from the counterparty, dealers or brokers, whenever available and considered reliable. In instances where models are used, the value of the interest rate swap depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, yield curves, credit curves, measures of volatility, prepayment rates, assumptions for nonperformance risk, and correlations of such inputs. The Conservancy's interest rate swap arrangements have inputs which can generally be corroborated by market data and are therefore classified within Level 2.

Fair value of interest rate swaps at June 30, 2015:

(In thousands)		
Interest rate contracts		
Consolidated Statement of Financial Position location:		
Accounts payable and accrued liabilities	$	37,492
Change in fair value in Consolidated Statement of Activities		
Other income	$	515

Assets and liabilities categorized by input level:

(In thousands)

	Level 1	Level 2	Level 3	Total
Investments:				
Short-term investments	$ 1,644	$ 78,062	$ -	$ 79,706
Repurchase agreements	-	4,061	-	4,061
Fixed income:				
U.S. treasuries	43,521	-	-	43,521
Asset-backed securities	-	44,185	-	44,185
Taxable Municipals	-	693	-	693
Corporate debt	-	199,736	-	199,736
Mortgage-backed securities	-	16,094	-	16,094
U.S. agency bonds	-	114,184	-	114,184
Public equity:				
Consumer discretionary	43,059	-	-	43,059
Consumer staples	8,852	-	-	8,852
Energy	8,435	-	-	8,435
Financial services	19,910	-	-	19,910
Health care	9,345	-	-	9,345
Industrials	27,672	-	-	27,672
Information technology	19,403	-	-	19,403
Materials	13,427	-	-	13,427
Utilities	1,685	-	-	1,685
Other industries	614	-	-	614
Commingled equity funds	-	-	517,235	517,235
Exchange traded funds	12,568	-	-	12,568
Closed end mutual funds	70,910	-	-	70,910
Hedge funds	-	-	460,292	460,292
Private equity	-	-	211,920	211,920
Private real estate	-	-	53,507	53,507
Split interests, trusteed	152,627	102,958	13,727	269,312
Split interests, non-trusteed	-	-	32,843	32,843
Total investments at fair value	433,672	559,973	1,289,524	2,283,169
Securities pledged under securities lending agreement	$ 33,582	$ -	$ -	$ 33,582
Pledges receivable	-	-	219,519	219,519
Total assets measured at fair value	$ 467,254	$ 559,973	$ 1,509,043	$ 2,536,270
Interest rate swaps liability	$ -	$ 37,492	$ -	$ 37,492
Payable under securities lending agreement	33,582	-	-	33,582
Total liabilities measured at fair value	$ 33,582	$ 37,492	$ -	$ 71,074

Investments included in Level 3 primarily consist of The Conservancy's ownership in alternative investments (principally limited partnership interests in hedge and private equity funds) as well as investments held within private arrangements. The value of certain alternative investments represents the ownership interest in the NAV of the respective partnership. Approximately 77.6% of Level 3 investments held by the partnerships consist of marketable securities and 22.4% are securities that do not have readily determinable fair values. The fair values of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner and are based on appraisals, or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partner taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. The Conservancy has performed significant due diligence around these investments to ensure NAV is an appropriate measure of fair value.

Investments valued using NAV as of June 30, 2015:

(In thousands)	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Global equity funds	$ 265,560	$ -	Daily, weekly, monthly, quarterly	2 days, 7 days, 10 business days, 30 days
International equity funds	219,570	-	Daily, monthly, quarterly	6 business days, 14 days, 60 calendar days, 90 days
Domestic equity funds	32,105	-	Monthly	60 days
Hedge funds	460,292	13,333	Monthly, quarterly, semi-annually, annually, biennially, rolling 2, 3 & 4 years	30 - 90 days
Private equity funds	195,879	35,630	N/A	N/A
Real estate funds	53,507	28,243	N/A	N/A
Total	$ 1,226,913	$ 77,206		

The Conservancy uses a standard charitable gift calculation model and the IRS discount rate to determine the present value of split interest agreements where The Conservancy serves as trustee. For split interest agreements where The Conservancy is not the trustee, valuations are based on the values reported by third-party trustees, while noting that the valuation techniques for future distributions expected to be received over the term of the agreement and unobservable inputs - such as discount rates, life expectancies, and trust payouts – may vary widely among trustees. There is no market for these agreements, and they are therefore classified within Level 3.

Rollforward of Level 3 financial instruments:

(In thousands)

	Fair value as of June 30, 2014	Realized gains (losses)	Unrealized gains (losses)	Purchases	Sales	Fair value as of June 30, 2015
Commingled equity funds	$ 411,973	$ 4,779	$ 9,753	$ 159,557	$ (68,827)	$ 517,235
Hedge funds	244,839	32,162	9,159	297,392	(123,260)	460,292
Private equity	202,281	28,024	(523)	29,977	(47,839)	211,920
Real estate	44,547	2,261	3,039	19,199	(15,539)	53,507
Split interest arrangements	48,855	-	60	2,920	(5,265)	46,570
Total	952,495	67,226	21,488	509,045	(260,730)	1,289,524
Pledges receivable	222,770	-	(3,251)	-	-	219,519
Total investments and pledges	$1,175,265	$ 67,226	$ 18,237	$ 509,045	$ (260,730)	$ 1,509,043

Of the net realized and unrealized gains of $85,463,000 in the table above, $88,714,000 are reflected in the accompanying statement of activities as investment gains. The remaining amounts include a $3,251,000 decrease in pledges, of which a net $2,751,000 decrease is reflected in the accompanying statement of financial position and statement of activities as the result of pledge payments and pledge contributions. The remaining $500,000 decrease is reflected as conservation activities and actions program expense.

Investment gains consisted of the following for the year ended June 30, 2015:

(In thousands)

Dividends and interest income	$ 23,249
Realized and unrealized gains (net of expenses of $12,656)	60,000
Change in value of split interest arrangements	(39,050)
Total investment income	$ 44,199

15. Leases

The following is a schedule of future minimum lease payments for all operating leases as of June 30, 2015:

(In thousands)

2016	$ 6,297
2017	4,985
2018	4,426
2019	3,084
2020	2,795
Thereafter	$ 6,258
Total minimum lease payments	$ 27,845

Rent expense was $12,032,000 for the year ended June 30, 2015.

SUPPLEMENTAL SCHEDULES

Following are supplemental schedules:

Consolidated statements of financial position as of June 30, 2015 (with comparative totals as of June 30, 2014)

Summarized consolidated statements of activities for the year ended June 30, 2015 (with comparative totals for the year ended June 30, 2014)

Schedule of functional expenses as reported in the consolidated statement of activities for the year ended June 30, 2015 by natural account classification (with comparative totals for the year ended June 30, 2014).

