

**FINANCIAL AUDIT
OF THE UNIVERSITY OF HAWAII**

**Conducted by the
Office of the Legislative Auditor
State of Hawaii
and
Coopers & Lybrand
Certified Public Accountants**

A Report to the Governor and the Legislature of the State of Hawaii

**Submitted by the
Legislative Auditor of the State of Hawaii
Honolulu, Hawaii**

**Report No. 88-7
January 1988**

FOREWORD

This financial audit report is the result of an examination of the financial statements and records of the University of Hawaii for the fiscal year ended June 30, 1987. The audit was conducted by the Office of the Legislative Auditor and the certified public accounting firm of Coopers & Lybrand.

This report is divided into three parts. Part I contains an introduction and some background information on the University of Hawaii. Part II presents our findings and recommendations on the university's financial and accounting practices. It also includes the university's financial statements and the audit opinion of the fairness and accuracy of the statements. We have followed our customary practice of requesting the agency affected by the audit to comment on the findings and recommendations. Part III contains the response to the University of Hawaii to this report and our comments on the university's response.

We wish to express our sincere appreciation for the cooperation and assistance extended by the staff of the University of Hawaii.

Clinton T. Tanimura
Legislative Auditor
State of Hawaii

January 1988

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PART I
INTRODUCTION AND BACKGROUND

Chapter 1

INTRODUCTION

This is a report of our financial audit of the University of Hawaii. The audit was conducted by the Office of the Legislative Auditor and the certified public accounting firm of Coopers & Lybrand.

The audit was conducted pursuant to Section 23-4, Hawaii Revised Statutes, which requires the State Auditor to conduct postaudits of the transactions, accounts, programs, and performance of all departments, offices, and agencies of the State and its political subdivisions.

Objectives of the Audit

The objectives of the audit were:

1. To assess the adequacy, effectiveness, and efficiency of the systems and procedures for the financial accounting, internal control, and financial reporting of the University of Hawaii; to recommend improvements to such systems, procedures, and reports; and to render an opinion on the reasonable accuracy of the financial statements of the university.
2. To ascertain whether expenditures and other disbursements have been made and all revenues and other receipts have been collected and accounted for in accordance with state laws, rules and regulations, and policies and procedures.
3. To assess the effectiveness and efficiency of the university's use of petty cash funds.

Scope of the Audit

The audit's scope included an examination of the financial statements and the related systems of accounting and internal controls of the University of Hawaii for the period July 1, 1986 to June 30, 1987. The accountants' opinion as to the fairness of the financial statements presented is that of Coopers & Lybrand.

Organization of the Report

This report is organized as follows:

Part I (Chapters 1 and 2) presents this introduction and background information on the university.

Part II (Chapters 3 and 4) presents our audit findings and recommendations on the financial and accounting practices and procedures of the university. It also includes the university's financial statements and the accountants' opinion on such statements.

Part III contains the response of the University of Hawaii to our recommendations, together with our comments on the university's response.

Chapter 2

BACKGROUND

This chapter describes the organizational structure, present legal status, and program activities of the University of Hawaii.¹

The University of Hawaii began in 1907 as a college of agriculture and mechanic arts called the College of Hawaii. Pursuant to the Morrill Land Grant Acts of 1862 and 1890, the college became Hawaii's land grant institution of higher education. With the addition of the College of Arts and Sciences in 1920, the institution was renamed the University of Hawaii. The present university is a multi-campus system with approximately 44,000 students.

Organizational Structure

University governance is vested in a Board of Regents. They in turn appoint a president, who acts as executive officer of the board and is responsible for educational leadership in the university system. Chief administrative officers for the various campuses are either chancellors or provosts.

The University of Hawaii is both a major executive department of the state government and a statewide system of higher education. The current organizational

1. Descriptions were drawn from the 1987-89 General Information Bulletin of the University of Hawaii at Manoa; relevant portions of the Hawaii Revised Statutes; Chapter 2 of the Management Audit of the University of Hawaii, Report No. 81-9, March 1981; applicable sections of the Functional Statements of the University of Hawaii, 1986-1987; and Facts About the University of Hawaii, compiled by the Institutional Research Office, University of Hawaii, December 1986.

structure, which has six vice-presidents, one associate vice-president, and two chancellors serving under the president, replaced the old system which had two vice-presidents and four chancellors. The reorganization was approved by the Board of Regents in September 1985.

Board of Regents. The affairs of the university are under the general management and control of the Board of Regents, consisting of eleven members who are appointed by the Governor.

In addition to the appointment of the president, the board appoints a secretary, who is not a member of the board.

The board has the power, in accordance with the Hawaii State Constitution and with law, to formulate policy, and to exercise control over the university through its executive officer, the president. The board has exclusive jurisdiction over the internal organization and management of the university.

President. The Office of the President is the administrative and coordinating center for all programs of the university authorized by the Hawaii State Constitution, Hawaii Revised Statutes, and the policies and regulations established by the Board of Regents. The president is also responsible for directing the operations and affairs of the University of Hawaii at Manoa. The president thus serves as chief executive officer of the University of Hawaii and as chief operations officer of the Manoa campus.

Present Legal Status

Statehood in 1959 and the adoption of the Hawaii State Constitution brought about a significant change in the legal status of the University of Hawaii. With statehood the university became a constitutional agency.

Under Section 5 of Article X of the Hawaii State Constitution, "The University of Hawaii is hereby established as the state university and constituted a body corporate. It shall have title to all the real and personal property now or hereafter set aside or conveyed to it, which shall be held in public trust for its purpose, to be administered and disposed of as provided by law."

Related statutory provisions. In addition to constitutional provisions, there are numerous statutory provisions which relate to the university.

1. *Laws relating to the overall organization and operation of the university.*

The primary statutory provisions relating to the university's institutional role are set forth in Chapter 304 of the Hawaii Revised Statutes. Also, Section 26-11, Hawaii Revised Statutes, recognizes the university as one of the major executive departments of the state government and as a body corporate, and places it under the Board of Regents.

2. *Laws assigning educational and related programs to the university.* There are a number of statutory provisions which assign educational and related programs to the university. Among these are such programs as the Geophysics Institute, the Waikiki Aquarium, the Law School, the School of Nursing and the Center for Labor Education and Research.

3. *Laws creating other educational organizations having an impact on the university.* The statutes create several other educational organizations which are closely associated with the university but are not under its full management control. These include: the Research Corporation of the University of Hawaii (RCUH), which is a separate corporate body with its own board of directors but which is assigned to the University for administrative purposes; the Western Interstate Commission for Higher Education (WICHE); and the Hawaii Education

Council, which enables Hawaii to participate in the Interstate Compact for Education.

4. *Laws relating to financial operations of the university.* There are a number of statutory provisions which relate specifically to the university's financial operations. Prominent among these are Chapters 306 and 308, Hawaii Revised Statutes, which authorize the university to manage parking and other revenue-producing operations on a financially self-sustaining basis and to issue revenue bonds to carry out such university projects.

5. *Laws pertaining to the allotment system and executive budget.* One of the major statutory provisions provided by Act 320, SLH 1986, was the flexibility given to the university to transfer general fund appropriations among programs.

6. *Laws relating to the administrative flexibility legislation.* The purpose of the administrative flexibility legislation, Act 321, SLH 1986, was (1) to allow the University of Hawaii and the Department of Education to assume authority and responsibility for all matters relating to the acquisition of goods and services, pre-audit of payments, payroll, disbursing, fund accounting, and business and accounting forms, and (2) to provide the Board of Regents of the University of Hawaii and the Board of Education with the authority to approve certain exceptions to statutory competitive bidding requirements.

