BRIGHAM YOUNG UNIVERSITY – HAWAII

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# REPORTS ON AUDITS OF THE FINANCIAL STATEMENTS
For the years ended December 31, 2018 and 2017
AND FEDERAL GRANT COMPLIANCE
For the year ended December 31, 2018
(As required by the Single Audit Act and OMB Uniform Guidance)

EIN: 99-0083825

T A B L E O F C O N T E N T S

## Report of Independent Auditors

To the Board of Trustees of Brigham Young University – Hawaii:

### Report on the Financial Statements

We have audited the accompanying financial statements of Brigham Young University – Hawaii ("the School"), which comprise the statement of financial position as of December 31, 2018 and 2017, and the related statements of activities 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 the 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 the 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 audits 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 our 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, we consider internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Brigham Young University – Hawaii as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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***Other Matters***

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards for the year ended December 31, 2018 is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards 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 April 30, 2019 on our consideration of the School'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 December 31, 2018. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the School's internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

May 2, 2019

# BRIGHAM YOUNG UNIVERSITY - HAWAII

## STATEMENTS OF FINANCIAL POSITION

### December 31, 2018 and 2017

(in thousands of dollars)

| | 2018 | 2017 |
|---|---|---|
| **Assets** | | |
| Cash | $ 22,457 | $ 19,964 |
| Accounts and notes receivable, net of allowances of $490 and $200 | 10,147 | 11,154 |
| Inventories, prepaid expenses and other assets | 1,909 | 3,253 |
| Investments | 245,578 | 245,570 |
| Beneficial interest in trusts | 4,424 | 4,142 |
| Land, buildings and equipment, net | 276,609 | 254,327 |
| **Total Assets** | $ 561,124 | $ 538,410 |
| **Liabilities and Net Assets** | | |
| **Liabilities** | | |
| Accounts payable, accrued liabilities and deposits | $ 10,318 | $ 8,334 |
| Deferred revenue | 358 | 384 |
| Annuities payable | 1,259 | 1,338 |
| Retirement and postretirement benefits obligation | 21,702 | 27,407 |
| Loans and notes payable | 142,169 | 131,701 |
| **Total Liabilities** | 175,806 | 169,164 |
| **Net Assets** | | |
| Without donor restrictions | | |
| Operations | 38,103 | 31,139 |
| Board-designated for specific purposes | 88,996 | 87,704 |
| Invested in land, buildings and equipment | 134,439 | 122,626 |
| Total without donor restrictions | 261,538 | 241,469 |
| With donor restrictions | | |
| Operations | 71,298 | 79,451 |
| Beneficial interest in trusts | 4,424 | 4,142 |
| Endowment funds | 48,058 | 44,184 |
| Total with donor restrictions | 123,780 | 127,777 |
| **Total Net Assets** | 385,318 | 369,246 |
| **Total Liabilities and Net Assets** | $ 561,124 | $ 538,410 |

See notes to financial statements

# BRIGHAM YOUNG UNIVERSITY - HAWAII

## STATEMENT OF ACTIVITIES

### For the Year Ended December 31, 2018

(in thousands of dollars)

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| **Revenues and Other Support** | | | |
| Tuition and fees | $ 20,624 | | $ 20,624 |
| Less scholarships and grants | 9,844 | | 9,844 |
| Net tuition and fees | 10,780 | | 10,780 |
| Appropriations from a Church affiliate | 81,233 | | 81,233 |
| Contributions and grants | 5,553 | $ 13,241 | 18,794 |
| Investment loss, net | (3,234) | (3,668) | (6,902) |
| Auxiliary sales, net of student aid of $2,852 | 24,017 | | 24,017 |
| Other | 945 | | 945 |
| Net assets released from restrictions | 13,570 | (13,570) | - |
| **Total Revenues and Other Support** | 132,864 | (3,997) | 128,867 |
| **Expenses** | | | |
| Education | 53,608 | | 53,608 |
| Administration | 33,347 | | 33,347 |
| Auxiliary | 31,954 | | 31,954 |
| **Total Expenses** | 118,909 | | 118,909 |
| **Increase (decrease) in Net Assets before Retirement and Postretirement Plans Adjustment** | 13,955 | (3,997) | 9,958 |
| **Retirement and Postretirement Plans Adjustment** | 6,114 | | 6,114 |
| **Increase (decrease) in Net Assets** | 20,069 | (3,997) | 16,072 |
| **Net Assets Beginning of Year** | 241,469 | 127,777 | 369,246 |
| **Net Assets End of Year** | $ 261,538 | $ 123,780 | $ 385,318 |

See notes to financial statements

# BRIGHAM YOUNG UNIVERSITY - HAWAII

## STATEMENT OF ACTIVITIES

### For the Year Ended December 31, 2017

( in thousands of dollars )

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| **Revenues and Other Support** | | | |
| Tuition and fees | $ 17,701 | | $ 17,701 |
| Less scholarships and grants | 8,599 | | 8,599 |
| Net tuition and fees | 9,102 | | 9,102 |
| Appropriations from a Church affiliate | 101,651 | | 101,651 |
| Contributions and grants | 5,262 | $ 9,830 | 15,092 |
| Investment gain, net | 17,234 | 16,142 | 33,376 |
| Auxiliary sales, net of student aid of $3,247 | 19,549 | | 19,549 |
| Other | 497 | | 497 |
| Net assets released from restrictions | 3,624 | (3,624) | - |
| **Total Revenues and Other Support** | 156,919 | 22,348 | 179,267 |
| **Expenses** | | | |
| Education | 47,373 | | 47,373 |
| Administration | 34,171 | | 34,171 |
| Auxiliary | 27,150 | | 27,150 |
| **Total Expenses** | 108,694 | | 108,694 |
| **Increase in Net Assets before Retirement and Postretirement Plans Adjustment** | 48,225 | 22,348 | 70,573 |
| **Retirement and Postretirement Plans Adjustment** | (2,300) | | (2,300) |
| **Increase in Net Assets** | 45,925 | 22,348 | 68,273 |
| **Net Assets Beginning of Year** | 195,544 | 105,429 | 300,973 |
| **Net Assets End of Year** | $ 241,469 | $ 127,777 | $ 369,246 |