While these schedules are not required under Generally Accepted Accounting Principles, they provide useful additional detail to help the user of these financial statements understand how funds are spent, as well as providing prior year comparisons.

The Nature Conservancy
Supplemental Schedule - Consolidated Statements of Financial Position
As of June 30, 2015 and 2014

(Amounts in thousands)	2015	2014
Assets		
Cash and cash equivalents	$ 105,090	$ 179,262
Restricted cash	14,820	29,304
Restricted short-term investments	25,000	-
Government grants and contracts receivable	21,776	21,822
Pledges receivable, net	219,519	222,770
Collateral received under securities lending agreement	33,582	42,140
Deposits on land and other assets	36,546	27,493
Property and equipment, net of accumulated depreciation and amortization	132,261	123,269
Investments - Capital fund	820,909	684,932
Investments - Split interest arrangements	301,444	307,963
Investments - Endowment fund	1,160,816	1,127,610
Conservation lands	1,809,805	1,815,004
Conservation easements	2,030,932	1,937,343
Total assets	$ 6,712,500	$ 6,518,912
Liabilities		
Accounts payable and accrued liabilities	$ 103,482	$ 100,161
Payable under securities lending agreement	33,582	42,140
Deferred revenue and refundable advances	99,748	89,058
Bonds and notes payable	376,741	363,562
Split interest arrangements payable	174,979	146,532
Total liabilities	788,532	741,453
Net assets		
Unrestricted		
Undesignated	8,875	17,952
Land, easements, and project funds	3,969,854	3,820,356
Board-designated quasi endowment and similar funds	867,913	849,764
Total unrestricted	4,846,642	4,688,072
Temporarily restricted	730,973	756,277
Permanently restricted	346,353	333,110
Total net assets	5,923,968	5,777,459
Total liabilities and net assets	$ 6,712,500	$ 6,518,912

The Nature Conservancy
Supplemental Schedule - Summarized Consolidated Statements of Activities
For the years ended June 30, 2015 and 2014

(Amounts in thousands)	2015	2014
Support and revenues		
Dues and contributions	$ 545,069	$ 560,417
Land and easements contributed for conservation	99,544	57,614
Government grants and contracts	99,209	120,687
Investment income	44,199	235,213
Sales of conservation land and easements to governments and others	101,238	80,915
Other	58,296	59,433
Total support and revenues	947,555	1,114,279
Expenses		
Program expenses	573,205	541,179
General and administration	136,586	121,776
Fund-raising		
General fund-raising	64,793	67,099
Membership development	26,462	27,817
Total expenses	801,046	757,871
Increase in net assets	146,509	356,408
Net assets at beginning of year	5,777,459	5,421,051
Net assets at end of year	$ 5,923,968	$ 5,777,459

The Nature Conservancy
Supplemental Schedule - Schedules of Functional Expenses
For the year ended June 30, 2015 with summarized totals for the year ended June 30, 2014

(Amounts in thousands)	Program expenses	Support services expenses				Totals	
			Fund-raising				
	Conservation activities and actions	General and administration	General fund-raising	Membership development	Total Support services expenses	2015 Total expenses	2014 Total expenses
Personnel	$ 194,826	$ 77,743	$ 52,695	$ 3,383	$ 133,821	$ 328,647	$ 309,859
Contract, professional fees	72,136	10,650	4,428	7,790	22,868	95,004	87,783
Grants and allocations	63,877	89	20	-	109	63,986	49,425
Supplies	8,774	3,667	615	1,283	5,565	14,339	14,733
Telecommunications	1,603	1,511	242	35	1,788	3,391	3,511
Postage and mailing service	1,718	305	394	8,286	8,985	10,703	10,749
Occupancy	2,141	9,669	219	3	9,891	12,032	11,646
Equipment rental and maintenance	4,512	1,270	168	-	1,438	5,950	5,886
Printing and publication	3,801	217	967	5,090	6,274	10,075	11,163
Travel	16,390	3,579	2,565	87	6,231	22,621	22,120
Conferences and meetings	7,675	1,885	1,276	21	3,182	10,857	11,483
Interest	17,919	-	-	-	-	17,919	18,618
Depreciation and amortization	7,082	1,507	305	-	1,812	8,894	9,468
Equipment	3,472	253	38	-	291	3,763	3,060
Taxes and licenses	1,148	1,268	80	8	1,356	2,504	2,065
Utilities, repairs, maintenance, and construction	6,209	2,281	161	-	2,442	8,651	9,261
Insurance	2,767	1,702	37	-	1,739	4,506	4,141
Real estate taxes	4,704	937	8	-	945	5,649	6,501
Closing costs	2,197	580	-	-	580	2,777	1,565
Contributed goods and services non-cash expense	11,413	12,485	419	470	13,374	24,787	20,494
All other	1,647	4,988	156	6	5,150	6,797	4,590
Subtotal	436,011	136,586	64,793	26,462	227,841	663,852	618,121
Book value of conservation land and easements sold or donated to government and others	137,194	-	-	-	-	137,194	139,750
Total	$ 573,205	$ 136,586	$ 64,793	$ 26,462	$ 227,841	$ 801,046	$ 757,871

The Nature Conservancy

Consolidated Financial Statements
For the year ended June 30, 2014
And report thereon

pwc

Independent Auditor's Report

To the Board of Directors of
The Nature Conservancy

We have audited the accompanying consolidated financial statements of The Nature Conservancy and its chapters and affiliates ("The Conservancy"), which comprise the consolidated statement of financial position as of June 30, 2014, and the related consolidated statements of activities and of cash flows for the year then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Conservancy's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Conservancy's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Nature Conservancy and its chapters and affiliates at June 30, 2014, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP, 1800 Tysons Boulevard, McLean, VA 22102-4261
T: (703) 918 3000, F: (703) 918 3100, www.pwc.com/us

Other Matter

Our audit was conducted for the purpose of forming an opinion on the 2014 consolidated financial statements taken as a whole. The accompanying summarized consolidated statements of financial position as of June 30, 2014 and 2013, the summarized consolidated statements of activities for the years ended June 30, 2014 and 2013, and the schedule of functional expenses for the year ended June 30, 2014, with summarized totals for the year ended June 30, 2013 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2014 information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole. The 2013 prior year summarized comparative information has been derived from the Conservancy's 2013 consolidated financial statements, and in our report dated October 17, 2013, we expressed an unqualified opinion on those consolidated financial statements.