Program Activities

The University of Hawaii at Manoa. The University of Hawaii at Manoa (UHM), on the island of Oahu, is the major comprehensive research campus with about 20,000 students and is commonly referred to as UH-Manoa or Manoa campus. By virtue of being the original unit in the university system and being located in the

urban center of the State, UHM remains the largest and most complex unit within the university system. UHM is the major center for the university's baccalaureate programs as well as for graduate and professional training. UHM also administers most of the university's highly developed research and extension activities. UHM is also the primary representative of the university in intercollegiate athletic competition.

Community colleges. The unit which closely rivals UHM in size is that of the community colleges. This unit consists of the chancellor's office and six community colleges operated by the university with a total enrollment of approximately 20,000 students. Of the six community colleges, four are located on Oahu and there is one each on Maui and Kauai.

University of Hawaii at Hilo. The third unit is much smaller than the preceding two, but combines features of both UHM and the community colleges. This is the University of Hawaii at Hilo (UHH) which enrolls approximately 3,500 students. The UHH, which is also headed by a chancellor, offers both baccalaureate and community college programs. It is organized into three sub-units—the College of Arts and Sciences, the College of Agriculture, and Hawaii Community College. Support services for these three sub-units are organized on a centralized basis under the chancellor.

West Oahu College. West Oahu College (WOC) is the fourth, and by far the smallest, organizational unit within the university with an enrollment of approximately 500 students. It offers baccalaureate programs, but its class offerings are limited to upper-division courses. The program activities of WOC are developed and organized under the direction of the chancellor's office at the University of Hawaii at Hilo.

PART II
FINDINGS AND RECOMMENDATIONS

Chapter 3

FINANCIAL ACCOUNTING AND INTERNAL CONTROL

This chapter contains our findings and recommendations on the University of Hawaii's financial accounting and internal control practices and procedures.

Summary of Findings

Our findings on financial accounting and internal control practices and procedures are as follows:

1. Balances in petty cash funds are excessive.
2. There are differences between the detailed equipment records and the corresponding general ledger control account that are not investigated.
3. There were several errors in the processing of summer session tuition refunds which have resulted in the erroneous issuance of stop-payment instructions to banks and tuition refund checks to students.
4. Security over the use of computer terminals, which permits access to vital information stored in the integrated student information system, is inadequate.
5. Passwords assigned to individuals in the Central Accounting Office are improperly shared among users of computer terminals.
6. Control over new or modified computer programs is inadequate because programmers who develop such programs have the opportunity to make changes to the programs after they have received final approval by a responsible official.
7. The university does not have a complete disaster recovery plan to ensure that computer services are not disrupted in the event of a natural disaster or other disruptive event.

Excess Balances in Petty Cash Funds

Section 103-10, HRS, provides that all payments for goods delivered to or services performed for a state agency, which are less than \$100, be made from the petty cash funds of the agency. The university's petty cash funds totaled \$508,771 at June 30, 1987, as shown in Table 3.1. These petty cash funds consist of imprest checking accounts and cash funds. Imprest checking accounts are used for payments of \$25 to \$100, and cash funds are used for cash payments under \$25.

Table 3.1

PETTY CASH FUNDS
June 30, 1987

Description	Number	Authorized Amount
Cash funds	49	\$ 13,365
Imprest checking accounts:		
Amounts \$10,000 or over	16	312,000
Amounts under \$10,000	<u>55</u>	<u>183,406</u>
Total imprest checking accounts	<u>71</u>	<u>495,406</u>
Total	<u>120</u>	<u>\$508,771</u>

The university's petty cash funds were financed through advances from the state general fund. One of the primary factors used in arriving at the fund level needed for petty cash purposes is the length of time it takes for the petty cash funds to be replenished. Due to the large volume of petty cash payments, petty cash fund custodians at the university process petty cash replenishment requests on the average of two times per week to minimize the bulkiness of supporting documents which accompanies each request.

The replenishment process took approximately six weeks to be completed because each request and the resultant payment had to be processed through the Department of Accounting and General Services. Since July, 1986, as a result of Act 321, SLH 1986 which gave the university administrative flexibility over certain fiscal matters, all replenishment requests and resultant payments are now processed within the university's system which has reduced the replenishment process time to less than two weeks. As a result, some reduction to the petty cash fund level should be made because of the faster "turn-around" time for replenishments.

We estimate that the various petty cash funds could be reduced by at least 30 percent and in a few cases by as much as 60 percent. While we encourage the use of petty cash funds for making small payments, the fund level of such funds should not be maintained at excessive levels. We believe that excess funds should be returned to the state general fund thereby making such funds available for other public use or interest earning investments. Before making any returns, however, a review is needed to determine the extent to which petty cash fund balances are excessive. We understand that the university has not made such a determination.

Recommendation. We recommend that the university conduct a review of its petty cash funds to determine the level at which the balance of each fund should be maintained. All amounts in excess of such fund balance should be returned to the state general fund.

Failure to Investigate Differences Between Equipment Records

An essential element of an effective system of internal controls over equipment is the maintenance of complete and accurate records of equipment owned by the entity. Without reliable records, there is no assurance that equipment

is being properly accounted for. An integral part of ensuring the completeness and accuracy of these records is the performance of periodic reconciliations between the detailed equipment records and the corresponding general ledger control account. Such reconciliations should include the investigation of any differences between these records for possible errors in recording the acquisition or disposal of equipment items.

Despite the fact that equipment represents one of the university's most significant assets, we noted that reconciliations between the detailed equipment records (Report 1117 - Equipment Summary by Account Code and Title) and the general ledger control account are not properly performed. Our examination revealed that, although monthly comparisons were made between these records, significant differences are not fully investigated and resolved. As a matter of expediency, the university has made adjusting entries to balance its records without knowing why these differences occur. Such adjustments amounted to approximately \$606,000 at June 30, 1986, and again at June 30, 1987, another adjustment was made for approximately \$2 million.

This problem of the university's failure to investigate differences between its equipment records has been repeatedly cited in prior audits by independent auditors since 1984. We believe that the repeated occurrence of large unidentified differences, which is symptomatic of possible system deficiencies, should not be permitted to continue without some investigation and resolution. In order to maintain the integrity of its equipment records, the university should make a concerted effort to investigate and resolve this problem.

Recommendation. We recommend that the university conduct an investigation as to the causes for the large differences between the detailed equipment records

and the corresponding general ledger control account, identify any system deficiencies contributing to such differences, and take corrective action to prevent or at least minimize such differences from recurring.

Summer Session Tuition Refunds

The processing of summer session tuition refunds was transferred to the Summer Session Office (SSO) from the Manoa Cashier's Office (MCO) during 1987 as part of the computerization of the university's registration system. During our examination, we noted several errors made by the SSO in the processing of tuition refunds.

In the first case, the SSO prepared refund checks for two students without entering the students' course withdrawals into the registration system. When the MCO attempted to record the refund payments into the registration system, they noted that there was no indication of the students' withdrawals. Assuming erroneous refunds had been processed, the MCO notified the bank to issue stop payment notices on these checks. When the SSO became aware of the stop-payment notices, new refund checks had to be issued. This confusion and inconvenience to the students and university personnel could have been avoided had the SSO entered the students' withdrawals into the registration system prior to issuing the related refund checks.

In the second case, six students dropped several courses for the first summer session and requested refunds, thereby starting the refund process. However, prior to the last day for changes in registration, the students either added another course or registered for the second summer session and requested that their original refund be applied to this change. Meanwhile, because the SSO had already commenced the

refund process, refund checks were issued to these students even though the students had subsequently applied their refund to another course. The MCO discovered the overpayments while reviewing the students' on-line files and requested the bank to issue stop-payment notices on these checks. These possible overpayments could have been avoided if the SSO had been instructed not to process tuition refunds until after the last day for changes in registration.