See notes to financial statements

# BRIGHAM YOUNG UNIVERSITY - HAWAII

## STATEMENTS OF CASH FLOWS

### For the Years Ended December 31, 2018 and 2017

( in thousands of dollars )

| | 2018 | 2017 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Increase in net assets | $ 16,072 | $ 68,273 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities | | |
| Depreciation | 10,965 | 10,594 |
| (Gain) loss on investments | 12,266 | (28,912) |
| Decrease (increase) in beneficial interest in trusts | (282) | 1,852 |
| Gain on disposal of land, buildings and equipment | (656) | (143) |
| Contributions restricted for investment in donor-restricted net assets | (3,874) | (3,090) |
| Change in operating assets and liabilities: | | |
| Accounts receivable | 1,007 | (1,364) |
| Inventories, prepaid expenses and other assets | 1,344 | 1,461 |
| Accounts payable, accrued liabilities and deposits | 2,275 | (12,173) |
| Deferred revenue | (26) | (5,041) |
| Retirement and postretirement benefits obligation | (5,705) | 232 |
| Annuities payable | (79) | 221 |
| Net cash provided by operating activities | 33,307 | 31,910 |
| **Cash Flows from Investing Activities** | | |
| Proceeds from sale of investments | 20,775 | 11,950 |
| Purchase of investments | (33,049) | (18,320) |
| Proceeds from disposal of land, buildings and equipment | 20 | 235 |
| Purchase of land, buildings and equipment | (32,902) | (48,262) |
| Net cash used in investing activities | (45,156) | (54,397) |
| **Cash Flows from Financing Activities** | | |
| Contributions restricted for investment in donor-restricted endowments | 3,874 | 3,090 |
| Proceeds from loans and notes payable | 11,501 | 23,799 |
| Payments on loans and notes payable | (1,033) | (761) |
| Net cash provided by financing activities | 14,342 | 26,128 |
| Net increase in cash | 2,493 | 3,641 |
| Cash, beginning of year | 19,964 | 16,323 |
| Cash, end of year | $ 22,457 | $ 19,964 |
| **Supplemental Data** | | |
| Interest paid | $ 1,193 | $ 989 |
| Change in purchases of land, buildings and equipment in accounts payable | 291 | (287) |

See notes to financial statements

## (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Brigham Young University – Hawaii (the University), located in Laie, Hawaii, is a non-profit corporation affiliated with The Church of Jesus Christ of Latter-day Saints (the Church).

Basis of Accounting

The financial statements of the University have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

University net assets are classified into two categories: without donor restrictions, and with donor restrictions, based on the absence or existence of donor-imposed time or purpose restrictions upon resources provided to the University. When donor restrictions are satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions, and are reported in the Statement of Activities as net assets released from restrictions. However, if a restriction is fulfilled in the same period in which the contribution is received, the University reports the contribution as without donor restrictions.

Cash

Cash includes cash on hand, cash in depository institutions and cash in an interest bearing cash management account maintained with a Church affiliate (Note 7) that is available on demand and is not covered by federal depository insurance.

Inventories

Inventories include retail store inventory stated at the lower of cost (retail inventory method) or market and materials and supplies stated at the lower of cost (first-in, first-out method) or market.

Investments

Investments with readily determinable fair values are carried at fair value. Investments that have no readily determinable fair value are carried at either original cost or estimated value at the date of donation.

Beneficial Interest in Trusts

The University is named as a beneficiary of certain irrevocable trusts. Revenues and assets included in the financial statements are based on the net present value of expected proceeds from those trusts.

Land, Buildings and Equipment

Land, buildings and equipment are stated at acquisition cost or at estimated fair value at the time of donation. Gifts of long-lived assets are treated as support without donor restrictions unless explicit donor restrictions specify otherwise. Depreciation is computed using the straight-line method and the following useful lives:

| | |
|---|---|
| Buildings | 10 to 50 years |
| Improvements | 5 to 25 years |
| Furniture, fixtures, and equipment | 3 to 10 years |
| Library books | 25 years |

Collections

The University maintains several collections, which are not reported for financial statement purposes. These collections include works of art, natural history (living and artifacts) and other similar objects. Collections are held for public exhibition, education and research in furtherance of the University's goal to provide public service. Proceeds from the sale of collection items are held and used to acquire other collection items that are expensed at the time of purchase. Various University departments have the responsibility to control, preserve and protect these collections.

Annuities Payable

Annuities payable represent the University's estimated annuity obligation to certain donors and their designees under contractual gift agreements that are maintained by a Church affiliate (Note 7). No significant financial benefit is being or can be realized by the University until the contractual obligations are released. The University uses the actuarial method of recording annuities when received. Under this method, when a gift is received, the present value of the aggregate annuity obligation is recorded as a liability, based upon life expectancy tables. The remainder is recorded as a contribution on the Statement of Activities. Annually, the University makes an adjustment to record the actuarial gain or loss due to re-computation of the liability based upon the revised life expectancy.

Revenue Recognition

Appropriations from a Church affiliate (Note 7) are recorded as revenue when received or as costs are incurred for Church affiliate-funded projects. Tuition, student fees, auxiliary sales and other revenues are recognized as income in the period earned. Amounts received but not yet earned are recorded as deferred revenue.

Contributions are recorded at fair value at the time gifts are received. Unconditional promises to give to the University are recognized when the promise is formally acknowledged. Conditional promises to give to the University are recognized when the conditions on which they depend are substantially met.

Fair Value Measurements

Certain financial instruments and retirement and postretirement plan assets are carried at fair value, as discussed in Notes 9 and 10, respectively.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is based on assumptions that market participants would use, including a consideration of non-performance risk.

In determining fair value, the University uses various valuation techniques and prioritizes the use of observable inputs. The availability of observable inputs varies from instrument to instrument and depends on a variety of factors, including the type of instrument, whether the instrument is actively traded, and other characteristics particular to the transaction. Equity and fixed income portfolio investments are valued at fair value, based upon the underlying investments, using the net asset values provided by a Church affiliate (Note 7). Equity securities are valued at the closing price reported on the active market on which the securities are traded. Fixed income securities are generally valued using pricing models maximizing the use of observable inputs. Real estate and limited partnership investments are valued at fair value, based upon the underlying investments, using either the published net asset value per unit or the net asset values provided by the general partners, updated as necessary using analytical tools to benchmark returns, appraisals, public market data and/or inquiry of the general partners.

The University assesses the inputs used to measure fair value using a three-tier hierarchy based on the extent to which inputs used in measuring fair value are observable in the market. Level 1 inputs include quoted prices for identical assets or liabilities in an active market. Level 2 inputs include quoted prices for similar assets and observable inputs such as interest rates, currency exchange rates, commodity rates, and yield curves. Level 3 inputs are not observable in the market and include management's judgments about the assumptions market participants would use in pricing the asset or liability.

Transfers between levels occur when there is a change in the observability of significant inputs. This may occur between Level 1 and Level 2 when the availability of quoted prices changes, or when market activity significantly changes to active or inactive. A transfer between Level 2 and Level 3 generally occurs when the underlying inputs become, or can no longer be, corroborated with observable market data. The University's policy is to recognize all transfers at the end of each reporting period.

Accounting for Retirement and Postretirement Plans
The University recognizes the over/under funded status of retirement and postretirement plans in the Statement of Financial Position. For retirement plans, funding status is measured as the difference between the fair value of plan assets and the projected benefit obligation. For postretirement plans, funding status is measured as the difference between the fair value of plan assets and the accumulated postretirement benefit obligation. The University also recognizes all previously unrecognized actuarial gains and losses, prior service cost, and transition liability in net assets without donor restrictions and provides all required additional disclosure.

Income Tax Status
The University is exempt from federal and state income tax under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is made in the financial statements.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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 those estimates.

New Accounting Pronouncement
In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities.* ASU 2016-14 modifies net asset reporting and requires additional disclosures. The standard requires the University to reclassify its net assets (formerly unrestricted, temporarily restricted, and permanently restricted) into two categories; net assets without donor restrictions and net assets with donor restrictions.

The standard requires the University to change the net asset classification (from net assets with donor restrictions to net assets without donor restriction) when capital assets funded by capital gifts for construction are placed in service, rather than when the donations are spent.