PricewaterhouseCoopers LLP

October 10, 2014

The Nature Conservancy
Consolidated Statement of Financial Position
As of June 30, 2014

(Amounts in thousands)

Assets		
Cash and cash equivalents		$ 179,262
Restricted cash		29,304
Government grants and contracts receivable		21,822
Pledges receivable, net		222,770
Collateral received under securities lending agreement		42,140
Deposits on land and other assets		27,493
Property and equipment, net of accumulated depreciation and amortization		123,269
Investments		
Investments - Capital fund	684,932	
Investments - Split interest arrangements	307,963	
Investments - Endowment fund	1,127,610	
Total investments		2,120,505
Conservation lands		1,815,004
Conservation easements		1,937,343
Total assets		$ 6,518,912
Liabilities		
Accounts payable and accrued liabilities		$ 100,161
Payable under securities lending agreement		42,140
Deferred revenue and refundable advances		89,058
Bonds and notes payable		363,562
Split interest arrangements		146,532
Total liabilities		741,453
Net assets		
Unrestricted		
Undesignated	17,952	
Land, easements, and project funds	3,820,356	
Board-designated quasi endowment and similar funds	849,764	
Total unrestricted		4,688,072
Temporarily restricted		756,277
Permanently restricted		333,110
Total net assets		5,777,459
Total liabilities and net assets		$ 6,518,912

The accompanying notes are an integral part of these consolidated financial statements.

The Nature Conservancy
Consolidated Statement of Activities
For the year ended June 30, 2014

(Amounts in thousands)	Unrestricted	Temporarily restricted	Permanently restricted	Total
Support and revenues				
Dues and contributions	$ 248,721	$ 271,976	$ 16,815	$ 537,512
Contributed goods and services	22,905	-	-	22,905
Land and easements contributed for conservation	57,614	-	-	57,614
Government grants and contracts	120,687	-	-	120,687
Investment income	185,593	49,620	-	235,213
Other income	59,433	-	-	59,433
Total support and revenues before sales of conservation land and easements and net assets released from restrictions	694,953	321,596	16,815	1,033,364
Sales of conservation land and easements to governments and others	80,915	-	-	80,915
Net assets released from restrictions	200,235	(200,235)	-	-
Total support and revenues	976,103	121,361	16,815	1,114,279
Expenses				
Program expenses				
Conservation activities and actions	401,429	-	-	401,429
Book value of conservation land and easements sold or donated to governments and others	139,750	-	-	139,750
Total program expenses	541,179	-	-	541,179
Support services expenses				
General and administration	121,776	-	-	121,776
Fund-raising				
General fund-raising	67,099	-	-	67,099
Membership development	27,817	-	-	27,817
Total support services expenses	216,692	-	-	216,692
Total expenses	757,871	-	-	757,871
Increase in net assets	218,232	121,361	16,815	356,408
Reclassification of net assets	(162)	-	162	-
Total increase in net assets	218,070	121,361	16,977	356,408
Net assets at beginning of year	4,470,002	634,916	316,133	5,421,051
Net assets at end of year	$ 4,688,072	$ 756,277	$ 333,110	$ 5,777,459

The accompanying notes are an integral part of these consolidated financial statements.

The Nature Conservancy
Consolidated Statement of Cash Flows
For the year ended June 30, 2014

(Amounts in thousands)

Reconciliation of increase in net assets to cash provided by operating activities:			
Increase in net assets		$ 356,408	
Non-cash adjustments:			
Contributed land and easements	$ (60,214)		
Losses on sales of land, easements, and property	61,155		
Realized/Unrealized investment gains	(198,392)		
Change in value of split interest agreements	(10,499)		
Change in value of interest rate swaps	(3,513)		
Depreciation and amortization	9,468	(201,995)	
Changes in assets and liabilities:			
Increase in receivables	(41,968)		
Decrease in restricted cash	316		
Decrease in other assets	2,518		
Increase in split interests	2,658		
Decrease in other liabilities	(145)	(36,621)	
Cash provided by (used in) land activities:			
Proceeds from sales of land and easements	87,497		
Purchases of land and easements	(103,646)	(16,149)	
Contributions for long-term purposes		(16,816)	
Net cash provided by operating activities			$ 84,827
Investing activities:			
Proceeds from sale of investments		1,581,602	
Purchases of investments		(1,557,652)	
Purchases of property and equipment		(30,576)	
Other - net		(10,789)	
Net cash used in investing activities			(17,415)
Financing activities:			
Proceeds from securities lending program		7,029	
Repayments of securities lending program		(7,029)	
Principal payments on debt		(21,449)	
Proceeds from issuance of debt		8,765	
Proceeds from restricted contributions		16,816	
Net cash provided by financing activities			4,132
Net change in cash and cash equivalents			71,544
Cash and cash equivalents, beginning of year			107,718
Cash and cash equivalents, end of year			$ 179,262
Supplemental data			
Interest paid			$ 17,325

The accompanying notes are an integral part of these consolidated financial statements.

ACCOUNTING POLICY FOOTNOTES

The following notes present disclosures of the significant accounting policies and related information relating to balances and amounts contained in the consolidated statements of financial position and activities. These notes are an integral part of the consolidated financial statements.

1. ORGANIZATION

The Nature Conservancy (The Conservancy) is a global conservation organization. The mission of The Conservancy is to conserve the lands and waters on which all life depends. The Conservancy conducts its activities throughout the United States, Canada, Latin America, the Caribbean, Africa, Asia, and the Pacific.

The Conservancy's primary sources of revenue are contributions from the public (including gifts of land), investment income, government grants, and sales of conservation interests to government agencies or other conservation buyers. These resources are used to help solve critical challenges by significantly improving the health of globally important natural systems that enhance the lives of people around the world. Under its conservation framework, The Conservancy concentrates on four global challenges: conserving critical lands, restoring oceans, securing fresh water, and reducing the impact of climate change. Working with partners – including indigenous communities, governments, and businesses – The Conservancy pursues solutions that protect and restore natural systems, use nature sustainably, and broaden support for conservation.

2. CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements are presented on the accrual basis of accounting and include the accounts of all The Conservancy's chapters and affiliates, both domestic and international, including those which are separately incorporated, receive gifts, and perform conservation activities in the name of The Conservancy. All significant intercompany transactions have been eliminated.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimated amounts.

3. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Cash, Cash Equivalents, and Restricted Cash
Cash represents operating cash held in bank accounts in high quality financial institutions in the United States and 34 other countries. The cash in non-U.S. accounts is uninsured, but is limited per country to amounts that, in the opinion of management, are not material to the financial statements. Cash equivalents represents short-term, highly liquid investments with maturities of three months or less when purchased. Restricted cash represents monies held in trust related to requirements of specific conservation project agreements.