We believe that to prevent the recurrence of errors such as those mentioned in the previous paragraphs, the SSO needs to establish written guidelines for the proper processing of tuition refunds. Such written guidelines would also serve as a reference to ensure continuity for the proper processing of tuition refunds in the event of personnel changes. We understand that the SSO has not established such written guidelines.

Recommendation. We recommend that the university establish written guidelines for the processing of summer session tuition refund payments to prevent the erroneous issuance of such payments. Such guidelines should include clear instructions that refund checks should not be processed until (1) course withdrawals are recorded into the registration system, and (2) after the last day for changes in registration.

Inadequate Security Over Computer Terminal Usage

The university implemented an integrated student information system (ISIS) at the Manoa campus for the purpose of computerizing its registration process. This system, which was implemented in the fall of 1986, stores vital information on academic and financial histories of students such as course credits and grades, and

financial charges and payments. It is essential, therefore, that access to such vital information through computer terminals be subject to proper security measures.

Two essential means of controlling access to computer programs and data files are the use of passwords assigned to authorized individuals, and to restrict access to certain computer programs and data files to only those computer terminals in authorized locations. The purpose for this two-tiered approach for controlling access is to limit an individual's ability to gain access to vital information in the event a password is obtained by unauthorized means. This is because such an unauthorized individual would also need to gain access to computer terminals in designated locations as opposed to gaining access to any computer terminal.

Our review of ISIS revealed that security over computer terminal usage is inadequate. Although access to ISIS is controlled by passwords, there are no restrictions based on the location of computer terminals. Thus, all computer applications of ISIS are accessible through all computer terminals by anyone who obtains the proper password. For example, the cashiering functions are available to computer terminals in the registration section and vice-versa.

Recommendation. We recommend that the university install adequate security measures for ISIS by placing appropriate access restrictions based on both passwords and location of computer terminals.

Improper Use of Passwords

Passwords are used as a security measure to maintain the integrity of computer programs and data files. A computer system is usually programmed so that access to its programs and data files through computer terminals are permitted only through the use of authorized passwords. In addition, each authorized user is

assigned a unique password in order to fix responsibility as to source of transactions made into the system.

During our review of the Central Accounting Office, we noted that in certain instances passwords are shared among employees using the computer terminals. This practice constitutes a breach of security because it negates the ability to fix responsibility for transactions made into the system.

Recommendation. We recommend that each employee of the Central Accounting Office having access to computer terminals be assigned an individual password and that the sharing of passwords be prohibited.

Control Over New or Modified Computer Programs

The development of new or modified computer programs involves a process which includes designing, coding, and testing such programs. Once this development process is completed by a programmer, the programs are reviewed and approved by a responsible official and transferred into operational status. To provide some internal control during this process, the programmer who develops a new or modified computer program should not have the opportunity to make changes to such program after it has received final approval by a responsible official. This is to prevent the programmer from making unauthorized program changes which could remain undetected for a long period of time.

We noted that the university's controls over new or modified computer programs are not adequate because programmers who develop computer programs have the opportunity to make changes to such programs after they have received final approval by a responsible official. This occurs because after final approval, programmers are given the responsibility of transferring programs, which they

developed, from the development phase to operational status. This is contrary to sound internal controls in a computer environment.

Recommendation. We recommend that the university establish controls whereby a programmer who develops a new or modified computer program should not have the opportunity to make changes to such program after it has received final approval by a responsible official.

Disaster Recovery Plan

Since computer services are critical for the continuity of university operations, it is important that a disaster recovery plan be formulated to ensure that such services are not curtailed for an extended period of time in the event of a natural disaster or other disruptive event. Key elements of such a plan should include an identification and assessment of the exposures to disruptions, a prioritization of the computer applications and the order in which such applications will be made operational during the recovery process, an arrangement for an alternative processing site, the designation of personnel to be involved in the recovery process, and the detailing of their specific duties and responsibilities. This plan should be formally documented and tested periodically for effectiveness.

Although the university has made some initial effort toward the development of a disaster recovery plan, a complete plan has not been formulated. The university has designated which employees are to be involved in the recovery process and has arranged for an alternative processing site, but all other elements of a disaster recovery plan have not been developed.

Recommendation. We recommend that the university develop a complete disaster recovery plan to ensure that computer services are not disrupted in the event of a natural disaster or other disruptive event.

Chapter 4

FINANCIAL STATEMENTS AND ACCOUNTANTS' OPINION

This chapter presents the results of the examination of the financial statements of the University of Hawaii for the fiscal year ended June 30, 1987. It contains the opinion of Coopers & Lybrand regarding the fairness and accuracy of the university's financial statements. It also displays the balance sheet as of June 30, 1987, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the fiscal year then ended, together with explanatory notes.

Summary of Findings

In the opinion of Coopers & Lybrand, the university's financial statements present fairly the financial position of the University of Hawaii as of June 30, 1987, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the fiscal year then ended.

Accountants' Opinion

Coopers & Lybrand's statement filed with the Legislative Auditor is as follows:

"To the Legislative Auditor
State of Hawaii

We have examined the balance sheet of the University of Hawaii as of June 30, 1987 and the related statements of changes in fund balances and current funds revenues, expenditures and other changes for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered

necessary in the circumstances. The financial statements of the University of Hawaii for the year ended June 30, 1986, totals of which are included for comparative purposes only, were examined by other auditors whose report dated November 11, 1986, expressed an unqualified opinion on those statements.

In our opinion, the financial statements referred to above present fairly the financial position of the University of Hawaii as of June 30, 1987 and the changes in fund balances and the current funds revenues, expenditures and other changes for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

/s/ Coopers & Lybrand

COOPERS & LYBRAND
Certified Public Accountants

Honolulu, Hawaii
September 25, 1987"

Descriptions and Definitions

Descriptions of financial statements. The following is a brief description of the financial statements examined by Coopers & Lybrand. The financial statements are attached at the end of this chapter.

1. *Balance sheet (Exhibit A).* This statement presents the assets, liabilities, and fund balances of the current funds, loan funds, endowment and similar funds, plant funds, and agency funds.
2. *Statement of changes in fund balances (Exhibit B).* This statement presents revenues, expenditures, and other changes in fund balances for the various funds.
3. *Statement of current funds revenues, expenditures and other changes (Exhibit C).* This statement presents the details of current funds revenues by

source, current funds expenditures by function, and all other changes in current funds.

Definition of terms. Technical terms are used in the financial statements and in the notes to the financial statements. The more common terms and their definitions are as follows:

1. *Allotment.* An authorization to incur obligations and to make expenditures pursuant to the appropriation made by the Legislature.

2. *Appropriation.* An authorization granted by the Legislature permitting a state agency, within established fiscal and budgetary controls, to incur obligations and to make expenditures. Appropriations are of two types: (a) funds which are available for use until completely expended, and (b) funds which lapse if not expended by or encumbered at the end of the fiscal year.

3. *Expenditure.* The actual disbursement of funds for the payment of goods delivered or services rendered, the obligation to pay for such goods or services having been incurred against authorized funds.

4. *Fund.* A fund is an accounting entity with a self-balancing set of accounts for recording assets, liabilities, a fund balance, and changes in the fund balance. Separate accounts are maintained for each fund to insure observance of limitations and restrictions placed on the use of resources. For accounting and reporting purposes, funds of similar characteristics are combined into fund groups.

5. *Lapse of appropriated balance.* The balance of funds authorized which is unexpended and uncommitted at the end of the prescribed time period. The balance reverts to the designated fund and is available for appropriation by the Legislature in the ensuing fiscal year.

6. *Transfers.* The transactions between the funds, departments, and/or programs which are approved by the appropriate authority.

Notes to Financial Statements

Explanatory notes which are pertinent to an understanding of the financial statements of the University of Hawaii are discussed below.