The standard also requires recognition of underwater endowment funds to be accounted for as a reduction of net assets with donor restrictions.

The University applied the changes on its financial statements retrospectively. The standard also requires new disclosures on liquidity and availability of funds (Note 2), and disclosures related to expenses by both their functional and natural classifications (Note 11), which the University elected to apply prospectively.

In adopting this standard, certain prior year amounts were reclassified to conform to the new presentation. The following table presents the effect on the University's previously reported net asset balances at December 31, 2017 (in thousands of dollars):

| | ASU 2016-14 Classifications | | |
|---|---|---|---|
| 2017 Net Assets Classifications | Without donor restrictions | With donor restrictions | Total net assets |
| As previously presented: | | | |
| Unrestricted | $ 241,469 | | $ 241,469 |
| Temporarily restricted | - | $ 81,915 | 81,915 |
| Permanently restricted | - | 45,862 | 45,862 |
| Net assets as previously presented | $ 241,469 | $ 127,777 | $ 369,246 |

In addition, the previously reported statement of activities for the year ended December 31, 2017 presented Instruction and academic support and Student support separately. The University now reports them as one functional expense, Education services.

## (2) LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The University's liquidity needs are met from the following sources: tuition and fees, monthly Church appropriations for operations, funding for Church-funded capital projects, and donations made to the University through a Church affiliate (Note 7). In order to meet additional liquidity needs, the University may redeem investments from its investment portfolios on a monthly basis with a minimum notice period of five business days. Excess cash from daily operational needs is managed in cash accounts on deposit with a Church affiliate. The investment portfolios are invested with diversification as designated by the University's Investment Committee. The following reflects the University's financial assets as of the balance sheet date, reduced by amounts not available for general use within one year of the balance sheet date because of contractual or donor-imposed restrictions, or internal designations. The following table presents the availability of financial assets as of December 31, 2018 (in thousands of dollars):

| | 2018 |
|---|---|
| Cash | $ 22,457 |
| Accounts and notes receivable, net | 10,147 |
| Investments | 245,578 |
| Beneficial interest in trusts | 4,424 |
| Total financial assets | 282,606 |
| Less those unavailable for general expenditure within one year: | |
| Endowment funds | 48,058 |
| Beneficial interest in trusts | 4,424 |
| Other investments | 13,560 |
| Financial assets available to meet cash needs for general expenditures within one year | $ 216,564 |

## (3) INVESTMENTS

Investments primarily consist of unitized interests in investment pools managed by a Church affiliate (Note 7).

Investments as of December 31, 2018 and 2017 are as follows (in thousands of dollars):

| | 2018 | 2017 |
|---|---|---|
| Investments at fair value: | | |
| Cash equivalents | $ 424 | $ 392 |
| Equity portfolios, domestic | 143,373 | 154,822 |
| Equity portfolios, international | 16,448 | 17,202 |
| Fixed income portfolios, domestic | 71,773 | 59,074 |
| Total investments at fair value | 232,018 | 231,490 |
| Other investments carried at cost or estimated value at the date of donation: | | |
| Partnership interests | 13,390 | 13,390 |
| Real estate | 142 | 652 |
| Other assets | 28 | 38 |
| Total other investments | 13,560 | 14,080 |
| Total investments | $ 245,578 | $ 245,570 |

For the years ended December 31, 2018 and 2017, net investment income includes (in thousands of dollars):

| | 2018 | 2017 |
|---|---|---|
| Dividend and interest income | $ 5,364 | $ 4,463 |
| Net gain (loss) on investments carried at fair value | (12,266) | 28,913 |
| Total investment income (loss), net | $ (6,902) | $ 33,376 |

## (4) BENEFICIAL INTEREST IN TRUSTS

The University is named as a beneficiary or remainderman for a number of irrevocable charitable remainder trusts. Most of these trusts are administered by a Church affiliate (Note 7). Expected receipts from these trusts and unconditional promises to give (fair value determined using discount rates ranging from approximately 1.0 to 3.0 percent) as of December 31, 2018 and 2017, are as follows (in thousands of dollars):

| | 2018 | 2017 |
|---|---|---|
| Less than one year | $ 466 | $ - |
| One to five years | 1,843 | 2,273 |
| More than five years | 2,115 | 1,869 |
| Total beneficial interest in trusts | $ 4,424 | $ 4,142 |

## (5) LAND, BUILDINGS AND EQUIPMENT

As of December 31, 2018 and 2017, land, buildings and equipment included (in thousands of dollars):

| | 2018 | 2017 |
|---|---|---|
| Land, buildings and improvements | $ 294,713 | $ 301,904 |
| Furniture, fixtures and equipment | 18,504 | 40,473 |
| Library books and other | 10,637 | 13,160 |
| Construction in progress | 61,316 | 53,134 |
| | 385,170 | 408,671 |
| Less accumulated depreciation | 108,561 | 154,344 |
| Total land, buildings and equipment, net | $ 276,609 | $ 254,327 |

During the year ended December 31, 2018, fully-depreciated assets and the related accumulated depreciation of $58,000 were removed from buildings and equipment.

## (6) LOANS AND NOTES PAYABLE TO A CHURCH AFFILIATE

Loans and notes payable consist of unsecured loans extended by a Church affiliate (Note 7) to the University for the acquisition of housing-related facilities and other projects. These loans bear interest at rates ranging from 2 to 3 percent. Maturity dates of all current notes range from 2055 to 2058.

The amounts of future principal payments as of December 31, 2018 are (in thousands of dollars):

| | |
|---|---|
| Years ending December 31, | |
| 2019 | 2,442 |
| 2020 | 2,492 |
| 2021 | 2,542 |
| 2022 | 2,594 |
| 2023 | 2,647 |
| 2024 and thereafter | 129,452 |
| Total loans and notes payable to a Church affiliate | $ 142,169 |

## (7) RELATED PARTIES

The University operates under the direction of a Board of Trustees (the Board) composed of General Authorities and other officers of the Church. The University is provided certain accounting and other management services and is also included in the property and liability insurance programs of Church affiliates, all at no cost to the University.

The following table reflects balances due to and from or administered through Church affiliates, and activities with or processed by Church affiliates, included in the financial statements as of and for the years ended December 31, 2018 and 2017 (in thousands of dollars):

| | 2018 | 2017 |
|---|---|---|
| Cash | $ 1,989 | $ 3,463 |
| Accounts receivable | 3,059 | 5,551 |
| Investments | 232,018 | 231,670 |
| Beneficial interest in trusts | 4,424 | 4,142 |
| Accounts payable and accrued liabilities | 4,458 | 2,147 |
| Annuities payable | 1,259 | 1,338 |
| Retirement and postretirement benefits obligation | 21,702 | 27,407 |
| Loans and notes payable | 142,169 | 131,701 |
| | | |
| Appropriations: | | |
| Operations | 56,311 | 51,202 |
| Other appropriations | 9,327 | 8,021 |
| Capital expenditures | 15,595 | 42,428 |
| Contributions processed from donors | 18,794 | 13,048 |
| Net investment income (loss) | (6,902) | 33,376 |
| Auxiliary enterprises and other revenue | 2,784 | 2,102 |
| Expenses: | | |
| Benefit plans | 8,055 | 14,907 |
| Products and services | 27,909 | 13,469 |
| Interest | 1,193 | 989 |

## (8) ENDOWMENTS

The University's endowment fund consists of individual donor restricted endowment funds and funds designated by the Board to function as endowments. The net assets associated with endowment funds, including those funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

The Board has interpreted the adopted Hawaii "Uniform Prudent Management of Institutional Funds Act" (UPMIFA) as requiring 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 of this interpretation, the University classifies as net assets with donor restrictions, (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 as permanently endowed is also classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate endowment funds:

- The duration and preservation of the fund
- The purposes of the University and the donor restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and appreciation of investments
- Other resources of the University
- The investment policies of the University

Where the Board designates funds without donor restrictions to function as endowments (board-designated endowments) they remain classified as net assets without donor restrictions. Where the Board designates donor restricted non-endowment funds to function as endowments they are classified as net assets with donor restrictions. Board-designated endowments are used to fund management priorities as approved by the Board.

