Summary Report to the Committee on Independent Audit

Date: February 5, 2015

**Auditee:**
Associated Students of the University of Hawai‘i at Mānoa (ASUH)

**Description of audit:**
The Office of Internal Audit (Internal Audit) performed a review of the ASUH financial statements as of and for the year ended June 30, 2014 in accordance with Statements on Standards for Accounting and Review Services issued by the AICPA. Our review was conducted for the purpose of expressing limited assurance that there are no material modifications that should be made to the basic financial statements in order for them to be in conformity with accounting principles generally accepted in the United States.

**Type of audit:**
Financial

**Period under audit:**
Year Ended June 30, 2014

**Summary of audit results and recommendations:**
As a result of the procedures performed, nothing came to our attention that caused us to believe that the financial statements for the year ended June 30, 2014 are not presented, in all material respects, in conformity with accounting principles generally accepted in the United States.

**Risk rating** (include quantitative and qualitative reasons for a rating of Low, Medium or High for the following categories if applicable - financial, compliance, operational):
Medium - due to the recordation of several adjusting journal entries related to accounts payable for financial statement presentation purposes.

**Auditee’s responses/corrective action plan:**
N/A
ASSOCIATED STUDENTS OF THE UNIVERSITY OF HAWAI‘I AT MĀNOA

Financial Statements

Year Ended June 30, 2014

University of Hawai‘i
Office of Internal Audit
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Independent Accountant’s Review Report

To the President and Senate of the Associated Students of the University of Hawai‘i at Mānoa

We have reviewed the accompanying Statement of Net Position of the business-type activities of the Associated Students of the University of Hawai‘i at Mānoa (ASUH) as of June 30, 2014, and the related Statements of Revenues, Expenses and Changes in Net Position, and Cash Flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management’s financial data and making inquiries of entity management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management’s Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; 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.

Accountant’s Responsibility
Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant’s Conclusion
Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States.

Other Matters
Required Supplementary Information
Accounting principles generally accepted in the United States require that the management’s discussion and analysis on pages 2 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Such information was not audited, reviewed, or compiled by us, and, accordingly, we do not express an opinion or provide any assurance on the supplementary information.

February XX, 2015

Glenn Shizumura
Director
Introduction

The Associated Students of the University of Hawai‘i at Mānoa (ASUH) is the elected undergraduate student government representing full-time, classified, undergraduate students at the Mānoa campus. ASUH was chartered by the University of Hawai‘i (University) Board of Regents in 1912, as a representative body. It is a part of the co-curricular educational opportunities provided by Chapter 7 of the Board of Regents policy. Students serving in ASUH are elected by academic year. There are currently 38 positions on the undergraduate senate. This includes four executive officers (President, Vice President, Secretary and Treasurer), four Senators-at-Large and thirty school/college Senators.

ASUH utilizes student fee and investment revenue toward advocacy and funding efforts. ASUH advocates on students’ behalf with various entities, including the University administration, faculty, staff, community groups, and government officials. ASUH also serves students through funding diversified student programs and events. These programs include providing scholarships, research awards, Registered Independent Organization funding, funding for events, activities, programs, campus development, program development and other areas that directly benefit students. Budgetary decisions and specific appropriations are determined each year by the elected senate in response to expressed student needs and requests. Annual projections are based on anticipated revenues for the upcoming year and historical expenditures, but remain flexible in order to ensure responsiveness to actual student needs and requests on a year by year basis. This approach is structurally embedded in the ASUH constitution and is philosophically grounded in the student empowerment/student governance model used in American public higher education. Consequently, year to year variances especially in operating expenses are a result.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to ASUH’s basic financial statements. Under the provisions of Governmental Accounting Standards Board (“GASB”) Statement No. 35, Basic Financial Statements and Management’s Discussion and Analysis for Public Colleges and Universities, as amended, ASUH is considered to be a special purpose government entity. As a special purpose government entity engaged only in business-type activities, the only financial statements required to be presented are those for proprietary funds. Accordingly, ASUH’s basic financial statements consist of Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, Statement of Cash Flows and notes to the financial statements.
The Statement of Net Position presents the assets, liabilities, and net position of ASUH at June 30, 2014. The purpose of the Statement of Net Position is to present to readers of the financial statements a fiscal snapshot of ASUH at a specific point in time. Changes in total net position are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. The purpose of this statement is to present the operating and nonoperating revenues, the operating and nonoperating expenses, and any other revenues, expenses, gains and losses earned or incurred. The Statement of Cash Flows provides additional information about ASUH’s financial results by reporting the major sources and uses of cash. The statement presents cash flows in three major categories: operating activities, capital and related financing activities, and investing activities.