Summary of significant accounting policies.

1. *Accrual basis.* The financial statements of the university have been prepared on the accrual basis except for depreciation accounting. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses. To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal replacement of movable equipment and library books; (2) mandatory transfers, in the case of required provisions for debt amortization and interest and equipment renewal and replacement; and (3) as transfers of a voluntary nature for all other cases.

2. *Fund accounting.* To observe limitations and restrictions placed on the use of resources, accounts are maintained in accordance with "fund accounting" principles. Under this procedure, the receipt of resources and their related expenditures for specified uses are summarized in a separate group of accounts. Accordingly, accounts with similar characteristics are presented in the financial statements by fund groups.

Within each fund group, fund balances restricted by outside sources are distinguished from unrestricted funds allocated to specific purposes over which the governing board retains full control to use in achieving any of its institutional purposes.

3. *Cash and investments.* Cash and short-term investments managed by the university are federally insured or collateralized with obligations of the State, other states or the federal government. Title of short-term investments is vested in the name of the University of Hawaii, while title of endowment securities is vested in the name of the Securities Exchange Commission registered brokerage firms in New York representing the university's investment managers.

Investments are recorded at cost or, if received as a gift, at fair market value at date of donation.

4. *Plant facilities.* Plant facilities are recorded at cost if purchased, or at estimated market value if donated. In accordance with accounting policies followed by colleges and universities, no provision has been made for depreciation of plant facilities. Interest for construction financing is capitalized as a cost of construction.

Due from and to State of Hawaii. Due from and to State of Hawaii as of June 30, 1987, are comprised of:

	<u>Due From</u>	<u>Due To</u>
Current unrestricted funds:		
Amounts due for state appropriations	<u>\$13,297,928</u>	
Cash advanced for petty cash purposes		\$ 675,190
Indirect overhead liability		<u>21,916</u>
		<u>\$ 697,106</u>
Current restricted funds:		
Indirect overhead liability		\$3,278,893
Advance		<u>2,500,000</u>
		<u>\$5,778,893</u>
Agency funds - other		<u>\$ 49,926</u>

U.S. government advances and receivables. The university's research and training grants and contracts are primarily based on advance funding or cost reimbursable agreements. Under advance funding agreements, the university receives cash in advance of expenditures. Under cost reimbursable agreements, expenditures are initially paid for by the university. These agreements allow for indirect cost recoveries based on fixed rates with a carry-forward provision for over and under recoveries. Half of the indirect cost recovered are deposited into the university's unrestricted research and training revolving fund and the remaining recoveries are deposited to the State's general fund. All claims are subject to audits and adjustments by federal agencies.

Inventories. The current funds inventories and the methods of valuation at June 30, 1987, are comprised of:

		<u>Unrestricted</u>	<u>Restricted</u>
University of Hawaii Bookstore merchandise inventory	At the lower of cost (determined by the retail method applied on the first-in, first-out basis) or market.	\$3,817,543	\$ -
University of Hawaii 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.	973,713	41,900
University of Hawaii supplies inventories	Cost, applied on the first- in, first-out basis.	946,033	-
		<u>\$5,737,289</u>	<u>\$41,900</u>

Allowance for uncollectible notes—loan funds. The allowance for uncollectible notes at June 30, 1987, is comprised of:

National direct student loans	\$2,059,314
Nursing/health profession loans	126,866
State higher education loans	1,079,110
Short-term loans	<u>35,771</u>
	<u>\$3,301,061</u>

The national direct student loan program provides for the assignment of uncollectible loans to the U.S. government for collection.

Uncollectible nursing/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 higher education loans may be written off with the approval of the Attorney General.

Endowment and similar funds. At June 30, 1987 and 1986, investments were comprised of:

	1987		1986	
	Carrying Value	Market	Carrying Value	Market
Corporate stocks	\$11,371,717	\$13,981,773	\$ 8,284,042	\$11,899,468
Bonds	3,675,169	3,707,119	2,564,249	2,667,818
Notes and mortgages	139,164	139,165	354,773	354,773
U.S. treasury notes	1,249,559	1,350,671	2,214,013	2,321,014
U.S. agency issues	649,780	666,265	400,000	446,468
Municipal obligation	<u>676,692</u>	<u>699,180</u>	<u>-</u>	<u>-</u>
	<u>\$17,762,081</u>	<u>\$20,544,173</u>	<u>\$13,817,077</u>	<u>\$17,689,541</u>

Assets of endowment and similar funds, except quasi-endowment funds having a carrying value as of June 30, 1987 of \$7,988,640, are pooled on a market-value basis, with each individual fund subscribing to or disposing of units on the basis of the value per unit at the beginning of the calendar quarter in which the transaction takes place.

The following schedule summarizes data pertaining to pooled asset funds for the year ended June 30, 1987:

	<u>Pool A</u>	<u>Pool B</u>
Unit market value at end of year	\$ 8.54	\$ 17.86
Average annual earnings	.28	.80
Units owned at end of year:		
Endowments	457,084	33,077
Quasi-endowments - unrestricted	345,024	261,663
Quasi-endowments - restricted	342,554	-

The following table summarizes changes in carrying value and market value of the pooled and other assets for the year ended June 30, 1987:

	Market	Carrying Value	Unrealized Net Gain	Realized Net Gain	Market Value Per Unit
Pool A:					
End of year	\$ 9,774,999	\$ 8,471,069	\$ 1,303,930	-	\$ 8.54
Beginning of year	<u>5,890,224</u>	<u>4,461,329</u>	<u>1,428,895</u>	<u>-</u>	<u>7.50</u>
Net increase (decrease) for the year	<u>\$ 3,884,775</u>	<u>\$ 4,009,740</u>	<u>\$ (124,965)</u>	<u>\$ 816,029</u>	<u>\$.84</u>
Pool B:					
End of year	\$ 5,265,191	\$ 4,785,158	\$ 480,033	-	\$17.86
Beginning of year	<u>5,182,268</u>	<u>4,170,023</u>	<u>1,012,245</u>	<u>-</u>	<u>17.39</u>
Net increase (decrease) for the year	<u>\$ 82,923</u>	<u>\$ 615,135</u>	<u>\$ (532,212)</u>	<u>\$ 648,402</u>	<u>\$.47</u>
Other investments:					
End of year	\$ 8,986,770	\$ 7,988,640	\$ 998,130	-	
Beginning of year	<u>7,845,003</u>	<u>6,413,679</u>	<u>1,431,324</u>	<u>-</u>	
Net increase (decrease) for the year	<u>\$ 1,141,767</u>	<u>\$ 1,574,961</u>	<u>\$ (433,194)</u>	<u>\$ 893,370</u>	
Net Assets:					
End of year	\$24,026,960	\$21,244,867	\$ 2,782,093	-	
Beginning of year	<u>18,917,495</u>	<u>15,045,031</u>	<u>3,872,464</u>	<u>-</u>	
Net increase (decrease) for the year	<u>\$ 5,109,465</u>	<u>\$ 6,199,836</u>	<u>\$ (1,090,371)</u>	<u>\$2,357,801</u>	

Endowment and similar funds under the management of the university's Board of Regents are pooled for investment purposes. Based on total market value of the pool, the unit value is determined monthly for purposes of income distributions and additions to or withdrawals from the fund.

Gains or losses on sales of investments are retained or absorbed by the endowment fund principal. Cost of securities sold is determined principally by the highest-in first-out method. During fiscal year 1987, the university changed its accounting for investments from the settlement date to the trade date. The change did not have a material effect on the financial statements.

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 and similar funds by the Board of Regents. Use of the income is either restricted by the donor or unrestricted and designated by the board.