The following tables present the University's endowment net asset changes, for the indicated years (in thousands of dollars):

**Changes in Endowment Net Assets for the year ended December 31, 2018**

| | Net Assets Without Donor Restrictions | Net Assets With Donor Restrictions | Total |
|---|---|---|---|
| Endowment net assets, beginning of year | $ - | $ 44,184 | $ 44,184 |
| Investment income, net | - | - | - |
| Contributions and other revenue | - | 3,874 | 3,874 |
| Endowment net assets, end of year | $ - | $ 48,058 | $ 48,058 |

**Changes in Endowment Net Assets for the year ended December 31, 2017**

| | Net Assets Without Donor Restrictions | Net Assets With Donor Restrictions | Total |
|---|---|---|---|
| Endowment net assets, beginning of year | $ - | $ 40,377 | $ 40,377 |
| Investment income, net | - | - | - |
| Contributions and other revenue | - | 3,807 | 3,807 |
| Endowment net assets, end of year | $ - | $ 44,184 | $ 44,184 |

**Description of Amounts Classified as Net Assets With Donor Restrictions (Endowment Only)**

| | 2018 | 2017 |
|---|---|---|
| **Net Assets With Donor Restrictions** | | |
| The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or UPMIFA | $ 48,058 | $ 44,184 |
| Total endowment funds classified as net assets with donor restrictions | $ 48,058 | $ 44,184 |

Endowment Funds with Deficits

From time to time, the fair value of assets associated with individual donor endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor endowment deficits exist, they are classified as a reduction of net assets with donor restrictions.

Return Objectives and Risk Parameters

The University has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Under this policy, endowment assets are invested in a manner that is intended to yield a long-term rate of return of approximately 6.0 percent annually, while assuming a moderate level of investment risk. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Investment Objectives

To achieve its long-term rate of return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). The University targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

Relationship of Spending Policy to Investment Objectives

The University's Investment Committee (the Committee) determines the method to be used to appropriate endowment funds for expenditure. The appropriation amount is determined as of the end of the year, one year prior to when it becomes available for expenditure, and is equal to 4.0 percent of the preceding five years' average ending fair value. In establishing this method, the Committee considered the expected long-term rate of return on the investment of the University's endowment funds. Accordingly, over the long-term, the University expects the current spending policy to allow its endowment to grow at an average of 2.0 percent annually, consistent with its intention to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts. Depending upon market conditions and the needs and available resources of the University, appropriations for expenditure from individual endowments may be temporarily suspended to facilitate preservation of the endowment.

## (9) FINANCIAL INSTRUMENTS AT FAIR VALUE

Certain financial instruments of the University are reported at fair value and are either categorized into a three-level hierarchy based on the nature of the inputs to the valuation technique, or presented as investments measured at net asset value per share as discussed in Note 1. The following tables present these financial instruments as of December 31, 2018 and 2017 (in thousands of dollars):

| | Fair Value Measurements as of December 31, 2018 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash equivalents | $ 424 | $ - | $ - | $ 424 |
| Investments measured at net asset value per share | N/A | N/A | N/A | 231,594 |
| Total Investments | 424 | - | - | 232,018 |
| Beneficial interest in trusts | - | - | 4,424 | 4,424 |
| Total assets carried at fair value | $ 424 | $ - | $ 4,424 | $ 236,442 |

| | Fair Value Measurements as of December 31, 2017 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash equivalents | $ 392 | $ - | $ - | $ 392 |
| Investments measured at net asset value per share | N/A | N/A | N/A | 231,098 |
| Total Investments | 392 | - | - | 231,490 |
| Beneficial interest in trusts | - | - | 4,142 | 4,142 |
| Total assets carried at fair value | $ 392 | $ - | $ 4,142 | $ 235,632 |

The following tables summarize the changes in Level 3 financial instruments measured at fair value for the years ended December 31, 2018 and 2017 (in thousands of dollars):

| | Fair Value Measurements Using Significant Unobservable Inputs | |
|---|---|---|
| | 2018 | 2017 |
| Level 3 financial instruments, beginning of year | $ 4,142 | $ 5,994 |
| Total gains (losses) | 282 | (1,784) |
| Purchases | | |
| Settlements | - | (68) |
| Transfers into (out of) Level 3 | - | - |
| Level 3 financial instruments, end of year | $ 4,424 | $ 4,142 |

The fair value of the beneficial interests in trusts is based upon an income approach. Significant inputs include the fair value of the trust assets, the discount rate, the annual amounts paid to the donor, and the estimated date of payout (Note 4).

Investments measured at net asset value per share consist of unitized interests in investment pools managed by a Church affiliate which are valued at fair value based on the net asset value per share (practical expedient). Investments valued using the practical expedient are not required to be categorized within the fair value hierarchy. The University has no unfunded commitments, and may redeem these investments on a monthly basis, at the month-end net asset value, with a minimum notice period of 5 business days. The following table presents the fair value of these investments, as of December 31, 2018 and 2017 (in thousands of dollars):

| | Fair Value Measurements of Investments Measured at Net Asset Value Per Share | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| Equity portfolios, domestic | $ | 143,373 | $ | 154,822 |
| Equity portfolios, international | | 16,448 | | 17,202 |
| Fixed income portfolios, domestic | | 71,773 | | 59,074 |
| Total investments measured at net asset value per share | $ | 231,594 | $ | 231,098 |

Domestic and international equity portfolios consist of funds that invest in the common stock of either large, mid, or small cap companies and are generally designed to either replicate the performance of an index or outperform an index through active security selection. Fixed income portfolios consist of funds that invest in either U.S. government or corporate debt securities, each with a targeted duration.

## (10) RETIREMENT AND POSTRETIREMENT PLANS

The University is a participating employer within the Master Retirement Plan administered by a Church affiliate (Note 7). The retirement plan is a noncontributory defined benefit plan that covers substantially all full-time employees of the University.

The University is also a participating employer within the Retiree Medical and Life Plan, administered by a Church affiliate. Through this plan, the University provides a postretirement benefit plan that provides a fixed monthly dollar benefit toward the purchase of medical and life insurance for retired employees. Participating retirees pay the difference between the fixed amounts and the total premium rates. The University recognizes the estimated cost of these postretirement benefits during the years employees provide service. At the time it adopted this method, the University elected to recognize the cumulative effect of the postretirement benefit obligation over a period of twenty years.