Financial Position Summary

ASUH’s assets are measured in current value, except for capital assets, which are recorded at historical cost less an allowance for depreciation. Liabilities are generally considered to be financial obligations of ASUH and may also consist of payments received for service not yet provided (student fees received in advance). Both assets and liabilities are classified as either current or noncurrent. The classification of current assets is based on whether the asset is reasonably expected to be realized in cash or sold or consumed within a year. Current liabilities are obligations whose liquidation is reasonably expected to require the use of existing current assets or the creation of other current liabilities.

The Statement of Net Position presents the financial position of ASUH at June 30, 2014. The difference between assets and liabilities is net position, representing a measure of the current financial condition of ASUH.

ASUH’s assets, liabilities and net position at June 30, 2014 and 2013 are summarized in the following table.

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
<th>FY 14 vs 13 Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td>$56,398</td>
<td>$282,415</td>
<td>$(226,017)</td>
</tr>
<tr>
<td>Noncurrent assets</td>
<td>8,250,516</td>
<td>7,125,640</td>
<td>1,124,876</td>
</tr>
<tr>
<td>Total assets</td>
<td>$8,306,914</td>
<td>$7,408,055</td>
<td>$898,859</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities</td>
<td>$40,140</td>
<td>$132,340</td>
<td>$(92,200)</td>
</tr>
<tr>
<td>Noncurrent liabilities</td>
<td>-</td>
<td>14,283</td>
<td>(14,283)</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>$40,140</td>
<td>$146,623</td>
<td>$(106,483)</td>
</tr>
<tr>
<td><strong>Net Position:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrestricted</td>
<td>$8,266,774</td>
<td>$7,261,432</td>
<td>$1,005,342</td>
</tr>
<tr>
<td>Total net position</td>
<td>$8,266,774</td>
<td>$7,261,432</td>
<td>$1,005,342</td>
</tr>
</tbody>
</table>
Current Assets and Liabilities

Current assets consist of cash and receivables. The $226,017 decrease in current assets at June 30, 2014 as compared to June 30, 2013 is primarily attributable to a $81,793 decrease in cash and $150,921 decrease in investment trade receivables. The decrease in cash was primarily due to ASUH’s decision to only transfer funds from the endowment investment cash account to the operational cash account to cover current cash requirements. The investment trade receivable decrease was due to the timing of investments sold near year end.

Current liabilities consist of accounts payable, accrued expenses, student fees received in advance, and investment trade settlement payable. Total current liabilities decreased by $92,200 at June 30, 2014 as compared to June 30, 2013, primarily due to a $95,033 decrease in investment trade settlement payables. In fiscal year 2014, the decrease in investment trade settlement payables was attributable to a decrease in the amount of investments purchased near year end.

Endowment Investments

The June 30, 2014 carrying value of ASUH’s investments of $8,250,516 reflects an increase of approximately $1,124,876 over the prior fiscal year. The increase was generally due to the acquisition of additional investments using funds resulting from realized gains on sale of investments.

Net Position

Net position represents the residual interest in ASUH’s assets after liabilities are deducted. Total net position increased $1,005,342 between fiscal year 2014 and fiscal year 2013. This increase was attributed primarily to the increase in the value of ASUH endowment investments as discussed above.
Financial Operations Summary

Operating revenues are derived from student activity fees and will be used for goods and services provided to ASUH’s constituency, and operating expenses are incurred in the normal operation of ASUH. Nonoperating revenues are revenues received for which no goods and services have been provided. For example, investment income is nonoperating because it is provided to ASUH without an exchange of goods and services from ASUH. It is anticipated that ASUH will consistently report an operating loss since investment income – a significant revenue source relied upon for operational expenses – is considered nonoperating revenue.