Other assets in the nature of endowment funds, but not recorded by the university, are the Morrill Act funds and the Sand Island property.

1. *Morrill Act Land Grant College Aid.* Under the Hawaii Omnibus Act (Public Law 86-624, July 12, 1960), Congress appropriated \$6,000,000 to the State under the provisions of the Morrill Act. Of this amount, 10 percent or \$600,000 was appropriated by the State for the purchase of land on Manoa mauka campus. The remaining principal of \$5,400,000 was placed in the custody of the Director of Finance, with the university as beneficiary of the income earned from investment of the principal. This income amounted to \$386,361 for the year ended June 30, 1987, of which \$277,785 was distributed to the university.

2. *Sand Island.* Income from rentals of land and facilities of 202 acres of state land situated on Sand Island is presently deposited into the general fund of the State.

Public Law 85-756 which authorized the transfer, by presidential executive order, of up to 202 acres of Sand Island land to the State, provides that all revenue of proceeds for sale, lease, or other disposition of the land must be used solely for the support of the university.

Up through fiscal year 1964, income from Sand Island facilities was credited to a trust fund of the university, and expenditures were made therefrom. Since 1965,

the general appropriation acts provide that the rental and other income from Sand Island (handled by the Department of Land and Natural Resources) shall be deposited into the general fund of the State as reimbursements to the general fund for moneys appropriated for the operation of the university. This net income amounted to \$1,868,529 for the year ended June 30, 1987.

Plant funds. Investment in plant consists of the fixed assets of the university, including land, building and building improvements, and equipment. Certain fixed assets, acquired or constructed for federal grants and contracts, which are under the custody of the university, are generally not included in plant funds. In general, properties are recorded at cost or at appraised values at the date of gift. However, parcels of land transferred from the State, comprised of 1,581 acres representing approximately 93 percent of the acreage of the university, have been recorded at the State's recorded value which generally reflected a nominal value of \$1 per parcel.

The additions of plant fund assets are detailed hereunder:

	<u>Plant Facilities</u>	<u>Construction In Progress</u>
Amount expended from:		
Current funds	\$17,280,062	\$ 41,100
Plant funds:		
Renewals and replacements	249,172	-
Unexpended plant	<u>-</u>	<u>1,750,606</u>
	<u>\$17,529,234</u>	<u>\$1,791,706</u>

Pursuant to terms of four federal grants, the university received in 1965 and 1968, at no cost, land appraised at an aggregate market value of \$1,262,130. The grants stipulate that the properties be used for educational purposes for periods up to 30 years. If used otherwise, the university has the option to purchase the lands at

market value less accumulated credit from time of deed at the rate of 3-1/3 percent per year for lands restricted for 30 years and 5 percent per year for lands restricted for 20 years.

Most of the university's construction projects are administered by the Department of Accounting and General Services. Upon completion, the total project cost, including amounts funded from state and federal sources, is recorded by the university. The university did not transfer any federal funds to the State in fiscal year 1986-87 for construction projects.

Payroll fringe benefit costs. Payroll fringe benefit costs of employees of the university funded by state appropriations (general funds) are assumed by the State and are not charged to the university's operating funds. These costs, totaling \$32,619,759, have been reported as additional revenues and expenditures of current funds.

Employee benefits. Under the provisions of Chapter 88, Hawaii Revised Statutes, all regular employees of the university are contributory or noncontributory members of the Employees' Retirement System of the State. The university's total contribution to the retirement system, which is assumed by the State, was approximately \$17,073,000 for the year ended June 30, 1987, including amortization of prior service cost. Information is not available as to the excess, if any, of the actuarially computed value of vested benefits over the net assets available for the pension benefits of the university employees.

All regular employees, with certain exceptions, earn vacation leave at the rate of one and three-quarter working days for each month of service. Employees who are entitled to annual vacation may accumulate for the succeeding year or years up to fifteen working days of their annual vacation allowance, provided that the total

accumulation shall not exceed ninety working days at the end of the calendar year. 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 one and three-quarter working days 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. Effective July 1, 1975, employees who retire with sixty days of unused sick leave are entitled to three months of service credit in the retirement system. For each additional twenty days or major fraction thereof of unused sick leave they have in excess of sixty days, their years of service is increased by one month.

Installment contracts payable. The university has purchased certain equipment on the installment method with interest ranging from 8-12 percent per annum. The next five-year maturities of principal and interest payable are as follows:

	<u>Principal</u>	<u>Interest</u>
1988	\$1,410,875	\$288,450
1989	591,164	169,285
1990	289,420	73,995
1991	263,689	35,479
1992	<u>151,302</u>	<u>7,514</u>
	<u>\$2,706,450</u>	<u>\$574,723</u>

Revenue bonds payable. At June 30, 1987, revenue bonds to be paid by unrestricted current fund revenues were comprised of:

	<u>Series</u>	<u>Date Issued</u>	<u>Authorized</u>	<u>Balance</u>
Student housing system at Manoa (interest rate: 3% - 3.5%)	B,C,D	Jan. 18, 1973	\$3,668,000	\$2,526,000
Faculty housing program (interest rate: 2.875%)	A	Jan. 18, 1973	519,000	300,000
Onizuka Center for Inter- national Astronomy (interest rate: 9.4%)	E	Oct. 3, 1983	3,360,000	3,000,000
Mauna Kea Observatory complex power line (interest rate: 7.45%)	F	Nov. 22, 1985	<u>1,650,000</u>	<u>1,650,000</u>
			<u>\$9,197,000</u>	<u>\$7,476,000</u>

The interest payments on bonds are due on April 1 and October 1 with principal payments due on October 1. Total principal and interest payments for the Series A-D bonds will amount to approximately \$210,000 each year until 1995, thereafter in gradually lesser amounts until 2006; for Series E, \$420,000 each year until 1990, thereafter in gradually lesser amounts until 1998. The Series F bonds require payments of \$123,000 in 1988, \$351,000 in 1989, \$477,000 in 1990, \$470,000 in 1991, and \$641,000 in 1992.

The university has entered into separate agreements with two major users of the Onizuka Center for International Astronomy. The agreements provide that the two participants shall pay to the university their proportionate share of the principal and interest payments due on the Series E revenue bond indebtedness along with any other costs associated with the bond. The agreements further provide that the participants shall continue to pay their share of the scheduled payments, or to pay in full the outstanding balance of their proportionate share of indebtedness, including any loan fees and accrued interest, in the event the participants discontinue their involvement with the Onizuka Center. In April 1986, one of the participants paid in

full the outstanding balance (approximately \$1,442,000) of their proportionate share of the Series E revenue bond indebtedness. This amount is held by the retirement of indebtedness fund to provide for the future retirement of the participant's proportionate share of the Series E revenue bonds outstanding as it becomes due. The Series F revenue bond proceeds were used to partially fund a power line to the Onizuka Center. The indebtedness is expected to be repaid by rebates from Hawaiian Electric Company, which will own and operate the power line, and by contributions from users of the Onizuka Center.

All of the revenue bond obligations of the university have provisions for early redemption at the option of the Board of Regents. The premiums on bond redemption, as a percentage of the bond principal redeemed, ranged from 0.5 percent to 2.5 percent.