Retirement and postretirement plan information presented below represents the University's proportionate share of the Master Retirement Plan and the Retiree Medical and Life Plan (the Plans), respectively.

The following table shows the funding status and the related amounts recognized in the Statements of Financial Position as of December 31, 2018 and 2017:

The accumulated benefit obligation for the retirement plan was $135,745,797 and $141,125,930 at 2018 and 2017, respectively.
The following table provides information relating to the retirement and postretirement plans as of and for the years ended December 31, 2018 and 2017:

| | Retirement Plan | | | | Postretirement Plan | | | |
|---|---|---|---|---|---|---|---|---|
| | 2018 | | 2017 | | 2018 | | 2017 | |
| Fair value of plan assets | $ | 131,704 | $ | 134,139 | $ | 10,948 | $ | 11,349 |
| Benefit obligation | | (148,408) | | (156,326) | | (15,947) | | (16,569) |
| Amount under funded | $ | (16,704) | $ | (22,187) | $ | (4,999) | $ | (5,220) |

| | Retirement Plan | | Postretirement Plan | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| **Selected changes in plan assets:** | | | | |
| Employer contributions | $ 5,000 | $ 6,430 | $ 383 | $ 862 |
| Plan participants' contributions | N/A | N/A | N/A | N/A |
| Benefits paid | $ 5,776 | $ 5,697 | $ 559 | $ 531 |

| **Accumulated amounts reflected in the Statements of Financial Position** | Retirement Plan | | Postretirement Plan | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Net loss | $ 23,380 | $ 28,884 | $ 2,325 | $ 2,827 |
| Prior service cost | 255 | 304 | 352 | 411 |
| Amount in net assets without donor restriction | 23,635 | 29,188 | 2,677 | 3,238 |
| Accrued (prepaid) retirement/postretirement cost | (6,931) | (7,001) | 2,322 | 1,982 |
| Retirement/postretirement (asset) liability | $ 16,704 | $ 22,187 | $ 4,999 | $ 5,220 |

| **Periodic benefit cost and other amounts recognized in net assets without donor restriction reflected in the Statements of Activities** | Retirement Plan | | Postretirement Plan | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Benefit cost | $ 5,070 | $ 4,673 | $ 722 | $ 551 |
| Net (gain) loss | (5,504) | 1,068 | (501) | 1,340 |
| Prior service cost | (49) | (49) | (59) | (59) |
| Other amounts recognized in net assets without donor restriction | (5,553) | 1,019 | (560) | 1,281 |
| Total benefit cost and other amounts recognized in net assets without donor restriction | $ (483) | $ 5,692 | $ 162 | $ 1,832 |

The estimated prior service cost and net loss for the retirement plan that will be amortized from net assets without donor restriction into net periodic benefit cost in 2019 are $31,799 and $573,225, respectively. The estimated prior service cost, and net loss for the postretirement plan that will be amortized from net assets without donor restriction into net periodic benefit cost in 2019 are $58,673 and $35,658, respectively.

For the years ended December 31, 2018 and 2017, the following weighted-average assumptions were used in accounting for the Plans:

| | Retirement Plan | | Postretirement Plan | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Benefit obligation | | | | |
| Discount rate | 4.1% | 3.5% | 4.1% | 3.5% |
| Rate of compensation increase | 3.73% | 3.8% | N/A | N/A |
| Net periodic benefit cost | | | | |
| Discound rate | 3.5% | 4.0% | 3.5% | 4.0% |
| Expected return on plan assets | 5.0% | 5.0% | 5.0% | 5.0% |
| Rate of compensation increase | 3.73% | 3.77% | N/A | N/A |

Postretirement benefits are fixed dollar amounts which might be adjusted in the future. For December 31, 2018 valuations, a 7.2% percent (6.0% for Medicare supplement) annual rate of increase in the per capita cost of covered health care benefits was assumed for 2019; the rate was assumed to decrease gradually going forward to 5.7% (6.2% for Medicare supplement) for 2028. It will continue to decrease until it reaches its ultimate level in 2075 at 3.8% (3.8% for Medicare supplement). For December 31, 2017 valuations, a 7.3% percent (6.0% for Medicare supplement) annual rate of increase in the per capita cost of covered health care benefits was assumed for 2018; the rate was assumed to decrease gradually going forward to 5.7% (6.2% for Medicare supplement) for 2027. It will continue to decrease until it reaches its ultimate level in 2075 at 3.8% (3.8% for Medicare supplement).

By way of investment policy, the Plans have established long-term strategic asset allocation targets and ranges, as shown below.

For 2018 and 2017, the 5.0% expected long-term return assumption on plan assets, shown below, was based primarily on forecasted returns for the next ten years by asset category, weighted by the asset allocation target.

The Plans set long-term strategic asset allocation target ranges and then use tactical asset allocation and active management with the intent of providing additional return. The investment policies have been designed to provide for the potential of reasonable long-term performance, yet control the magnitude of risk by setting policy ranges for asset allocation, domestic equity capitalization weighting, domestic equity active management exposure, derivatives exposure, and fixed-income quality.

The financial instruments of the Plans are reported at fair value and are categorized into a three-level hierarchy based on the nature of the inputs to the valuation technique, or presented as Investments measured at net asset value per share, as described in Note 1.

| | Asset Allocation | | Expected Return | |
|---|---|---|---|---|
| Asset category: | Target | Range | Weighting | Category Return |
| Domestic equity securities | 20% | 10-30% | 20% | 5.25% |
| International equity securities | 10% | 5-20% | 10% | 5.75% |
| Fixed Income | 25% | 15-40% | 25% | 1.83% |
| Real estate | 10% | 5-20% | 10% | 6.67% |
| Private Equities | 15% | 5-20% | 15% | 7.42% |
| Non-Investment Grade Debt | 10% | 0-15% | 20% | 4.67% |
| Hybrid Equities | 10% | 0-20% | 20% | 4.67% |
| Value from active management | | | | 0.23% |
| Weighted-average return | | | | 5.00% |

The tables below present the fair value of the total Master Retirement Plan assets as of December 31, 2018 and 2017 (in thousands of dollars), of which the University's share was 2.22% and 2.23% as of the respective dates.