ASUH’s results of operations for the years ended June 30, 2014 and 2013 are as follows.

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
<th>FY 14 vs 13</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating revenues</strong></td>
<td>$112,142</td>
<td>$112,388</td>
<td>$(246)</td>
</tr>
<tr>
<td><strong>Operating expenses</strong></td>
<td>$382,676</td>
<td>$318,745</td>
<td>63,931</td>
</tr>
<tr>
<td>Net operating loss</td>
<td>(270,534)</td>
<td>(206,357)</td>
<td>(64,177)</td>
</tr>
<tr>
<td><strong>Nonoperating revenues</strong></td>
<td>1,275,876</td>
<td>881,174</td>
<td>394,702</td>
</tr>
<tr>
<td>Increase in net position</td>
<td>1,005,342</td>
<td>674,817</td>
<td>330,525</td>
</tr>
<tr>
<td><strong>Net position</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beginning of year</td>
<td>7,261,432</td>
<td>6,586,615</td>
<td>674,817</td>
</tr>
<tr>
<td>End of year</td>
<td>$8,266,774</td>
<td>$7,261,432</td>
<td>$1,005,342</td>
</tr>
</tbody>
</table>

Revenues

ASUH has two primary revenue streams that support its operations – student activity fees and investment income. The variability of total operating revenues is associated with changes in student enrollment. Total fiscal year 2014 nonoperating revenues increased $394,702 when compared to 2013 primarily due to an increase in dividends and realized gains on sales of endowment investments.
Expenses

ASUH operating expenses consist of student services, compensation and benefits, stipends, scholarships, supplies and other expenses. Total operating expenses increased $63,931 in fiscal year 2014 when compared to 2013, primarily resulting from a $69,972 increase in student services expense. Student services expense includes the funding of registered independent organizations and University programs initiated by students and/or departments to benefit students. The funding support provided to various organizations and programs are determined by the ASUH Senate, which consist of annually elected officials. The majority of the increase in student services expense was for the $30,000 purchase of uniforms and instruments to support the UH Mānoa Band and $10,000 for recycling bins for the UH Mānoa campus. The remaining increase in student services expense resulted from increases in food purchases, transportation, and advertising for events held during the academic year.

Description of Currently Known Facts, Decisions or Conditions that are Expected to have a Significant Effect on Financial Position

The fluctuating market is anticipated to impact investment revenue generated by the endowment investment portfolio. However, the current returns suggest a cautious yet optimistic outlook and ASUH will continue to depend on its investment advisor to provide vigilant oversight on a quarterly basis. ASUH will seek a new investment advisor in the next fiscal year as a result of the current advisor’s uncertainty in continuing to provide services to public sector clients. ASUH expects the change in investment advisor to have some transitional impact on the investment portfolio. Additionally a Board of Regents task group is reviewing the impact of divestment in companies that produce fossil fuels. Accordingly the composition of the ASUH investment portfolio might be impacted by the task group’s recommendation to the Board of Regents.

Increases or decreases in enrollment will impact revenues from student fees.

Looking Forward

In the coming fiscal year, ASUH will continue to serve as the undergraduate student government at the Mānoa campus. Its assets and revenues will be used to fulfill its responsibilities as outlined by its constitution. Revenues generated through student fees and investment income will be used for student programs and services that are requested by the constituency base and/or departments serving its constituency base. Continued commitments include office operations to serve the student constituency and funding of programs to provide student services as discussed above. To encourage and ensure continued student empowerment, as in past years, each elected senate will develop its goals, partially through the creation of the annual budget. The senate will guide its annual financial course based on the initiatives and needs of the current student populace, without limiting itself by budgetary and program directives from previous senates.
## Associated Students of the University of Hawai‘i at Mānoa