Due to the State of Hawaii. At June 30, 1987, general obligation bonds were comprised of:

	<u>Authorized</u>	<u>Payable</u>
Series X:		
Manoa student housing-phase II	\$ 3,000,000	\$ 2,429,000
Manoa campus center	<u>2,125,000</u>	<u>1,721,000</u>
	<u>5,125,000</u>	<u>4,150,000</u>
Series A-1:		
Student housing:		
Manoa	14,826,310	12,921,662
Hilo college	2,973,120	2,520,818
Parking structure-phase I	8,610,000	7,504,301
Manoa campus center	<u>570</u>	<u>446</u>
	<u>26,410,000</u>	<u>22,947,227</u>
	<u>\$31,535,000</u>	<u>\$27,097,227</u>

In 1973, the State financed the construction of Manoa student dormitories and the campus center by issuing general obligation bonds aggregating \$5,125,000. The university is liable to the State for debt-service payments on these bonds at interest rates ranging from 4-5 percent per annum. Principal repayments to the State commenced on August 1, 1975, and will be due on a serial basis until August 1, 2007. The next five-year maturity of principal and related interest payable for fiscal years ending June 30 is detailed hereunder:

<u>Series X Bonds</u>	<u>Principal</u>	<u>Interest</u>
1988	\$110,000	\$170,950
1989	120,000	165,200
1990	125,000	159,075
1991	130,000	152,700
1992	140,000	145,950

In 1975, the State financed the construction of Manoa and Hilo student dormitories and the parking structure by issuing general obligation bonds aggregating \$26,410,000. The university is liable to the State for debt-service payments on these bonds at interest rates ranging from 6-7 percent per annum. Principal repayments to the State commenced on March 1, 1977, and will be due on a serial basis until September 1, 2011. On July 1, 1980, the State reduced the remaining balance due on these reimbursable general obligation bonds by \$414,619 to reflect use of the unexpended proceeds from the sale of these bonds for other State projects. The next five-year maturity of principal and related interest payable for fiscal years ending June 30 is detailed hereunder:

<u>Series A-1 Bonds</u>	<u>Principal</u>	<u>Interest</u>
1988	\$408,279	\$1,396,541
1989	432,874	1,369,180
1990	457,469	1,342,236
1991	491,902	1,314,345
1992	521,416	1,284,388

State of Hawaii general fund revenues. The financial statements do not include tuition and fees of the university's fall and spring semesters and other receipts which are transmitted to the Department of Budget and Finance in accordance with Act 184, Session Laws of 1961 (the Special Funds Act, First State Legislature), and other acts. Such deposits to the general fund of the State aggregated \$27,032,456 as shown in the following schedule.

Tuition:		
Resident	\$17,993,238	
Non-resident	2,419,165	
Total tuition		\$20,412,403
General and registration fees		63,520
Sales of farm products		2,736
Application fees		45,457
Course fees		21,619
Library fees, fines, penalties		41,371
Sand Island revenue (Department of Land and Natural Resources)		1,868,529
Indirect overhead on contracts and grants		4,038,887
Interest on investment of Morrill Act grant		108,576
Interest on time certificate of deposits		134,508
Interest on interest bearing checking account		74,823
Assessment for central service expense - (Credited Department of Budget and Finance in prior years)		<u>27,228</u>
Subtotal		26,839,657
Miscellaneous:		
Grants for vacation earned with county		
grants for vacation earned with the university	\$ 9,076	
Telephone coin box commission	6,199	
Unclaimed money and cash overage	163	
Service charges, processing bad checks	5,569	
Rentals and leaseholds	21,781	
Refund of prior year expenditures	98,428	
Damage to property	1,064	
Vacation earned with other state departments	26,906	
Sales of publication, equipment and other property	486	
Miscellaneous income	<u>23,127</u>	<u>192,799</u>
Total		<u>\$27,032,456</u>

State appropriations—current funds. Revenues from state appropriations for current funds for the year ended June 30, 1987, net of lapses, aggregated \$232,601,589 as shown in the following schedule.

Legislative appropriations -		
Act 300, SLH 1985 as amended Act 345 SLH 1986		\$183,758,618
Others:		
Allotment for salary increase and other adjustments:		
Act 171, SLH 1985	\$15,001,441	
Act 172, SLH 1985	1,167,875	
Act 345, SLH 1986	<u>773,905</u>	16,943,221
Transfer from other state agencies -		
Governor's office - Kapahulu Senior Center		95,991
Transfer to other state agencies -		
Social Rehabilitation of Confined Adults to Social Services - Act 278, SLH 1986		<u>(247,672)</u>
Total legislative appropriations-current funds		200,550,158
Less funds lapsed:		
Allocation and allotment	219,060	
Prior years	<u>349,268</u>	
Total funds lapsed		<u>568,328</u>
Net before payroll fringe benefit costs		199,981,830
Add payroll fringe benefit costs		<u>32,619,759</u>
Total		<u>\$232,601,589</u>

Contingent liabilities. The university has been named as a defendant and/or co-defendant in various lawsuits. Counsel is presently unable to express an opinion as to the probable outcome of certain lawsuits and, accordingly, no provision for losses, if any, has been made to the financial statements for these matters. However, losses, if any, will be generally paid for by the general fund of the State and, therefore, would not be a charge against the university's operations.

Related party transactions.

1. *The University of Hawaii Foundation.* The Foundation is a separate nonprofit organization that is exempt from federal income tax. It was formed in 1955 to benefit the university and its faculty and students. The Foundation's financial statements are not consolidated with the university's financial statements.

2. *The Research Corporation of the University of Hawaii.* The Research Corporation is a separate public instrumentality that is a part of the university for administrative purposes. It was established in 1965 by the Legislature to promote all educational, scientific, and literary pursuits by encouraging, initiating, aiding, developing, and conducting scientific investigations and research in all branches of learning. The Research Corporation's financial statements are not consolidated with the university's financial statements.

During fiscal years ended June 30, 1987 and 1986, the Research Corporation incurred expenditures on contracts and grants assigned from the university totaling \$28.7 million and \$28.6 million, respectively. The expenditures made by the Research Corporation for the university projects are billed to the university and are included in the university's current restricted fund expenditures.

Balance Sheet

JUNE 30, 1987
with comparative figures for 1986

Assets

Current Funds

Unrestricted:

Cash, including time certificates of deposit of \$20,364,327 in 1987 and \$19,406,441 in 1986
Due from State of Hawaii
Accounts receivable :
U.S. Government
Other, net of allowance for uncollectible accounts of \$105,836 in 1987 and \$124,139 in 1986
Total accounts receivable
Due from other funds
Accrued interest
Inventories
Prepaid expenses
Other

Total unrestricted

Restricted:

Cash, including time certificates of deposit of \$7,261,902 in 1987 and \$4,009,273 in 1986
Accounts receivable :
U.S. Government
Others, net of allowance for uncollectible accounts of \$2,515 in 1987 and \$10,480 in 1986
Total accounts receivable
Due from other funds
Accrued interest
Inventories
Prepaid expenses

Total restricted

Total current funds

Liabilities and Fund Balances

Current Funds

Unrestricted:

Liabilities :
Accounts payable
Accrued vacation
Accrued payroll and fringe benefits
Advance from sponsors
Due to State of Hawaii
Due to other funds
Deferred revenue

Total liabilities

Fund balance

Total unrestricted

Restricted:

Liabilities :
Accounts payable
Accrued vacation
Accrued payroll and fringe benefits
Advances from U.S. Government
Due to State of Hawaii

Total liabilities

Fund balance

Total restricted

Total current funds

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

Balance Sheet

For JUNE 30, 1987
with comparative figures for 1986

Assets

Loan Funds

Cash, including time certificates of deposit
of \$1,593,198 in 1987 and \$592,062 in 1986
Notes receivable, net of allowance for uncollectible accounts
of \$3,301,061 in 1987 and \$3,382,829 in 1986
Accrued interest
Other receivables
Due from other funds

Total loan funds

Loan Funds

\$ 1,752,383
13,932,188
71
1,031
13,047
\$ 15,698,720

\$ 1,577,004
13,261,842
71
343
7,410
\$ 14,846,670

Accrued payroll and fringe benefits
Due to borrowers
Fund balances:
U.S. Government grants refundable
University funds:
Restricted
Unrestricted
Total fund balances
Total loan funds