| | Fair Value Measurements as of December 31, 2018 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash and cash equivalents, net of accruals | $ 66,552 | $ - | $ - | $ 66,552 |
| Investments: | | | | |
| U.S. government securities | - | 212,069 | - | 212,069 |
| Corporate debt securities, domestic | - | 327,647 | 23,317 | 350,964 |
| Corporate debt securities, international | - | 14,530 | - | 14,530 |
| Mutual funds | 1,720,617 | - | - | 1,720,617 |
| Common stocks, domestic | 625,135 | - | - | 625,135 |
| Common stocks, international | 303,541 | - | 2,042 | 305,583 |
| Preferred stocks | 10,710 | - | 2,849 | 13,559 |
| Government agency mortgage-backed securities | - | 233,311 | 58 | 233,369 |
| Private mortgage-backed securities | - | 127,193 | 4,122 | 131,315 |
| Derivatives | 1 | 70 | - | 71 |
| Investments measured at net asset value per share | N/A | N/A | N/A | 2,251,429 |
| Net Master Retirement Plan assets | $ 2,726,556 | $ 914,820 | $ 32,388 | $ 5,925,193 |

| | Fair Value Measurements as of December 31, 2017 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash and cash equivalents, net of accruals | $ 69,562 | $ - | $ - | $ 69,562 |
| Investments: | | | | |
| U.S. government securities | - | 200,759 | - | 200,759 |
| Corporate debt securities, domestic | - | 393,055 | 7,312 | 400,367 |
| Corporate debt securities, international | - | 12,596 | - | 12,596 |
| Mutual funds | 1,674,466 | - | - | 1,674,466 |
| Common stocks, domestic | 762,067 | - | - | 762,067 |
| Common stocks, international | 577,406 | - | 4,511 | 581,917 |
| Preferred stocks | 12,976 | - | 2,821 | 15,797 |
| Government agency mortgage-backed securities | - | 206,026 | 94 | 206,120 |
| Private mortgage-backed securities | - | 144,949 | 7,983 | 152,932 |
| Derivatives | - | 20 | - | 20 |
| Investments measured at net asset value per share | N/A | N/A | N/A | 1,936,552 |
| Net Master Retirement Plan assets | $ 3,096,477 | $ 957,405 | $ 22,721 | $ 6,013,155 |

The following tables provide a summary of changes in fair value of the Level 3 Master Retirement Plan assets for the years ended December 31, 2018 and 2017:

| | 2018 Fair Value Measurements Using Significant Unobservable Inputs | | | | | |
|---|---|---|---|---|---|---|
| | Corporate Debt Securities, Domestic | Common Stocks, International | Preferred Stocks | Govt. Agency Mortgage-backed Securities | Private Mortgage-backed Securities | |
| Level 3 investments, beginning of year | $ 7,312 | $ 4,511 | $ 2,821 | $ 94 | $ 7,983 | Table continued below |
| Actual return on plan assets: | | | | | | |
| Relating to assets still held as of end of year | 58 | (1,030) | 28 | (4) | (13) | |
| Relating to assets sold during the year | (443) | 437 | - | (32) | (42) | |
| Purchases | 22,700 | - | - | - | - | |
| Sales/maturities | (6,310) | (1,876) | - | - | (3,806) | |
| Transfers into (out of) Level 3 | - | - | - | - | - | |
| Level 3 investments, end of year | $ 23,317 | $ 2,042 | $ 2,849 | $ 58 | $ 4,122 | |

| | Derivatives | Total |
|---|---|---|
| Level 3 investments, beginning of year | $ - | $ 22,721 |
| Actual return on plan assets: | | |
| Relating to assets still held as of end of year | - | (961) |
| Relating to assets sold during the year | - | (80) |
| Purchases | - | 22,700 |
| Sales/maturities | - | (11,992) |
| Transfers into (out of) Level 3 | - | - |
| Level 3 investments, end of year | $ - | $ 32,388 |

| | 2017 Fair Value Measurements Using Significant Unobservable Inputs | | | | | |
|---|---|---|---|---|---|---|
| | Corporate Debt Securities, Domestic | Common Stocks, International | Preferred Stocks | Govt. Agency Mortgage-backed Securities | Private Mortgage-backed Securities | |
| Level 3 investments, beginning of year | $ 12,780 | $ 4,576 | $ 3,870 | $ - | $ 6,758 | Table continued below |
| Actual return on plan assets: | | | | | | |
| Relating to assets still held as of end of year | 21 | 891 | (1,049) | 8 | (47) | |
| Relating to assets sold during the year | 103 | 55 | - | (46) | 119 | |
| Purchases | 7,507 | - | - | - | 3,243 | |
| Sales/maturities | (13,099) | (404) | - | - | (373) | |
| Transfers into (out of) Level 3 | - | (607) | - | 132 | (1,717) | |
| Level 3 investments, end of year | $ 7,312 | $ 4,511 | $ 2,821 | $ 94 | $ 7,983 | |

| | Derivatives | Total |
|---|---|---|
| Level 3 investments, beginning of year | $ 7 | $ 27,991 |
| Actual return on plan assets: | | |
| Relating to assets still held as of end of year | - | (176) |
| Relating to assets sold during the year | - | 231 |
| Purchases | - | 10,750 |
| Sales/maturities | - | (13,876) |
| Transfers into (out of) Level 3 | (7) | (2,199) |
| Level 3 investments, end of year | $ - | $ 22,721 |

The tables below present the fair value of the Retiree Medical and Life Plan assets as of December 31, 2018 and 2017 (in thousands of dollars), of which the University's share was 1.97% and 1.98% as of the respective dates.

| | Fair Value Measurements as of December 31, 2018 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash and cash equivalents, net of accruals | $ 32,349 | $ - | $ - | $ 32,349 |
| Investments: | | | | |
| US government securities | $ - | $ 12,630 | $ - | $ 12,630 |
| Corporate debt securities, domestic | - | 26,196 | - | 26,196 |
| Corporate debt securities, international | - | 1,281 | - | 1,281 |
| Mutual funds | 273,975 | - | - | 273,975 |
| Common stocks, domestic | 40,451 | - | - | 40,451 |
| Common stocks, international | - | - | - | - |
| Preferred stocks | 846 | - | - | 846 |
| Government agency mortgage-backed securities | - | 244 | - | 244 |
| Derivatives | - | 9 | - | 9 |
| Investments measured at net asset value per share | N/A | N/A | N/A | 168,752 |
| Net Retiree Medical and Life Plan assets | $ 347,621 | $ 40,360 | $ - | $ 556,733 |

| | Fair Value Measurements as of December 31, 2017 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Cash and cash equivalents, net of accruals | $ 9,555 | $ - | $ - | $ 9,555 |
| Investments: | | | | |
| US government securities | $ - | $ 12,299 | $ - | $ 12,299 |
| Corporate debt securities, domestic | - | 32,824 | - | 32,824 |
| Corporate debt securities, international | - | 1,287 | - | 1,287 |
| Mutual funds | 304,240 | - | - | 304,240 |
| Common stocks, domestic | 44,386 | - | - | 44,386 |
| Common stocks, international | 210 | - | - | 210 |
| Preferred stocks | 889 | - | - | 889 |
| Government agency mortgage-backed securities | - | 247 | - | 247 |
| Derivatives | - | 2 | - | 2 |
| Investments measured at net asset value per share | N/A | N/A | N/A | 166,760 |
| Net Retiree Medical and Life Plan assets | $ 359,280 | $ 46,659 | $ - | $ 572,699 |

The following table provides a summary of changes in fair value of the Level 3 Retiree Medical and Life Plan assets for the year ended December 31, 2017 (in thousands of dollars). There is no such table for 2018, as there were no Level 3 assets as of December 31, 2018 or 2017.

| | December 31, 2017, Fair Value Measurements Using Significant Unobservable Inputs | | |
|---|---|---|---|
| | Corporate Debt Securities | Derivatives | Total |
| Level 3 investments, beginning of year | $ 34 | $ 1 | $ 35 |
| Actual return on plan assets: | | | |
| Relating to assets still held as of end of year | - | - | - |
| Relating to assets sold during the year | - | - | - |
| Purchases | - | - | - |
| Sales/Maturities | - | - | - |
| Transfers into (out of) Level 3 | (34) | (1) | (35) |
| Level 3 investments, end of year | $ - | $ - | $ - |

The University expects to contribute $5,500,000 to its retirement plan and $447,800 to its postretirement plan during the year ending December 31, 2019.