Government Grants and Contracts Receivable/Deferred Revenue and Refundable Advances
The Conservancy receives grants and contracts from federal, state, and local agencies to be used for specific programs or land purchases. The excess of reimbursable expenditures over cash receipts is included in government grants receivable, and any excess of cash receipts over reimbursable expenditures is included in deferred revenue and refundable advances.

Pledges Receivable
Pledges receivable represent unconditional promises to give and are reported at fair value by discounting the expected future pledge payments at the prime interest rate at the balance sheet date,

and accordingly are categorized as Level 3 assets. The primary unobservable input used in the fair value measurement of the Conservancy's pledges receivable is the discount rate. Significant fluctuations in the discount rate could result in a material change. The discount rate used in the present value technique to determine fair value of pledges receivable is revised at each measurement date to reflect current market conditions and the creditworthiness of donors. In addition, management evaluates payment history and market conditions to estimate allowances for doubtful pledges. Changes in the fair value of pledges receivable are reported in the statement of activities as contribution revenue except for changes in the allowance which are reported as program expenses at each subsequent reporting date. Pledges receivable past due by 90 days are, in the opinion of management, not material to the financial statements.

Not recorded as pledges receivable are $54,946,000, that are conditioned upon The Conservancy raising matching gifts or acquiring certain conservation lands. Conditional promises to give are recognized as contributions when the donor-imposed conditions are substantially met.

Securities Lending Agreement
The Conservancy lends certain securities in its investment portfolio to qualified borrowers on a short-term, fully collateralized basis in exchange for interest to help offset custodial fees. Collateral in the form of cash in US dollars, securities issued or guaranteed by the US government, or irrevocable letters of credit issued by banks independent of the borrowers is marked-to-market on a daily basis, and the borrower is required to deliver the difference between the daily market value of the collateral and 102% of the loaned securities' original fair market value if denominated in US dollars or 105% if denominated in foreign currency. The lending agent, in its agreement with The Conservancy, guarantees the repayment of the loan in the event the borrower defaults. The Conservancy retains all the benefits of ownership including rights to dividends, interest, and other cash distributions pertaining to the loaned securities. The Conservancy also retains the right to redeem the loaned securities prior to the stipulated redemption date.

At June 30, 2014, The Conservancy recorded $42,140,000 in collateral received under its securities lending program and an equal amount payable to the borrowers under the agreement. These amounts are reflected in assets and liabilities in the consolidated statement of financial position.

Property and Equipment
Property and equipment are carried at cost. Depreciation and amortization is provided using the straight-line method for all depreciable assets over their estimated future lives as follows:

Building and improvements	5 – 30 years
Computer equipment and software	3 – 5 years
Furniture, fixtures, and other	4 – 25 years

Concentration of Credit Risk
The Conservancy's excess cash is invested with high quality institutions, the largest concentrations of which are invested in U.S. Agencies (70.5%) and Repurchase Agreements (29.4%); 82.4% of the repurchase agreements are backed by U.S. Treasuries and U.S. Agencies.

Pursuant to its investment policy, The Conservancy's investments cannot have more than 10% of their assets at market value in securities of any one issuer, be they short-term or long-term, other than the U.S. Government and its Agencies. At June 30, 2014, the single largest non-U.S.

Government issuer exposure was 7.55% of the Capital and Endowment Fund investments. This issue is in the form of a global commingled equity fund.

Investments
Investments are carried at estimated fair market value and reported in three distinct categories:

- *Capital fund* – funds held primarily for the future acquisition of conservation land, easements, and for funding other conservation projects.

- *Split interest arrangements* – donations that are held in trust by The Conservancy or third party trustees, representing beneficial interests in trusts.

- *Endowment fund* – funds held as long-term capital to generate income for The Conservancy's operations.

Endowment Investment and Spending Policies
The Conservancy's Endowment (Endowment) includes both donor-restricted endowment funds and funds designated by the Board of Directors (Board) to function as endowments. The amount of Endowment income provided each year for operations is established by the Finance Committee of the Board, through its adoption of an annual endowment spending rate and spending rate base. The spending rate for the year ended June 30, 2014 was 5.0% of the average fair market value of the 60 months of calendar years 2008 through 2012.

The Conservancy recognizes that risk must be assumed to achieve its stated long-term investment objectives. Therefore, asset allocations and ranges are necessarily diverse, and consider liquidity needs. The Conservancy has considered its ability to withstand short and intermediate term variability and concluded that the portfolio can tolerate some interim fluctuations in market values and rates of return in order to achieve its objectives. However, The Conservancy realizes that market performance varies and that the portfolio's investment objectives may not be achievable during short-term periods.

The Conservancy has chosen not to manage its underlying assets directly, but to utilize independent investment managers. To maintain prudent diversification and to manage risk, The Conservancy's portfolio is divided among roughly 50 separate managers.

Conservation Lands and Easements
The Conservancy records land and land interests at cost if purchased or at fair value at the date of acquisition, if all or part of the land was received as a donation. Fair value is generally determined by appraisal at the time of acquisition and is not subsequently adjusted. Upon sale or gift, the book value of the land or land interest is reported as a program expense and the related proceeds, if any, are reported as revenue in the consolidated statement of activities.

Conservation land is real property with significant ecological value. These properties are either managed in an effort to protect the natural biological diversity of the property, or transferred to other organizations who will manage the lands in a similar fashion.

Conservation easements are comprised of listed rights and/or restrictions over the owned property that are conveyed by a property owner to The Conservancy, almost always in perpetuity, in order to

protect the owned property as a significant natural area, as defined in federal tax regulations. These intangible assets may be sold or transferred to others so long as the assignee agrees to carry out, in perpetuity, the conservation purposes intended by the original grantor. Conservation easements, by their very nature, do not generate material amounts of cash inflow annually.

Bonds and Notes Payable

The Conservancy uses debt, both fixed and variable, primarily to finance the acquisition of conservation lands and easements. Debt is reported at carrying value.

In order to partially insulate itself from the variable nature of the interest rates on its outstanding debt, The Conservancy has three interest rate swap agreements. The Conservancy pays a fixed rate of 4.373% on $95,375,000 in return for receipt of variable rate interest in the amount of 3- month LIBOR and pays a fixed rate of 2.962% on $190,000,000 in return for receipt of variable rate interest in the amount of 67% of 3-month LIBOR. The Conservancy pays a fixed rate of 3.56% on $25,053,000 in return for receipt of variable rate interest in the amount of 67% of 1-month LIBOR. Maturities of the swap agreements range from 2027 to 2033 and the counterparty to these swaps has the option to terminate at their discretion. The fair value of these interest rate swap agreements are reflected in the accompanying consolidated statement of position as accounts payable and accrued liabilities.