### Statement of Net Position

**June 30, 2014**

### Assets

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash held by the University</td>
<td>$ 26,107</td>
</tr>
<tr>
<td>Accounts receivable, less allowance for doubtful accounts of $3,155</td>
<td>476</td>
</tr>
<tr>
<td>Interest receivable</td>
<td>26,353</td>
</tr>
<tr>
<td>Investment trade settlement receivable</td>
<td>3,462</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>56,398</td>
</tr>
<tr>
<td>Endowment investments</td>
<td>8,250,516</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$8,306,914</strong></td>
</tr>
</tbody>
</table>

### Liabilities and Net Position

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>$ 11,603</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>10,700</td>
</tr>
<tr>
<td>Student fees received in advance</td>
<td>3,251</td>
</tr>
<tr>
<td>Investment trade settlement payable</td>
<td>14,586</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>40,140</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>40,140</td>
</tr>
<tr>
<td>Net position</td>
<td></td>
</tr>
<tr>
<td>Unrestricted</td>
<td>8,266,774</td>
</tr>
<tr>
<td><strong>Total net position</strong></td>
<td>8,266,774</td>
</tr>
<tr>
<td><strong>Total liabilities and net position</strong></td>
<td><strong>$8,306,914</strong></td>
</tr>
</tbody>
</table>

See independent accountant’s review report and notes to financial statements
## Associated Students of the University of Hawai‘i at Mānoa

**Statement of Revenues, Expenses and Changes in Net Position**  
**For the Year Ended June 30, 2014**

### Operating revenues
- **Student activity fees**  
  $112,142
- **Total operating revenues**  
  $112,142

### Operating expenses
- **Student services**  
  168,170  
- **Compensation and benefits**  
  63,369  
- **Stipends**  
  49,437  
- **Scholarships**  
  81,451  
- **Supplies, printing and subscriptions**  
  16,701  
- **Utilities**  
  2,511  
- **Bad debt expense**  
  365  
- **Other**  
  672  
- **Total operating expenses**  
  382,676  
- **Operating loss**  
  (270,534)

### Nonoperating revenues
- **Net investment income**  
  1,275,876
- **Increase in net position**  
  1,005,342

### Net position
- **Beginning of year**  
  7,261,432
- **End of year**  
  8,266,774

See independent accountant’s review report and notes to financial statements
Associated Students of the University of Hawai‘i at Mānoa
Statement of Cash Flows
For the Year Ended June 30, 2014

Cash flows from operating activities
Student activity fees $ 111,550
Payments to employees (76,122)
Payments for student activities (317,317)
Net cash used in operating activities (281,889)

Cash flows from investing activities
Proceeds from sales and maturities of investments 8,892,905
Interest and dividends received on investments 144,135
Purchase of investments (8,836,945)
Net cash provided by investing activities 200,095
Decrease in cash (81,794)

Cash
Beginning of year 107,901
End of year $ 26,107

Reconciliation of operating loss to net cash used in operating activities
Operating loss $ (270,534)
Adjustments to reconcile operating loss to net cash used in operating activities
Bad debt expense 365
Changes in operating assets and liabilities
Accounts receivable (271)
Accounts payable 1,626
Accrued expenses (12,754)
Student fees received in advance (321)
Net cash used in operating activities $ (281,889)

See independent accountant’s review report and notes to financial statements
(1) Organization and Summary of Significant Accounting Policies

Financial Reporting Entity
The Associated Students of the University of Hawai‘i at Mānoa (ASUH) is a student organization chartered by the Board of Regents of the University of Hawai‘i (the "University") to which all full-time, classified undergraduate students on the Mānoa campus are members. The legislative body of this organization is the ASUH Senate, which is composed of four executive officers, a maximum of four at-large senators, and a maximum of thirty college senators, with at least one representative from each college.

ASUH serves as the undergraduate student government which focuses on improving the quality of undergraduate student life, representing the needs, interests and concerns of its constituents, and developing a responsible as well as critical awareness of prevalent attitudes and actions through participation in co-curricular activities.

Basis of Presentation
ASUH follows the reporting model prescribed for special-purpose governments engaged only in business-type activities, as defined in Governmental Accounting Standards Board ("GASB") Statement No. 35, Basic Financial Statements and Management’s Discussion and Analysis for Public Colleges and Universities, as amended. The financial statements of ASUH are presented using the economic resources measurement focus and the accrual basis of accounting.

