UNIVERSITY OF HAWAII FOUNDATION

Financial Statements

June 30, 2021 and 2020

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 2210
1003 Bishop Street
Honolulu, HI 96813-6400

Independent Auditors' Report

The Board of Trustees
University of Hawaii Foundation:

We have audited the accompanying financial statements of the University of Hawaii Foundation, which comprise the statements of financial position as of June 30, 2021 and 2020, 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 these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 the University of Hawaii Foundation as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Honolulu, Hawaii
November 9, 2021

UNIVERSITY OF HAWAII FOUNDATION

Statements of Financial Position

June 30, 2021 and 2020

Assets		**2021**	**2020**
Cash and cash equivalents	$	8,890,927	16,027,858
Contributions receivable, net		45,337,875	26,555,010
Prepaid expenses and other receivables		8,703,599	7,780,868
Property and equipment, at cost, net of accumulated depreciation and amortization of $2,146,274 in 2021 and $2,037,607 in 2020		10,147,166	10,191,449
Other assets, at cost		1,397,864	1,917,525
Investments		612,137,816	457,269,283
Beneficial interest in trusts held by others		32,716,885	28,664,513
Total assets	$	719,332,132	548,406,506
Liabilities and Net Assets			
Liabilities:			
Accounts payable	$	8,660,082	5,617,692
Liabilities under split-interest agreements		13,540,747	12,140,659
Amounts held for others		5,266,347	4,486,858
Long-term debt		7,400,000	7,400,000
Other liabilities		2,858,715	3,244,721
Total liabilities		37,725,891	32,889,930
Net assets:			
Without donor restrictions		12,377,779	4,705,301
With donor restrictions		669,228,462	510,811,275
Total net assets		681,606,241	515,516,576
Commitments and contingencies			
Total liabilities and net assets	$	719,332,132	548,406,506

See accompanying notes to financial statements.

UNIVERSITY OF HAWAII FOUNDATION

Statement of Activities

Year ended June 30, 2021

	Net assets Without donor restrictions	Net assets With donor restrictions	Total
Revenue:			
Contributions	$ 1,182,487	69,645,464	70,827,951
Fees and other	3,380,052	657,019	4,037,071
Investment income, net	8,424,375	138,789,035	147,213,410
Administrative fees	6,841,507	(6,841,507)	—
Fund-raising events and projects	—	162,103	162,103
	19,828,421	202,412,114	222,240,535
Net assets released from restrictions	43,994,927	(43,994,927)	—
	63,823,348	158,417,187	222,240,535
Expenses:			
Program services:			
Extension and public services	897,476	—	897,476
Academic support	4,685,278	—	4,685,278
Research	5,144,913	—	5,144,913
Student aid and services	12,345,622	—	12,345,622
Faculty and staff support	2,814,967	—	2,814,967
Capital projects	8,028,498	—	8,028,498
Athletics	3,031,682	—	3,031,682
Special programs	6,100,870	—	6,100,870
Other	945,621	—	945,621
Total program services	43,994,927	—	43,994,927
Supporting services:			
Administrative, management, and fiscal services	4,976,279	—	4,976,279
Development	7,179,664	—	7,179,664
Total supporting services	12,155,943	—	12,155,943
Total expenses	56,150,870	—	56,150,870
Change in net assets	7,672,478	158,417,187	166,089,665
Net assets at beginning of year	4,705,301	510,811,275	515,516,576
Net assets at end of year	$ 12,377,779	669,228,462	681,606,241

See accompanying notes to financial statements.