Due to the nature of certain variable-rate bond agreements, The Conservancy may receive notice of an optional tender on its variable-rate bonds, in which case The Conservancy would have an obligation to purchase the bonds tendered if unable to secure alternate financing at that time. The Conservancy entered into a standby liquidity support agreement with a financial institution to support $100,000,000 of the original principal amount of the variable rate demand obligations. Under this agreement, the financial institution agreed to supply additional liquidity to The Conservancy up to that amount, with which The Conservancy can purchase the bonds if The Conservancy cannot remarket the bonds. In the event of a draw on the $100,000,000 liquidity support line, the due date would be three years from the earlier of the date of the draw or September 13, 2015.

Interest expense incurred on total notes payable for 2014 was $18,601,000.

Split Interest Arrangements

The Conservancy enters into split interest arrangements whereby donations are held in trust by The Conservancy or third party trustees and invested. Agreed-upon amounts of the invested funds are payable to the donor or the donor's designee for a specified period of time or until the donor's death, after which time The Conservancy may use the investments for operations or a restricted use specified by the donor. The donated trust asset investments are recorded at fair value based on the latest available information.

The Conservancy utilizes an IRS-approved annuity table to actuarially calculate the liability associated with the estimated donor payments under these arrangements. The Conservancy determines the discount rate to be used in the month the split interest arrangements are entered into with the donor and these rates have ranged from 1% to 9%. The present value of the actuarially determined liability resulting from these gifts is recorded at the date of gift and adjusted annually thereafter to reflect fair value.

Net Assets

The Conservancy's net assets are reported in the following three classes:

- *Unrestricted net assets* – Revenues derived from dues, unrestricted contributions, government grants and contracts, investment income (other than the temporarily restricted portion of true endowment investment income), and other inflows of assets whose use by The Conservancy is not limited by donor-imposed restrictions. Certain unrestricted net assets have been designated by the Board of Directors to be maintained as quasi endowment funds.

- *Temporarily restricted net assets* – Contributions and other inflows of assets whose use by The Conservancy is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of The Conservancy, such as usage for specific programs, including certain overhead and indirect costs, or for spending from true endowment investment income.

  When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported on the consolidated statement of activities as net assets released from restrictions.

- *Permanently restricted net assets* – Contributions and other inflows of assets whose use by The Conservancy is limited by donor-imposed stipulations that the principal must be maintained permanently by The Conservancy. The total amount of permanently restricted net assets on the consolidated statement of financial position includes the donor-restricted endowment funds as well as amounts contributed to create a permanent capital fund. This revolving fund is used to finance capital projects and donations to this fund are to be maintained in perpetuity for only this purpose.

Classification of endowment net assets

The Board of Directors of The Conservancy (Board) has approved management's interpretation of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as enacted by the Council of the District of Columbia. UPMIFA requires the preservation of the fair value of the original gifts as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

The Endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. The Conservancy classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) 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 permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by The Conservancy. The Conservancy considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the endowment fund;
- The purposes of the institution and the endowment fund;
- General economic conditions;
- The possible effect of inflation or deflation;

- The expected total return from income and appreciation of investments;
- Other resources of the institution; and
- The investment policy of the institution.

Endowments with Eroded Corpus
From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or The Conservancy requires to be retained as principal in perpetuity. Deficiencies of this nature that are netted in unrestricted net assets were \$1,613,000 as of June 30, 2014. These deficits resulted from unfavorable market fluctuations that occurred shortly after the investment of newly established endowments and authorized appropriation that was deemed prudent.

4. CONSOLIDATED STATEMENT OF ACTIVITIES

Contributions

Unconditional donor promises to give cash and other assets are reported at fair value at the date that there is sufficient verifiable evidence documenting that a promise was made by the donor and received by The Conservancy. The promises are reported as either temporarily or permanently restricted support if received with donor stipulations that sufficiently limit the use of the donated assets.

The Conservancy recognizes contributed professional services from third parties and contributed goods and trade lands as revenue and as expense or assets, at the fair value of those services or goods when received. Trade lands are real property with minimal ecological value. These properties are sold to provide funds for The Conservancy to carry out its conservation work. During 2014 contributed goods and services totaled \$22,905,000 and contributed trade lands totaled \$2,600,000.

Government Grants and Contracts

Government grants and contracts are considered to be exchange transactions, the majority of which are cost-reimbursable grants. Revenue, including approved indirect cost recovery, is recognized when allowable costs have been incurred. The Conservancy's costs incurred under its government grants and contracts are subject to audit by government agencies. Management believes that disallowance of costs, if any, would not be material to the consolidated financial position or consolidated changes in net assets of The Conservancy.

Program expense allocation

Operating expenses are allocated to program and support categories based on separate cost center types as defined below. Conservation land and easements that are acquired by The Conservancy, but not sold or donated, are reflected as an increase in conservation land and easements on the consolidated statement of financial position and are excluded from the program expense categories on the consolidated statement of activities.

The Conservancy accounts for its program expenditures in the following categories:

- *Conservation Activities and Actions* – Expenditures related to the broad spectrum of activities and actions critical to advancing The Conservancy's mission. Expenditures related to understanding, monitoring, maintaining, restoring, and managing natural areas owned by The Conservancy and others are included, as well as expenditures for developing and enhancing

The Conservancy's ability to gather and share ecological information and to assess and evaluate threats to natural systems. In addition, this area includes expenditures to mitigate, prevent, or slow the effects of these threats, including investments in the institutional development of domestic and international conservation organizations. Expenditures related to improving public land management and supporting the development of sound global policies, including participating in conferences and events that help establish a common vision for conservation worldwide are included, as well as expenditures associated with community outreach and education of key stakeholders and land users in areas where Conservancy conservation programs reside.

- *General and Administration* – Expenditures related to building and maintaining an efficient business infrastructure, including those related to corporate governance, to support and advance the programmatic conservation objectives of The Conservancy.

- *General Fund-Raising* – Expenditures related to fund-raising strategies that provide the revenue stream for both operations and capital needs to further the accomplishment of The Conservancy's mission and objectives.

- *Membership Development* – Expenditures related to the acquisition and retention of The Conservancy's members primarily through the use of a direct-mail program.

5. COMMITMENTS AND CONTINGENCIES

Litigation
The Conservancy is a party to various litigations arising out of the normal conduct of its operations. In the opinion of The Conservancy's management, the ultimate resolution of these matters will not materially affect the financial position, changes in net assets, or cash flows of The Conservancy.

Leases
The Conservancy has entered into non-cancelable operating leases for office space, which expire at various dates through 2025. Certain of these leases contain rent escalation clauses, usually based on the consumer price index.