As of December 31, 2018, the following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

| | Retirement Plan | Postretirement Plan |
|---|---|---|
| Year ending Decemberm 31, | | |
| 2019 | $ 6,304 | $ 538 |
| 2020 | 6,775 | 605 |
| 2021 | 7,196 | 673 |
| 2022 | 7,623 | 716 |
| 2023 | 7,966 | 718 |
| 2024-2028 | 43,965 | 4,207 |

The University also participates in supplementary defined contribution retirement plans. The plans are qualified retirement savings money purchase 401(a), 401(k), or Tax Sheltered Annuity 403(b) plans. The plans cover substantially all full-time employees. These plans are provided through TIAA and a Church affiliate. Employees can contribute a portion of their salaries, not to exceed Internal Revenue Service limits, in qualified programs offered through these companies. For included classes of employees, the University contributes a percentage of employee salary to the Church affiliate, which during the years ended December 31, 2018 and 2017, totaled $1,656,850 and $1,541,911, respectively.

## (11) NATURAL CLASSIFICATION OF EXPENSES

The University presents expenses on its Statements of Activities by functional classification. Its primary function is to provide Education services, including instruction and academic support, research and creative work, and student support. Other functions include Auxiliary, and Administration, which support the University's primary mission. Each functional classification includes expenses presented below by natural classification. Operation and maintenance costs are allocated to functional categories primarily on the basis of occupied square footage. The following table presents these expenses for the year ended December 31, 2018 (in thousands of dollars):

| | Education | Administration | Auxiliary | Total |
|---|---|---|---|---|
| Salaries | $ 30,905 | $ 20,531 | $ 7,072 | $ 58,508 |
| Benefits | 7,102 | 6,418 | 3,402 | 16,922 |
| Total compensation | 38,007 | 26,949 | 10,474 | 75,430 |
| General and administrative | 3,247 | 1,532 | 3,990 | 8,769 |
| Physical facilities | 3,171 | 1,685 | 3,964 | 8,820 |
| Equipment | 958 | 1,663 | 1,698 | 4,319 |
| Travel | 1,478 | 174 | 111 | 1,763 |
| Materials and supplies | 1,470 | 310 | 1,502 | 3,282 |
| Depreciation | 5,277 | 1,034 | 4,654 | 10,965 |
| Cost of sales | - | - | 4,368 | 4,368 |
| Interest | - | - | 1,193 | 1,193 |
| Total Expenses | $ 53,608 | $ 33,347 | $ 31,954 | $ 118,909 |

## (12) COMMITMENTS AND CONTINGENCIES

The University has commitments for construction projects totaling $9,325,878 at December 31, 2018. Essentially all of this amount has been approved to be reimbursed by a Church affiliate (Note 7) and is expected to be received as costs are expended.

The University has been named as a defendant in certain lawsuits. Other potential claims are pending. While the University cannot predict the results of these actions, management believes, based in part on the advice of in-house legal counsel, that any contingent liability resulting from such litigation and claims will not have a material effect on the University operations or financial position. Financial responsibility for liability losses is assumed by a Church affiliate.

## (13) SUBSEQUENT EVENTS

The University has evaluated subsequent events for the period after December 31, 2018 through May 2, 2019, the date the financial statements were available to be issued. No events have been identified that would have a material effect on the financial statements.

BRIGHAM YOUNG UNIVERSITY – HAWAII
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
for the year ended December 31, 2018

| **Federal Grantor/Program or Cluster Title** | **Federal CFDA Number** | **Federal Expenditures** |
|---|---|---|
| Student Financial Assistance Cluster: | | |
| US Department of Education | | |
| Federal Pell Grant Program | 84.063 | $ 3,881,644 |
| Teacher Education Assistance for College and Higher Education Grants | 84.379 | 25,224 |
| Direct Loans (includes Stafford Loans and PLUS Loans) | 84.268 | 2,173,628 |
| Total Student Financial Assistance Cluster | | 6,080,496 |
| Total Federal Financial Assistance | | $ 6,080,496 |

See the Notes to the Schedule of Expenditures of Federal Awards

BRIGHAM YOUNG UNIVERSITY - HAWAII

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

1. BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards (the “schedule”) for the year ended December 31, 2018 includes the federal financial assistance transactions of Brigham Young University – Hawaii (the "School") recorded on the accrual basis of accounting. Funds derived from federal grants may be used only to meet current expenditures for the purposes specifically identified by the sponsoring agencies. The information in the schedule is presented in accordance with the requirements of OMB Uniform Guidance. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. Indirect costs are not charged to the Student Financial Assistance program.

2. LOAN PROGRAMS:

The School issued loans under the Federal Direct Student Loans Program, which includes Direct Subsidized Loans, Direct Unsubsidized Loans, and Direct PLUS Loans which are included in the schedule.

The School is responsible only for the performance of certain administrative duties with respect to the Federal Direct Loan programs and accordingly, these loans are not included in the School’s financial statements. It is not practical to determine the balance of loans outstanding under these programs at December 31, 2018.

**Report of Independent Auditors 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 Trustees of Brigham Young University – Hawaii:

We have audited, 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, the financial statements of Brigham Young University – Hawaii ("the School"), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 2, 2019.

## Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School'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 the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School'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.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School'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*.

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## 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.

PricewaterhouseCoopers LLP

May 2, 2019

**Report of Independent Auditors on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with the Uniform Guidance**

To the Board of Trustees of Brigham Young University – Hawaii:

## Report on Compliance for Each Major Federal Program

We have audited Brigham Young University - Hawaii's ("the School") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the School's major federal program for the year ended December 31, 2018. The School'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 federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

## Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the School's major federal program 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 School'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 the major federal program. However, our audit does not provide a legal determination of the School's compliance.

## Opinion on Each Major Federal Program

In our opinion, Brigham Young University - Hawaii complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended December 31, 2018.

## 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 items 2018-001 and 2018-002. Our opinion on each major federal program is not modified with respect to these matters.

The School's response to the noncompliance findings identified in our audit is described in the accompanying Management's Views and Corrective Action Plan. The School'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 School 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 School'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 School'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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

PricewaterhouseCoopers LLP

May 2, 2019

**BRIGHAM YOUNG UNIVERSITY – HAWAII**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**
for the year ended December 31, 2018

**Section I – Summary of Auditor's Results**

*Financial Statements*

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

| | | |
|---|---|---|
| • Material weaknesses identified? | ____yes | X 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 programs:

| | | |
|---|---|---|
| • Material weaknesses identified? | ____yes | X no |
| • Significant deficiencies identified that are not considered to be material weaknesses? | ____yes | X none reported |

Type of auditor's report issued on compliance for major programs: Unmodified

| | | |
|---|---|---|
| Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a)? | X yes | _____no |

Identification of major programs:

| | | |
|---|---|---|
| CFDA Number: 84.063, 84.379, 84.268 | Name of Federal Program or Cluster: Student Financial Assistance Cluster | |
| Dollar threshold used to distinguish between type A and type B programs: | $750,000 | |
| Auditee qualified as low-risk auditee? | X yes | ____no |

**Section II – Financial Statement Findings**

No findings related to the financial statements were noted which are required to be reported in accordance with *Government Auditing Standards* for the year ended December 31, 2018.