UNIVERSITY OF HAWAII FOUNDATION

Statement of Activities

Year ended June 30, 2020

	Net assets Without donor restrictions	Net assets With donor restrictions	Total
Revenue:			
Contributions	$ 1,060,124	62,463,813	63,523,937
Fees and other	3,659,991	688,468	4,348,459
Investment income (loss), net	2,539,707	(3,799,094)	(1,259,387)
Administrative fees	7,274,765	(7,274,765)	—
Fund-raising events and projects	—	765,957	765,957
	14,534,587	52,844,379	67,378,966
Net assets released from restrictions	46,428,755	(46,428,755)	—
	60,963,342	6,415,624	67,378,966
Expenses:			
Program services:			
Extension and public services	1,195,951	—	1,195,951
Academic support	6,938,394	—	6,938,394
Research	11,000,752	—	11,000,752
Student aid and services	11,574,539	—	11,574,539
Faculty and staff support	3,414,623	—	3,414,623
Capital projects	1,876,897	—	1,876,897
Athletics	2,534,646	—	2,534,646
Special programs	7,773,842	—	7,773,842
Other	119,110	—	119,110
Total program services	46,428,754	—	46,428,754
Supporting services:			
Administrative, management, and fiscal services	6,608,421	—	6,608,421
Development	7,860,753	—	7,860,753
Total supporting services	14,469,174	—	14,469,174
Total expenses	60,897,928	—	60,897,928
Change in net assets	65,414	6,415,624	6,481,038
Net assets at beginning of year	4,639,887	504,395,651	509,035,538
Net assets at end of year	$ 4,705,301	510,811,275	515,516,576

See accompanying notes to financial statements.

UNIVERSITY OF HAWAII FOUNDATION

Statements of Cash Flows

Years ended June 30, 2021 and 2020

		2021	2020
Cash flows from operating activities:			
Cash received from contributions	$	40,416,233	44,237,039
Cash received for fees, honoraria, royalties, and other		4,029,508	4,346,949
Investment return received		3,045,983	12,256,268
Program and supporting service expenses paid		(52,433,597)	(59,998,214)
Net cash (used in) provided by operating activities		(4,941,873)	842,042
Cash flows from investing activities:			
Purchases of investments		(316,411,071)	(91,437,240)
Proceeds from sale of investments		301,929,096	70,284,448
Purchases of property and equipment		(64,384)	—
Net cash used in investing activities		(14,546,359)	(21,152,792)
Cash flows from financing activities:			
Amounts restricted for long-term investment		12,351,301	17,367,976
Repayment on long-term debt		—	(800,000)
Net cash provided by financing activities		12,351,301	16,567,976
Net decrease in cash and cash equivalents		(7,136,931)	(3,742,774)
Cash and cash equivalents at beginning of year		16,027,858	19,770,632
Cash and cash equivalents at end of year	$	8,890,927	16,027,858
Reconciliation of change in net assets to net cash (used in) provided by operating activities:			
Change in net assets	$	166,089,665	6,481,038
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:			
Amounts restricted for long-term investment		(12,351,301)	(17,367,976)
Other noncash contributions		(3,242,792)	(4,073,325)
Depreciation and amortization		108,667	195,032
Realized and unrealized net (gains) losses on investments		(141,185,541)	9,989,177
Provision for uncollectible pledges, net		820,908	1,037,291
Changes in assets and liabilities:			
Contributions receivable		(19,603,773)	8,218,912
Prepaid expenses and other receivables		(922,731)	(5,708,357)
Other assets		509,064	2,692,491
Accounts payable		3,042,390	(2,935,328)
Liabilities under split-interest agreements		1,400,088	(387,872)
Amounts held for others, net		779,489	124,657
Other liabilities		(386,006)	2,576,302
Net cash (used in) provided by operating activities	$	(4,941,873)	842,042
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest	$	274,602	249,450

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Organization

The University of Hawaii Foundation (the Foundation) is a not-for-profit entity established to solicit and manage funds for the benefit of the University of Hawaii (the University). The Foundation is governed by a self-perpetuating Board of Trustees primarily consisting of elected volunteers.

(b) Financial Statement Presentation

The financial statements have been prepared to focus on the Foundation as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of net assets and transactions as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Foundation management and the Board of Trustees.

Net assets with donor restrictions – Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity.

(c) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) 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 revenue and expenses during the reporting period. Significant items subject to such estimates and assumptions include the valuation of contributions receivable, investments, beneficial interest in trusts held by others, and liabilities under split-interest agreements. Actual results could differ from those estimates.

(d) Cash Equivalents

Short-term investments held for operations with original maturities of three months or less when purchased are classified as cash equivalents. Cash equivalents include short-term U.S. Treasury securities and other short-term, highly liquid investments and are carried at cost, which approximates fair value. Short-term investments held for investment purposes are reflected as investments.

(e) Contributions and Contributions Receivable

Contributions received and unconditional promises to give are recorded at their fair values and are reported as an increase in net assets.