Land acquisitions and other commitments
The Conservancy has entered into contracts for the purchase of land and other purchase commitments that have not closed as of June 30, 2014, in the amount of $39,184,000.

The Conservancy has remaining funding commitments to private equity, real estate, and hedge fund investment managers of $84,049,000 at June 30, 2014.

6. RETIREMENT PLANS

The Conservancy's employees are eligible after one month of service to participate in The Nature Conservancy Savings and Retirement Plan (the Plan), in which employees can make voluntary, tax-deferred contributions within specified limits. The Plan was established under the provisions of Internal Revenue Code Section 401(k) and has received a favorable determination as to its tax status from the Internal Revenue Service. Certain employees are also eligible to participate in a non-qualified deferred compensation plan created pursuant to Internal Revenue Code Section 457(b). The Conservancy's contributions to the plans were $13,877,000 for the year ended June 30, 2014.

7. INCOME TAXES

The Conservancy has been granted an exemption from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Internal Revenue Service has classified The Conservancy as other than a private foundation. The Conservancy pays a nominal amount of tax relating to several unrelated business income activities, primarily rental income from debt-financed property. The Conservancy takes no tax positions that it considers to be uncertain.

8. SUBSEQUENT EVENTS

All subsequent events were evaluated through October 10, 2014, which is the date the financial statements were issued.

FOOTNOTE SCHEDULES

The following schedules represent required disclosures of more detailed information regarding certain balances and amounts contained in the consolidated statements of financial position and activities. These are an integral part of the footnotes to the consolidated financial statements.

9. Pledges receivable

As of June 30, 2014 unconditional promises to give were as follows:

(In thousands)

Amounts due in	
Less than one year	$ 137,316
One to five years	93,535
More than five years	3,457
Subtotal	234,308
Less fair value adjustments:	
Discount of 3.25%	5,538
Allowance for doubtful accounts	6,000
Total	$ 222,770

10. Deposits on land and other assets

Deposits on land and other assets consisted of the following at June 30, 2014:

(In thousands)

Deposits on land	$ 1,018
Trade lands	7,043
Other receivables	2,162
Prepaid expenses	9,515
Notes receivable	4,968
Other assets	2,787
Total	$ 27,493

11. Property and equipment

Property and equipment consisted of the following at June 30, 2014:

(In thousands)

Land for operations	$ 7,260
Buildings and improvements	135,807
Construction in progress	20,455
Computer equipment and software	11,804
Furniture, fixtures, and other	17,754
	193,080
Accumulated depreciation and amortization	(69,811)
Total	$ 123,269

Depreciation and amortization expense was $9,468,000 during the year ended June 30, 2014. Of the total assets listed above, $11,791,000 was fully depreciated at June 30, 2014.

12. Bonds and notes payable

(In thousands)

Unsecured Colorado Educational and Cultural Facilities Authority Revenue Bonds, Tax Exempt, Series 2002A issued in the original principal amount of $25,053,000 to refund the Industrial Development Authority of Arlington County (IDA) Tax Exempt Revenue Bonds Series 1997A and portions of the IDA Revenue Bonds Taxable Series 1997B; variable interest rate pursuant to rate swap, 0.08% as of June 30, 2014, due July, 2024.	$ 13,277
Unsecured Colorado Educational and Cultural Facilities Authority Revenue Refunding Bonds, Tax Exempt, Series 2012 issued in the original principal amount of $144,435,000, with a variable interest rate reset weekly, 0.08% as of June 30, 2014, due July, 2033.	136,965
Unsecured Taxable Revenue Bonds Series 2009 in the aggregate principal amount of $100,000,000 issued July 1, 2009 to refund the Extendible Floating Rate Notes, Taxable Revenue Bonds Series EXL5 on October 5, 2009; fixed rate of 6.30% due July, 2019.	100,000
New York State Environmental Facilities Corporation private bonds issued in the aggregate amount of $50,000,000 with a fixed interest rate of 3.90%, due June, 2024.	45,353
Loans and mortgages, some of which are collateralized by the land, and payable in monthly installments, including interest ranging from 0% to 6.0%; final payments are due at various dates through 2033.	36,582
Conservation Notes, unsecured notes payable in various amounts with interest ranging from 0.75% to 2.0%, due at various dates through 2019.	24,999
Other notes payable without interest due on demand	6,386
Total	$ 363,562

The fair value of long-term debt, including current maturities, is estimated based on current market rates offered to or by The Conservancy for similar instruments. The fair value of the Unsecured Taxable Revenue Bonds Series 2009 is $122,199,000 based on market observable inputs at June 30, 2014 and would be characterized within Level 2 if carried at fair value. The fair value of the NY State Environmental Facilities Corporation bonds is $47,676,000 based on the income approach method at June 30, 2014 and would be characterized within Level 2 if carried at fair value. Based on a blended borrowing rate of 4.24% as of June 30, 2014, the fair value of the remaining long-term debt is approximately $216,081,000 and would be characterized within Level 2 if carried at fair value.

The following schedule of amounts due is based on the maturity dates per the debt agreements:

(In thousands)		
2015	$	98,858
2016		52,529
2017		65,643
2018		13,100
2019		7,383
Thereafter		126,049
Total	$	363,562

13. Net assets

Temporarily restricted net assets are available for the following purposes:

(In thousands)		
Land acquisition and other conservation projects	$	262,231
Time restricted for periods after June 30		217,319
Time and purpose restricted for periods after June 30		162,884
True endowment gains subject to future Board of Directors' appropriation		113,843
Total	$	756,277

Permanently restricted net assets are restricted in perpetuity; the income derived from these investments is expendable to support the operations of The Conservancy. The total amount of permanently restricted net assets on the consolidated statement of financial position includes the donor-restricted endowment funds of $165,838,000 displayed in the tables below, as well as other amounts such as those contributed to create a permanent capital fund. This fund, the land preservation fund, is used to finance capital projects and is to be maintained in perpetuity for only this purpose. Permanently restricted net assets in the land preservation fund were $163,536,000 as of June 30, 2014, and the remaining of balance of permanently restricted net assets in the land fund was $3,736,000 as of June 30, 2014.