Liabilities and Fund Balances

	1987	1986
	\$ —	\$ 297
	777	—
	9,734,865	9,378,227
	5,929,756	5,434,033
	33,322	34,113
	15,697,943	14,846,373
	\$ 15,698,720	\$ 14,846,670

Endowment and Similar Funds

Cash, including time certificates of deposit
of \$1,840,827 in 1987 and \$1,103,626 in 1986
Investment income receivable
Investments (market value of \$20,544,173 in 1987
and \$17,689,541 in 1986)
Accounts receivable
Due from other fund

Total endowment and similar funds

Endowment and Similar Funds

	\$ 1,840,827	\$ 1,126,951	\$ —	\$ 82,060
	195,771	183,063	407,642	—
	17,762,081	13,817,077	3,323,049	2,836,878
	1,852,883	—	14,160,720	11,653,216
	947	—	3,761,098	554,937
			21,244,867	15,045,031
	\$ 21,652,509	\$ 15,127,091	\$ 21,652,509	\$ 15,127,091

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

Balance Sheet

JUNE 30, 1987

Assets

Liabilities and Fund Balances

Plant Funds with comparative totals for 1986

Plant Funds with comparative totals for 1986

	1987			1986		
	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant	Total	Total
Cash and time certificates of deposit of \$4,009,434 in 1987 and \$3,068,986 in 1986	\$ 733,804	\$ 2,693,431	\$ 1,204,445	\$ —	\$ 4,631,680	\$ 5,382,449
Accounts receivable:						
U.S. Government	—	—	119,195	—	119,195	119,194
Other	41,549	—	293,341	—	334,890	377,906
Total accounts receivable	41,549	—	412,536	—	454,085	497,100
Due from other funds	—	7,497	510,434	—	517,931	537,230
Accrued interest	—	—	16,560	—	16,560	23,693
Investments (Market value of \$753,595 in 1987)	—	—	731,321	—	731,321	—
Plant facilities:						
Land	—	—	—	9,198,145	9,198,145	9,198,145
Land improvements	—	—	—	36,011,556	31,163,172	31,163,172
Buildings	—	—	—	354,186,159	354,186,159	344,171,186
Equipment	—	—	—	134,648,882	130,972,939	130,972,939
Library and other books	—	—	—	52,059,293	52,059,293	48,543,543
Livestock	—	—	—	291,529	291,529	383,512
Construction in progress	—	—	—	5,791,549	5,791,549	3,843,094
Total plant facilities	—	—	—	592,187,113	592,187,113	568,275,591
Total plant funds	\$ 775,353	\$ 2,700,928	\$ 2,875,296	\$592,187,113	\$598,538,690	\$574,716,063

Agency Funds with comparative figures for 1986

Agency Funds with comparative figures for 1986

	1987			1986		
	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant	Total	Total
Cash and time certificates of deposit	—	—	—	—	—	—
Accounts receivable, net of allowance for uncollectible accounts of \$19,497 in 1987 and 1986	—	—	—	—	—	—
Accrued interest receivable	—	—	—	—	—	—
Total agency funds	\$ 433,187	\$ 433,187	\$ 433,187	\$ 433,187	\$ 433,187	\$ 403,146

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

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	Current Funds		Loan Funds	Endowment and Similar Funds	Plant Funds			Investment in Plant	1987	Total
	Unrestricted	Restricted			Unexpended	Renewals and Replacements	Refinement of Indebtedness			
Revenues and other additions										
Unrestricted current fund revenue	\$ 282,591,416	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$282,591,416	\$ 272,514,249	
Tuition and fees	—	(2,623,759)	—	—	—	—	—	(2,623,759)	52,769	
Federal appropriations	—	226,132	—	—	—	—	—	2,623,759	2,768,009	
State grants and contracts	—	54,396,277	49,551	—	419,320	—	—	695,003	380,485	
State grants and contracts	—	4,190,198	165,207	—	2,387	—	—	54,363,871	55,917,005	
Local grants and contracts	—	153,036	—	—	—	—	—	4,190,198	3,578,766	
Private gifts, grants, and contracts	—	4,392,145	—	—	—	—	—	153,036	99,563	
Endowment and investment income	—	564,572	397,292	3,041,568	1,750,606	—	778,171	9,962,490	\$ 716,441	
Sales and services of educational activities	—	328,367	—	—	—	11,326	106,543	1,079,733	1,206,956	
Other sources	—	80,576	—	—	—	—	—	328,267	268,062	
Realized gains on investment	—	—	—	2,357,801	—	—	—	80,576	279	
Expended for plant facilities	—	—	—	—	—	—	—	2,357,801	1,062,765	
Amount spent for construction in progress	—	—	—	—	—	—	—	17,529,234	15,226,083	
Decrease in allowance for uncollectible loans	—	—	—	—	—	—	—	1,791,706	2,657,000	
Proceeds from sale of revenue bonds	—	—	82,549	—	—	—	—	82,549	—	
Transfer from other State agencies	—	—	—	—	—	—	—	—	—	
Federal subsidies	—	—	—	—	—	—	—	—	1,650,000	
Retirement of indebtedness— revenue bonds	—	—	—	—	—	—	350,936	16,862,545	12,759,667	
Retirement of indebtedness— Hawaii obligation bonds	—	—	—	—	—	—	—	350,936	237,000	
Contribution towards retirement of indebtedness	—	—	—	—	—	—	—	254,000	—	
Others	80,024	—	34,071	—	—	—	—	483,765	459,088	
								1,819,517	1,371,462	
								2,248,284	—	
Total revenues and other additions	282,671,440	66,254,893	728,670	5,395,369	2,172,313	11,326	457,479	394,229,100	380,696,402	
Expenditures and other deductions										
Educational and general expenditures	244,488,784	66,007,206	—	—	—	—	—	311,096,937	303,189,762	
Auxiliary enterprise expenditures	27,354,081	—	—	—	—	—	947	27,577,295	27,577,295	
Independent operation expenditures	1,526,147	398,958	—	—	—	—	—	1,925,105	1,799,484	
Administrative and collection cost	—	—	191,635	—	—	—	—	191,635	125,426	
Expenditures for plant facilities (including uncapitalized expenditures of \$1,406,962 in 1987 and \$1,219,684 in 1986)	—	—	—	—	1,760,090	1,646,649	—	—	—	
Loan cancellations and write-offs	—	—	106,595	—	—	—	—	3,406,739	3,648,324	
Retirement of indebtedness— bonds	—	—	—	—	—	—	—	106,595	315,291	
Interest on indebtedness— bonds	—	—	—	—	—	—	737,765	737,765	696,088	
Assumption of Indebtedness	—	—	—	—	—	—	2,083,425	2,083,425	2,082,138	
Disposal of plant facilities	—	—	—	—	—	—	—	—	1,650,000	
Funds lapsed	—	—	—	—	—	—	—	2,259,465	1,018,698	
Write-off of equipment under \$200	—	—	—	—	—	—	—	—	6,401	
Increase in allowance for uncollectible loans	—	—	—	—	—	—	—	12,724,038	—	
Transfers to other State agencies	11,367	—	—	—	—	—	—	11,367	1,001,123	
Transfers to agency fund	—	—	—	—	—	—	—	—	13,758	
Others	—	—	704	—	—	—	—	—	1,000	
								704	44,914	
Total expenditures and other deductions	273,380,379	67,006,164	298,934	—	1,760,090	1,646,649	2,832,137	361,897,856	343,165,702	

EXHIBIT B
(Cont'd)