The financial statements do not reflect buildings and certain other physical facilities used by ASUH in its operations or certain benefit obligations of the University which are not allocated to individual schools and departments.

Cash held by the University
All ASUH cash is pooled with other University cash balances and is invested by the University Treasury Office in time certificates of deposit or other legally authorized investments. Interest accrues based on the average daily cash balance. Hawai‘i Revised Statutes require that the depository banks pledge collateral based on the daily available bank balances. The University met insurance and collateral requirements at June 30, 2014.

ASUH considers all cash and investments with original maturities of three months or less to be cash equivalents except for the money market funds reflected as Endowment Investments. The carrying amounts reported in the Statement of Net Position for cash equivalents approximate fair value due to the short maturity of these investments.

See independent accountant’s review report and notes to financial statements
Quasi-Endowment Funds
ASUH has a quasi-endowment fund which consists of donations that have been transferred to the endowment investments by the Board of Regents. The quasi-endowment is managed by an investment brokerage firm. ASUH’s investment funds were established from the proceeds of the sale of 1,481 shares of Honolulu Stadium, Ltd. stock in the amount of $839,000. The investments are administered in accordance with the Resolution on the Use of Net Income, Principal, and Investment of ASUH-Mānoa Stadium Stock Fund established by ASUH as approved and adopted by the Board of Regents on January 18, 1979 as well as Board of Regents Policy, Section 8-7e (now known as Section 8.207(III)E).

The Hawaii Uniform Prudent Management of Institutional Funds Act (HUPMIFA), established under Hawaii Revised Statute Chapter 517E, was enacted by the State of Hawaii on July 1, 2009. HUPMIFA requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The quasi-endowment fund did not have any donor restrictions as of June 30, 2014.

The Board of Regents has ultimate authority over the investments and can authorize the expenditure of any portion of the principal upon the recommendation of the ASUH Senate.

ASUH is legally authorized to invest in investments that include money market funds, mutual funds, equity securities, U.S. Government securities, and publicly traded foreign securities (debt and equity). All investments must have a readily ascertainable market value and must be readily marketable. Investments are stated at fair value based on quoted market prices. Equity investments are to primarily consist of common stocks, convertible preferred stocks, and convertible bonds, with an emphasis on total return. Fixed income investments are to consist primarily of investment grade securities with the objective of total return. The annual payout from the investment portfolio has been established by Board policy at not more than 5% of the portfolio’s market value at the beginning of the fiscal year. In addition, a minimum of $50,000 should be retained in cash equivalents at all times to meet the operational needs of ASUH.

Realized and unrealized gains and losses on investments are included in the Statement of Revenues, Expenses and Changes in Net Position. Realized gains and losses are computed as the difference between the proceeds of the sale and the original cost of investments sold. The calculation of realized gains and losses is independent of the calculation of net changes in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior year and the current year. Gains or losses on sales of investments are retained or absorbed by the quasi-endowment.
Student Fees Received in Advance
Student activity fees received for future periods are presented as student fees received in advance.

Net Position
ASUH’s net position is classified as unrestricted, meaning that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of the ASUH Senate or may be otherwise limited by contractual agreements with outside parties. These resources are derived primarily from student activity fees and income from investments.

At June 30, 2014, ASUH had no restricted components of net position.

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

Operating and Nonoperating Activities
ASUH’s policy for determining operating activities as reported on the Statement of Revenues, Expenses, and Changes in Net Position are those that generally result from exchange transactions such as payments received for providing services, and payments made for goods and services received.

Operating revenues are derived primarily from a mandatory $5 student activity fee paid by all full-time, classified undergraduate students at the Mānoa campus and are recognized when they become due for the current school semester.

Nonoperating activities of ASUH are generated through investment transactions.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. These estimates, among others, include allowances for uncollectible receivables, the valuation of investments, and the current versus noncurrent classification of assets and liabilities.