Endowment funds are categorized in the following net asset classes as of June 30, 2014:

(In thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (1,613)	$ 113,843	$ 165,838	$ 278,068
Board-designated endowment funds	846,878	-	-	846,878
Total endowment funds	$ 845,265	$ 113,843	$ 165,838	$ 1,124,946

Changes in endowment funds by net asset classification for the year ended June 30, 2014 are summarized as follows:

(In thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 749,672	$ 87,961	$ 155,549	$ 993,182
Investment returns	121,984	39,120	-	161,104
Contributions and other revenue	155	442	10,127	10,724
Interfund transfers	8,582	2,409	-	10,991
Appropriation of assets for expenditure	(51,201)	-	-	(51,201)
Net assets released from restrictions	16,089	(16,089)	-	-
Subtotal endowment funds	845,281	113,843	165,676	1,124,800
Reclassification of net assets	(16)	-	162	146
Total endowment funds	$ 845,265	$ 113,843	$ 165,838	$1,124,946

14. Assets and liabilities carried at fair value

Assets and liabilities carried at fair value are classified in the fair value hierarchy based on the lowest level of input that is significant to the valuation.

Fair value for Level 1 is based upon quoted prices in active markets for identical assets and liabilities. Market price data is generally obtained from exchange or dealer markets.

Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and on model-based valuation techniques, for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers, and brokers.

Fair value for Level 3 is based on valuation techniques that use significant inputs that are unobservable as they trade infrequently or not at all.

The Conservancy uses the practical expedient to determine the fair value for some of its investments, which permits the use of Net Asset Value (NAV) without adjustment under certain circumstances.

In order to partially insulate itself from the variable nature of the interest rates on its outstanding debt, The Conservancy has three interest rate swap agreements that fix the rates on several variable rate bonds. Interest rate swaps are valued using both observable and unobservable inputs, such as quotations received from the counterparty, dealers or brokers, whenever available and considered reliable. In instances where models are used, the value of the interest rate swap depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, yield curves, credit curves, measures of volatility, prepayment rates, assumptions for nonperformance risk, and correlations of such inputs. The Conservancy's interest rate swap arrangements have inputs which can generally be corroborated by market data and are therefore classified within Level 2.

Fair value of interest rate swaps at June 30, 2014:

(In thousands)

Interest rate contracts		
Consolidated Statement of Financial Position location:		
Accounts payable and accrued liabilities	$	38,008
Change in fair value in Consolidated Statement of Activities		
Other income	$	3,513

Assets and liabilities categorized by input level:

(In thousands)

	Level 1	Level 2	Level 3	Total
Investments:				
Short-term investments	$ 513	$ 20,586	$ -	$ 21,099
Repurchase agreements	-	8,965	-	8,965
Fixed income:				
U.S. treasuries	42,872	-	-	42,872
Asset-backed securities	-	4,281	-	4,281
Corporate debt	-	294,806	-	294,806
Mortgage-backed securities	-	14,007	-	14,007
U.S. agency bonds	-	132,390	-	132,390
Public equity:				
Consumer discretionary	34,088	-	-	34,088
Consumer staples	10,557	-	-	10,557
Energy	8,289	-	-	8,289
Financial services	22,223	-	-	22,223
Health care	15,318	-	-	15,318
Industrials	47,761	-	-	47,761
Information technology	12,607	-	-	12,607
Materials	13,539	-	-	13,539
Utilities	1,333	-	-	1,333
Other industries	269	-	-	269
Commingled equity funds	-	-	411,973	411,973
Mutual funds	148,275	-	-	148,275
Closed end mutual funds	75,513	-	-	75,513
Hedge funds	-	-	244,839	244,839
Private equity	-	-	202,281	202,281
Private real estate	-	-	44,547	44,547
Split interests, trusteed	143,704	116,114	15,586	275,404
Split interests, non-trusteed	-	-	33,269	33,269
Total investments at fair value	576,861	591,149	952,495	2,120,505
Collateral received under securities lending agreement	$ 42,140	$ -	$ -	$ 42,140
Pledges receivable	-	-	222,770	222,770
Total assets measured at fair value	$ 619,001	$ 591,149	$ 1,175,265	$ 2,385,415
Interest rate swaps liability	$ -	$ 38,008	$ -	$ 38,008
Payable under securities lending agreement	42,140	-	-	42,140
Total liabilities measured at fair value	$ 42,140	$ 38,008	$ -	$ 80,148

Investments included in Level 3 primarily consist of The Conservancy's ownership in alternative investments (principally limited partnership interests in hedge and private equity funds) as well as public equity investments held within private arrangements. The value of certain alternative investments represents the ownership interest in the NAV of the respective partnership. Approximately 72.44% of Level 3 investments held by the partnerships consist of marketable securities and 27.56% are securities that do not have readily determinable fair values. The fair values of the securities held by limited partnerships that do not have readily determinable fair values are determined by the general partner and are based on appraisals, or other estimates that require varying degrees of judgment. If no public market exists for the investment securities, the fair value is determined by the general partner taking into consideration, among other things, the cost of the securities, prices of recent significant placements of securities of the same issuer, and subsequent developments concerning the companies to which the securities relate. The Conservancy has performed significant due diligence around these investments to ensure NAV is an appropriate measure of fair value.

Investments valued using NAV as of June 30, 2014:

(In thousands)	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Global equity funds	$ 193,651	$ -	Monthly, quarterly	10 business days, 30 days
International equity funds	218,322	-	Monthly	6 business days, on 15th of prior month, 60 calendar days, 90 days
Bond funds	50,632	-	Daily	Daily
Hedge funds	244,839	18,605	Monthly, quarterly, semi-annually, rolling 2, 3 & 4 years	45 - 90 days
Private equity funds	201,075	36,061	N/A	N/A
Real estate funds	44,547	29,383	N/A	N/A
Total	$ 953,066	$ 84,049		

The Conservancy uses a standard charitable gift calculation model and the IRS discount rate to determine the present value of split interest agreements where The Conservancy serves as trustee. For split interest agreements where The Conservancy is not the trustee, valuations are based on the values reported by third-party trustees, while noting that the valuation techniques for future distributions expected to be received over the term of the agreement and unobservable inputs - such as discount rates, life expectancies, and trust payouts – may vary widely among trustees. There is no market for these agreements, and they are therefore classified within Level 3.

Rollforward of Level 3 financial instruments:

(In thousands)

	Fair value as of June 30, 2013	Realized gains (losses)	Unrealized gains (losses)	Purchases	Sales	Fair value as of June 30, 2014
Commingled equity funds	$ 290,852	$ 364	$ 62,076	$ 60,000	$ (1,319)	$ 411,973
Hedge funds	180,090	2,382	35,014	57,905	(30,552)	244,839
Private equity	191,310	15,774	24,075	16,352	(45,230)	202,281
Real estate	30,536	1,232	4,686	14,775	(6,682)	44,547
Split interest arrangements	55,034	11	(4,674)	1,449	(2,965)	48,855
Total	747,822	19,763	121,177	150,481	(86,748)	952,495
Pledges receivable	178,082	-	44,688	-	-	222,770
Total investments and pledges	$ 925,904	$ 19,763	$ 165,865	$ 150,481	$ (86,748)	$ 1,175,265

Of the net realized and unrealized gains of $185,628,000 in the table above, $140,940,000 are reflected in the accompanying consolidated statement of activities as investment gains. The remaining amounts include a net $44,688,000 increase in pledges, of which a $45,188,000 increase is reflected in the accompanying consolidated statement of activities as dues and contributions and a $500,000 decrease is reflected as conservation activities and actions program expense.