**BRIGHAM YOUNG UNIVERSITY – HAWAII**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**
for the year ended December 31, 2018

**Section III – Federal Award Findings and Questioned Costs**

**2018-001 – Noncompliance with Enrollment Reporting Requirements**
**Student Financial Assistance Cluster: Department of Education**
**Federal Pell Grant Program (84.063) and Direct Loan Program (84.268)**

**Criteria:**
In accordance with 34 CFR section 682.610 (c), the School is required to have an arrangement in place to report changes in a student's enrollment status and the effective date of the change to the National Student Loan Data System (NSLDS) within 45 days of the end of the semester.

**Condition:**
Out of 25 students with an enrollment status change that were selected for enrollment reporting testing, the status changes for 6 students were not submitted to the NSLDS within the required timeframe. These 6 students graduated during the semester ended June 30, 2018 and the enrollment status report was submitted on October 25, 2018 (117 days later). In addition, upon further investigation, the enrollment status report for all students who graduated during the semester ended June 30, 2018 was submitted on October 25, 2018.

**Questioned Costs**:
There were no questioned costs associated with this finding.

**Cause:**
The School staff person responsible for the submission of the report was on vacation at the time the report would normally be submitted.

**Effect:**
Late reporting of the enrollment status changes resulted in noncompliance with the *Code of Federal Regulations*. Students who have graduated are not eligible for additional Federal assistance subsequent to their graduation. Therefore, this could result in the awarding of Federal assistance to an ineligible student.

**Recommendation:**
We recommend that the School implement procedures and processes to ensure that timely reporting of the enrollment status changes is submitted to the NSLDS within 45 days of the end of the semester.

**Management's Views and Corrective Action Plan:**
Refer to page 36 for management's views and corrective action plan for the finding described above.

**2018-002 – Noncompliance with Verification Requirements**
**Student Financial Assistance Cluster: Department of Education**
**Federal Pell Grant Program (84.063) and Direct Loan Program (84.268)**

**Criteria:**
In accordance with 34 CFR section 668.54, an institution must require an applicant whose Free Application for Federal Aid (FAFSA) information is selected for verification by the Department of Education (ED) to verify the information specified by the ED. An institution's procedures must provide that an applicant whose FAFSA information is selected for verification is required to complete verification before the institution makes changes to the applicant's cost of attendance or to the values of the data items required to calculate the expected family contribution, which will determine assistance awarded. Section 668.58 states that an institution may not disburse Pell Grant or loan funds until information on the student's FAFSA is verified and any corrections are made.

**Condition:**
In performing a test of compliance with Federal regulations, we selected a sample of 40 students that were selected for verification by the ED and for which verification procedures had been indicated as completed by the School in the ED system and related Federal funds were disbursed. We identified 16 instances in which information on the students' FAFSAs did not match supporting documentation provided to the School by the students. Additionally, there were 2 instances in which the required supporting documentation was not obtained by the School from the students as part of the verification process.

In performing a test of controls for the secondary review of the verification, we selected a sample of 25 students that were selected for verification by the ED and for which verification procedures had been indicated as completed by the School in the ED system and related Federal funds were disbursed. We identified 10 instances in which the School's controls over verification did not operate effectively. In these 10 instances, a financial assistance supervisor did not perform a review of those verifications prior to the submission of the verification results to the ED or disbursing funds to the students.

**Questioned Costs**:
The errors identified above resulted in 3 students that were over-awarded funds totaling $2,350 and 4 students that were under-awarded funds totaling $1,000.

**Cause:**
The noncompliance was the result of a lack of training of the financial assistance counselors performing verifications and the lack of a detailed secondary review of verifications by a financial assistance supervisor.

**Effect:**
This resulted in noncompliance with the *Code of Federal Regulations*. The erroneous calculations identified caused an incorrect amount of Federal assistance awarded to students as identified above.

**Recommendation:**
We recommend that the School reexamine its training program surrounding the Uniform Guidance requirements for student financial assistance to ensure all current and new employees are properly trained to perform verification procedures and the related internal control activities. In addition, we recommend that the School implement adequate procedures and processes to ensure the accuracy of the verification process and control reviews.

**Management's Views and Corrective Action Plan:**
Refer to page 37 for management's views and corrective action plan for the finding described above.

**BRIGHAM YOUNG UNIVERSITY - HAWAII**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**
for the year ended December 31, 2018

There were no prior year findings or questioned costs related to Federal Awards for the year ended December 31, 2017.

May 2, 2019

2018-001 – Noncompliance with Enrollment Reporting Requirements

BYU-Hawaii Financial Aid Management Review and Corrective Plan

Management agrees with the audit finding and recommendation that the University implement procedures to ensure compliance with the applicable Enrollment Reporting Requirements.

Corrective Action Plan:

At BYU-Hawaii, responsibility for timely enrollment reporting to NSLDS is assigned to the Registrar's Office.

The BYU-H Financial Aid Department (Financial Aid) will work with the Registrar's Office to help ensure that the 45 day federal reporting regulation is met by sending reminder emails to the Registrar's Office at the beginning, middle, and ending of each semester.

Financial Aid will request Clearing House confirmations that reporting requirements have been met. These confirmations will then be filed digitally in our system for retrieval in the future. The Registrar's Office understands and has agreed to this new process.

Timing of Implementation – This set of procedures has commenced effective May 1, 2019.

Mamoe Sanerivi, Manager of Financial Aid

May 2, 2019

2018-002 – Noncompliance with Verification Requirements

BYU-Hawaii Financial Aid Management Review and Corrective Action Plan

Management agrees with the audit finding and recommendation that the University implement adequate training and review procedures to ensure compliance with applicable FAFSA verification rules as set forth by the Department of Education.

Corrective Action Plan:

Through the period under audit, BYU-Hawaii has relied on a federal aid disbursement review after disbursement of federal aid funds. This method of review has proven to be inadequate as assurance that all FAFSA verification requirements have been met.

Review Procedures

In order to ensure proper review, new review procedures have been implemented that require a federal aid supervisor to review all documents at three points during the verification process as follows:

First Review – the first supervisory review is performed before correction files are submitted to CPS.

Second Review – the supervisor reviews the corrected files received from CPS (and ensures that appropriate corrective action is understood and performed.)

Third Review – the final supervisory review takes place after the disbursement of funds (to ensure corrective action was properly followed.)

Timing of Review Procedures Implementation

The above-described review procedures are effective May 1, 2019 and are ongoing.

Training Procedures

Continuous training will be provided through webinars, PacFAA, WASFAA, and FSA participation for all counselors. As a means of ensuring adequate training at proper intervals, a permanent training log will be maintained by the Financial Aid department manager.

Timing of Training Procedure Implementation

Financial Aid will implement by June 1, 2019 a training plan that will include name of staff position, needed training (including intervals (i.e. annual, bi-annual, etc.)), the expected start date and verification of completion.

Mamoe Sanerivi, Manager of Financial Aid