See independent accountant’s review report and notes to financial statements
(2) **Endowment Investments**

Endowment investments were comprised of the following as of June 30, 2014:

<table>
<thead>
<tr>
<th></th>
<th>Fair Value</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money market funds</td>
<td>$233,315</td>
<td>$233,315</td>
</tr>
<tr>
<td>Fixed income securities</td>
<td>2,067,761</td>
<td>2,011,885</td>
</tr>
<tr>
<td>Mutual funds</td>
<td>184,390</td>
<td>179,255</td>
</tr>
<tr>
<td>Equity securities</td>
<td>5,765,050</td>
<td>5,136,638</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$8,250,516</strong></td>
<td><strong>$7,561,093</strong></td>
</tr>
</tbody>
</table>

Changes in endowment investments for the year ended June 30, 2014 were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Fair Value</th>
<th>Cost Basis</th>
<th>Unrealized Gain</th>
<th>Realized Gain</th>
</tr>
</thead>
<tbody>
<tr>
<td>End of year</td>
<td>$8,250,516</td>
<td>$7,561,093</td>
<td>$689,423</td>
<td></td>
</tr>
<tr>
<td>Beginning of year</td>
<td>7,125,640</td>
<td>6,479,381</td>
<td>646,259</td>
<td></td>
</tr>
<tr>
<td><strong>Net change</strong></td>
<td>$1,124,876</td>
<td>$1,081,712</td>
<td>$43,164</td>
<td>$1,081,784</td>
</tr>
</tbody>
</table>

The components of net investment income for the year ended June 30, 2014 were as follows:

**Summary of net investment income**

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in net unrealized gain</td>
<td>$43,164</td>
<td></td>
</tr>
<tr>
<td>Net realized gain</td>
<td>1,081,784</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1,124,948</td>
<td></td>
</tr>
<tr>
<td>Interest and dividend income</td>
<td>228,232</td>
<td></td>
</tr>
<tr>
<td>Investment fees and foreign taxes</td>
<td>(77,304)</td>
<td></td>
</tr>
<tr>
<td><strong>Net investment income</strong></td>
<td><strong>$1,275,876</strong></td>
<td><strong>$1,081,784</strong></td>
</tr>
</tbody>
</table>

ASUH’s investment strategy incorporates certain financial instruments which involve, to varying degrees, elements of market risk and credit risk in excess of amounts recorded in the financial statements. Market risk is directly impacted by the volatility and liquidity of the markets in which the related underlying assets are traded. Credit risk is the possibility that a loss may occur due to the failure of a counterparty to perform according to the terms of the contract. ASUH’s risk of loss in the event of counterparty default is typically limited to the amounts recognized in the Statement of Net Position and is not represented by the contract or notional amounts of the instruments.

See independent accountant’s review report and notes to financial statements
Investment Risk Factors
To manage its investment risks, the Board of Regents’ investment policy for the ASUH at Mānoa Stadium Stock outlines desired risk management guidelines in an effort to limit risk.

Credit Risk
Credit risk for fixed income securities is the risk that the issuer will not fulfill its obligations. Nationally recognized statistical rating organizations, such as Moody’s and Standard and Poor’s, assign credit ratings to security issuers and issues that indicate a measure of potential credit risk to investors. Fixed income securities should consist primarily of investment grade securities with the objective of total return.

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

<table>
<thead>
<tr>
<th>Credit Quality Rating</th>
<th>U.S. Govt-Exempt</th>
<th>AA</th>
<th>A</th>
<th>BBB</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Treasury</td>
<td>$1,226,837</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>U.S. government agencies</td>
<td>123,079</td>
<td>123,079</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>717,845</td>
<td>77,754</td>
<td>346,832</td>
<td>293,259</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$2,067,761</strong></td>
<td><strong>$200,833</strong></td>
<td><strong>$346,832</strong></td>
<td><strong>$293,259</strong></td>
</tr>
</tbody>
</table>

Interest Rate Risk
Interest rate risk is the risk that the value of fixed income securities will decline because of changing interest rates. The prices of fixed income securities with a longer time to maturity tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with shorter maturities. The State of Hawaii’s investment policy generally limits maturities on investments to not more than five years from the date of investment.