Investment gains consisted of the following for the year ended June 30, 2014:

(In thousands)

Dividends and interest income	$ 26,322
Realized and unrealized gains (net of expenses of $12,379)	198,392
Change in value of split interest arrangements	10,499
Total investment gains	$ 235,213

15. Leases

The following is a schedule of future minimum lease payments for all operating leases as of June 30, 2014:

(In thousands)

2015	$ 7,091
2016	4,870
2017	3,459
2018	2,808
2019	1,894
Thereafter	$ 4,902
Total minimum lease payments	$ 25,024

Rent expense was $11,646,000 for the year ended June 30, 2014.

SUPPLEMENTAL SCHEDULES

Following are supplemental schedules:

Consolidated statements of financial position as of June 30, 2014 (with comparative totals as of June 30, 2013).

Summarized consolidated statements of activities for the year ended June 30, 2014 (with comparative totals for the year ended June 30, 2013).

Schedule of functional expenses as reported in the consolidated statement of activities for the year ended June 30, 2014 by natural account classification (with comparative totals for the year ended June 30, 2013).

While these schedules are not required under Generally Accepted Accounting Principles, they provide useful additional detail to help the user of these financial statements understand how funds are spent, as well as providing prior year comparisons.

The Nature Conservancy
Supplemental Schedule - Consolidated Statements of Financial Position
As of June 30, 2014 and 2013

(Amounts in thousands)	2014	2013
Assets		
Cash and cash equivalents	$ 179,262	$ 107,718
Restricted cash	29,304	29,620
Government grants and contracts receivable	21,822	24,542
Pledges receivable, net	222,770	178,082
Collateral received under securities lending agreement	42,140	49,169
Deposits on land and other assets	27,493	31,275
Property and equipment, net of accumulated depreciation and amortization	123,269	105,317
Investments - Capital fund	684,932	644,254
Investments - Split interest arrangements	307,963	286,263
Investments - Endowment fund	1,127,610	995,846
Conservation lands	1,815,004	1,865,034
Conservation easements	1,937,343	1,866,197
Total assets	$ 6,518,912	$ 6,183,317
Liabilities		
Accounts payable and accrued liabilities	$ 100,161	$ 100,801
Payable under securities lending agreement	42,140	49,169
Deferred revenue and refundable advances	89,058	92,076
Bonds and notes payable	363,562	376,346
Split interest arrangements	146,532	143,874
Total liabilities	741,453	762,266
Net assets		
Unrestricted		
Undesignated	17,952	(48,284)
Land, easements, and project funds	3,820,356	3,764,115
Board-designated quasi endowment and similar funds	849,764	754,171
Total unrestricted	4,688,072	4,470,002
Temporarily restricted	756,277	634,916
Permanently restricted	333,110	316,133
Total net assets	5,777,459	5,421,051
Total liabilities and net assets	$ 6,518,912	$ 6,183,317

The Nature Conservancy
Supplemental Schedule - Summarized Consolidated Statements of Activities
For the years ended June 30, 2014 and 2013

(Amounts in thousands)	2014	2013
Support and revenues		
Dues and contributions	$ 560,417	$ 439,052
Land and easements contributed for conservation	57,614	73,386
Government grants and contracts	120,687	120,717
Investment income	235,213	116,725
Sales of conservation land and easements to governments and others	80,915	108,628
Other	59,433	90,663
Total support and revenues	1,114,279	949,171
Expenses		
Program expenses	541,179	560,201
General and administration	121,776	115,448
Fund-raising		
General fund-raising	67,099	66,910
Membership development	27,817	22,101
Total expenses	757,871	764,660
Increase in net assets	356,408	184,511
Net assets at beginning of year	5,421,051	5,236,540
Net assets at end of year	$ 5,777,459	$ 5,421,051

The Nature Conservancy
Supplemental Schedule - Schedules of Functional Expenses
For the year ended June 30, 2014 with summarized totals for the year ended June 30, 2013

(Amounts in thousands)	Program expenses	Support services expenses				Totals	
	Conservation activities and actions	General and administration	Fund-raising: General fund-raising	Fund-raising: Membership development	Total Support services expenses	2014 Total expenses	2013 Total expenses
Personnel	$ 182,150	$ 71,353	$ 52,115	$ 4,241	$ 127,709	$ 309,859	$ 298,381
Contract, professional fees	65,972	12,331	3,034	6,446	21,811	87,783	79,333
Grants and allocations	49,287	111	27	-	138	49,425	44,873
Supplies	8,150	4,026	594	1,963	6,583	14,733	13,279
Telecommunications	1,761	1,506	227	17	1,750	3,511	4,305
Postage and mailing service	1,579	281	395	8,494	9,170	10,749	8,996
Occupancy	1,966	9,438	242	-	9,680	11,646	12,139
Equipment rental and maintenance	4,300	1,390	195	1	1,586	5,886	5,966
Printing and publication	4,034	264	956	5,909	7,129	11,163	9,196
Travel	15,642	3,390	2,960	128	6,478	22,120	20,847
Conferences and meetings	7,277	2,087	2,096	23	4,206	11,483	10,277
Interest	18,612	6	-	-	6	18,618	19,004
Depreciation and amortization	7,121	1,858	489	-	2,347	9,468	8,170
Equipment	2,911	125	24	-	149	3,060	2,649
Taxes and licenses	983	981	81	20	1,082	2,065	1,884
Utilities, repairs, maintenance, and construction	7,110	1,986	165	-	2,151	9,261	6,900
Insurance	2,535	1,556	49	1	1,606	4,141	3,964
Real estate taxes	5,578	914	9	-	923	6,501	5,429
Closing costs	1,026	539	-	-	539	1,565	3,128
Contributed goods and services non-cash expense	10,005	6,572	3,347	570	10,489	20,494	28,244
All other	3,430	1,062	94	4	1,160	4,590	16,385
Subtotal	401,429	121,776	67,099	27,817	216,692	618,121	603,349
Book value of conservation land and easements sold or donated to government and others	139,750	-	-	-	-	139,750	161,311
Total	$ 541,179	$ 121,776	$ 67,099	$ 27,817	$ 216,692	$ 757,871	$ 764,660