Statement of Changes in Fund Balances

For the year ended JUNE 30, 1987
with comparative totals for 1986

	Current Funds		Loan Funds	Endowment and Similar Funds	Plant Funds			Total	
	Unrestricted	Restricted			Unexpended	Renewals and Replacements	Retirement of Indebtedness	1987	1986
Transfers - additions (deductions):									
Mandatory:									
Principal and interest	\$ (2,184,972)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2,184,972	\$ —	\$ —
Renewals and replacements	(204,475)	—	—	—	—	204,475	—	—	—
Voluntary:	(2,389,447)	—	—	—	—	204,475	2,184,972	—	—
Renewals and replacements	(970,109)	—	—	—	—	970,109	—	—	—
Quasi-endowment—unrestricted	(562,500)	—	—	562,500	—	—	—	—	—
Reinvestment of endowment income	(227,472)	(43,761)	—	271,233	—	—	—	—	—
Distribution of prior year's endowment income	9,231	24,035	—	(33,266)	—	—	—	—	—
Administrative overhead to loan funds	—	29,816	(29,816)	—	—	—	—	—	—
Institutional contribution to State Higher Education Loan Fund	(451,650)	—	451,650	—	—	—	—	—	—
Other	20,378	(20,378)	—	—	—	—	—	—	—
Total transfers	(4,571,569)	(10,288)	421,834	800,467	—	1,174,584	2,184,972	—	—
Net increase (decrease) for the year	4,719,492	(61,559)	851,570	6,199,836	412,223	(460,739)	(179,686)	36,331,244	36,926,400
Fund balances at beginning of year	17,700,048	3,619,290	14,846,373	15,045,031	99,785	2,886,579	2,363,572	586,618,007	549,691,607
Fund balances at end of year	\$ 22,419,540	\$ 3,557,731	\$ 15,697,943	\$ 21,244,867	\$ 512,008	\$ 2,425,840	\$ 2,183,886	\$ 622,949,251	\$ 586,618,007

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

Revenues									
Educational and general:									
Tuition and fees	\$ 9,630,627	\$(69)	\$ 9,630,558	\$ 8,382,490	Expenditures	27,354,081	\$ 1,526,147	\$ 398,958	\$ 1,925,105
Federal appropriations	—	2,623,759	2,623,759	2,768,009	Mandatory transfers for:	—	—	—	27,354,081
State appropriations	232,373,457	226,132	232,601,589	226,712,841	Principal and interest	2,184,972	2,184,972	—	2,184,972
Federal grants and contracts	4,066,267	54,622,389	58,688,656	58,486,175	Renewals and replacements	204,475	204,475	—	204,475
State grants and contracts	9,075	4,190,198	4,199,273	3,594,698					
Local grants and contracts	—	153,036	153,036	99,563					
Private gifts, grants and contracts	—	4,237,030	4,237,030	3,730,075	Total auxiliary enterprises	29,743,528	29,743,528	—	29,743,528
Endowment income	218,241	544,846	763,087	456,712					
Sales and services of educational activities	4,199,422	328,267	4,227,689	4,338,908					
Others	1,130,402	80,576	1,210,978	734,833	Total expenditures and mandatory transfers	275,758,459	275,758,459	67,006,164	342,764,623
Total educational and general	251,629,491	67,006,164	318,635,655	309,304,304	Other transfers and additions (deductions):				
Sales and services of auxiliary enterprises									
	30,961,925	—	30,961,925	30,133,091	Excess (deficit) of restricted revenues over expenditures and mandatory transfers	(51,271)	(51,271)	(51,271)	619,076
					Voluntary transfer to renewals and replacements	(970,109)	(970,109)	(970,109)	(1,211,901)
					Administrative overhead charged to loan funds	—	—	29,816	—
					Institutional contribution to				
Total revenues	282,591,416	67,006,164	349,597,580	339,437,395	State Higher Education Loan Fund	(451,650)	(451,650)	(451,650)	(469,619)
					Quasi-endowment—unrestricted	(562,500)	(562,500)	(562,500)	(137,500)
					Quasi-endowment—restricted	—	—	—	(100,000)
					Reinvestment of endowment income	(227,472)	(227,472)	(227,472)	(316,288)
					Distribution of prior year's				
					endowment income	9,231	9,231	24,035	—
					Transfers to other State agencies	(11,367)	(11,367)	(11,367)	(13,758)
					Transfer to other funds	20,378	20,378	(20,378)	(7,778)
					Others	80,024	80,024	—	(7,778)
					Total other transfers and additions (deductions)	(2,113,465)	(2,113,465)	(61,559)	(1,637,768)
					Net increase in fund balances	\$ 4,719,492	\$ 4,719,492	\$ (61,559)	\$ 4,657,933
Total educational and general	244,488,784	66,607,206	311,095,990	303,189,762					\$ 2,681,455

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

PART III
RESPONSE OF THE AFFECTED AGENCY

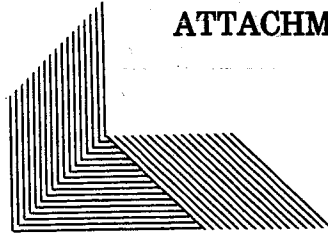
COMMENTS ON AGENCY RESPONSE

On December 30, 1987, copies of a preliminary report of this financial audit were transmitted to the Governor, the presiding officers of the Legislature, and the University of Hawaii. A copy of the letter of transmittal to the university is included here as Attachment 1. As is our practice, we invited the university to comment on the recommendations made in the report. The university responded by letter dated January 13, 1988, which is included here as Attachment 2.

We are pleased that the audit report has been well received by the university and that it finds the recommendations useful in its efforts to better administer the university.

ATTACHMENT 1

THE OFFICE OF THE AUDITOR
STATE OF HAWAII
465 S. KING STREET, RM. 500
HONOLULU, HAWAII 96813



CLINTON T. TANIMURA
AUDITOR

December 30, 1987

C O P Y

Dr. Albert J. Simone, President
University of Hawaii
2444 Dole Street, Bachman 202
Honolulu, Hawaii 96822

Dear Dr. Simone:

Enclosed are two preliminary copies, numbered 4 and 5, of our report on the *Financial Audit of the University of Hawaii*. We call your attention to the recommendations affecting the university which are made in Chapter 3 of the report. If you have any comments on our recommendations, we ask that you submit them in writing to our office by January 13, 1988, for inclusion in the final report.

The Governor and the presiding officers of the Legislature have been provided with copies of this preliminary report.

Since the report is not in final form and there may be changes to it, access to this report should be restricted to those officials whom you might wish to call upon to assist you in the review of the report. Public release of the report will be made solely by our office and only after the report is published in its final form and submitted to the Legislature.

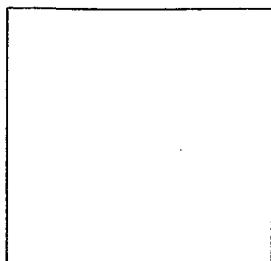
We appreciate the assistance and cooperation extended to us.

Sincerely,

Clinton T. Tanimura
Legislative Auditor

Enclosures

ATTACHMENT 2



UNIVERSITY OF HAWAII • HONOLULU, HAWAII 96822

PRESIDENT

January 13, 1988

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OFF. OF THE AUDITOR
STATE OF HAWAII

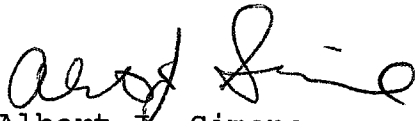
MEMORANDUM

TO: Clinton Tanimura
Legislative Auditor

SUBJECT: Draft of Financial Audit of the University
of Hawaii

Thank you for the opportunity to comment on your audit of the University. We find no errors in fact and find your recommendations useful in our efforts to better administer the University.

I would like to thank you and your staff and that of Coopers & Lybrand for a professional job well done. If we can be of further assistance on this matter, please call on me or my staff.


Albert J. Simone
President