The composition of ASUH’s fixed income investments at June 30, 2014 along with maturities is summarized below:

<table>
<thead>
<tr>
<th>Investment Maturities (in Years)</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Treasury</td>
<td>$1,226,837</td>
</tr>
<tr>
<td>U.S. government agencies</td>
<td>123,079</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>717,845</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$2,067,761</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Investment Maturities (in Years)</th>
<th>Less than 1</th>
<th>1 to 5</th>
<th>6 to 10</th>
<th>More than 10</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Treasury</td>
<td>$355,612</td>
<td>$480,481</td>
<td>$366,149</td>
<td>$24,595</td>
</tr>
<tr>
<td>U.S. government agencies</td>
<td>-</td>
<td>$69,480</td>
<td>-</td>
<td>$53,599</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>$94,814</td>
<td>$400,478</td>
<td>$222,553</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$450,426</strong></td>
<td><strong>$950,439</strong></td>
<td><strong>$588,702</strong></td>
<td><strong>$78,194</strong></td>
</tr>
</tbody>
</table>

See independent accountant’s review report and notes to financial statements.
Concentration Risk
Concentration risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the organization to greater risks resulting from adverse economic, political, regulatory, geographic or credit developments. ASUH limits its concentration risk by limiting individual equities to not more than 10% of the total cost of the stock portfolio. In addition, funds should not be invested in any one industry in excess of 15% of the total cost of the equity portfolio. ASUH limits its risk of concentration of assets in fixed income securities by limiting individual bond positions other than obligations of the US government to not more than 5% of the total fixed income security portfolio. In addition, no more than 15% of fixed income securities may be lower than investment grade.

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

ASUH’s exposures to foreign currency risk expressed in U.S. dollars as of June 30, 2014 were as follows:

<table>
<thead>
<tr>
<th>Equity securities</th>
<th>Amount (in U.S. dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australian dollar</td>
<td>$ 41,104</td>
</tr>
<tr>
<td>British pound</td>
<td>308,791</td>
</tr>
<tr>
<td>Canadian dollar</td>
<td>96,276</td>
</tr>
<tr>
<td>Euro</td>
<td>228,872</td>
</tr>
<tr>
<td>Israeli shekel</td>
<td>11,061</td>
</tr>
<tr>
<td>Norwegian kroner</td>
<td>39,228</td>
</tr>
<tr>
<td>Philippine peso</td>
<td>7,008</td>
</tr>
<tr>
<td>Swedish krona</td>
<td>11,570</td>
</tr>
<tr>
<td>Swiss franc</td>
<td>108,052</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>851,962</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fixed income securities</th>
</tr>
</thead>
<tbody>
<tr>
<td>British pound</td>
</tr>
<tr>
<td>Euro</td>
</tr>
<tr>
<td>Japanese yen</td>
</tr>
<tr>
<td>Swiss franc</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

**Total exposure to foreign currency risk** $1,010,212
(3) Employee Benefits

ASUH employees consist of one full-time employee and several part-time student workers. In addition, ASUH utilizes administrative personnel provided by the University at no expense as these positions are funded by other University programs.

Information regarding the Employees’ Retirement System, vacation leave, accumulated sick leave, deferred compensation arrangements, and post-retirement health care and life insurance benefits can be found in the University’s consolidated financial statements for the year ended June 30, 2014.

(4) Commitments and Contingencies

Leases
ASUH entered into a noncancelable lease agreement for a copier, effective July 2, 2014. The lease agreement calls for annual payments of $1,845 and expires on July 1, 2019. ASUH transferred its fully-depreciated copier to another University department at no cost.

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

Insurance
ASUH participates in the University’s insurance risk management program. In general, the University obtains third party insurance coverage directly from third party insurers or is covered under the umbrella of the State’s insurance program. However, the University is partially or entirely self-insured for certain risks such as unemployment and worker’s compensation claims. ASUH is assessed a premium for covered employees. The University assumes the risk of loss and administers unpaid claims on behalf of the entire University. Accordingly, no liability for unpaid claims has been recorded in the accompanying financial statements.