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. Certain noncash contributions are reported as other assets until liquidation. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose restriction is accomplished, net assets with donor restrictions are

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reclassified to net assets without restrictions and reported in the statements of activities as net assets released from restrictions.

Unconditional promises to give (contributions receivable) that are expected to be collected within one year are recorded at net realizable value. Pledges receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using a fair value interest rate commensurate with the associated risk to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. The Foundation provides an allowance for uncollectible pledges based upon historical experience with its donors, as well as individual donor circumstances.

(f) Investments

Investments are reported at fair value with unrealized gains and losses reported in the statements of activities as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law.

Fair value for investments in certain domestic equities, fixed-income securities, foreign equities, money market funds, pooled investments in natural resources/real estate, and hedge funds are based on quoted market prices for the security or quoted market prices for the underlying securities in the pooled investment.

Fair value for investments in certain alternative investments, including limited partnership investments in domestic and foreign equities, natural resources and real estate, hedge funds, and private equity securities, are generally based on information provided by the respective external investment manager at the most recent valuation date and from the valuation date to fiscal year-end, if applicable. The private equity, and real estate investments are not readily marketable and involve assumptions and methods that are reviewed by management. Because these investments are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investment existed. A portion of the investments made by certain hedge funds is also not readily marketable; additionally, hedge fund managers may not provide the detail of their underlying marketable securities. The hedge fund valuation process is carefully reviewed by management with the assistance of an outside consultant. The Foundation utilized the net asset value per share for certain investments in alternative structures as a practical expedient for the estimation of the fair value of these investments.

Net investment income (loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized gains and losses, less external and direct internal investment expenses.

(g) Property and Equipment

Property and equipment are stated at cost. Depreciation on property and equipment is calculated on the straight-line method over the estimated useful lives of the assets as follows:

Equipment	3–5 years
Furniture and fixtures	5 years
Leasehold improvements	10 years
Buildings	30 years

The components of net property and equipment at June 30, 2021 and 2020 were as follows:

		2021	2020
Land	$	7,927,481	7,927,481
Buildings		2,456,024	2,456,024
Equipment		1,776,023	1,711,639
Leasehold improvements		69,491	69,491
Furniture and fixtures		64,421	64,421
		12,293,440	12,229,056
Less accumulated depreciation		(2,146,274)	(2,037,607)
Property and equipment, net	$	10,147,166	10,191,449

The Foundation reports gifts of property and equipment at fair value as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

(h) Split-Interest Agreements

The Foundation's split-interest agreements with donors consist of irrevocable pooled income funds, charitable remainder trusts, and charitable gift annuities for which the Foundation serves as trustee. Assets held under these split-interest agreements are included in investments. Contribution revenue is recognized at the date the split-interest agreements are established after recording liabilities for the present value (utilizing discount rates ranging between 1.2% and 8.45%) of the estimated future payments to be made to the donors and/or other beneficiaries. The liabilities are adjusted during the term of the split-interest agreements for changes in the fair value of the assets, accretion of the discount, and other changes in the estimates of future benefits. For the years ended June 30, 2021 and 2020, contributions revenue attributed to split-interest agreements were $100,000 and $113,911, respectively. For the years ended June 30, 2021 and 2020, net investment income (loss) include net gains of $480,777 and $275,228, respectively, for changes in the value of split-interest agreements.

(i) Interest in Trusts Held by Others

The Foundation is also the beneficiary of certain trusts held and administered by others. The fair value of the estimated future cash receipts from the trusts is recognized as assets and contribution revenue when the Foundation is notified of their existence. The reported value of the assets is fair value. For the years ended June 30, 2021 and 2020, there was no contribution revenue attributed to beneficial interest in trusts held by others. For the years ended June 30, 2021 and 2020, net investment income (loss) associated with the beneficial interest in trust held by others include net gains of $4,060,190 and net losses of $3,244,207, respectively.

(j) Amounts Held for Others

Resources received in transactions that the Foundation acts as an agent are reported as amounts held for others. Investment income earned on amounts received increases amounts held for others. Distributions to specified recipients decrease amounts held for others. Unrealized gains (losses) on assets held for others were $550,739 and $(122,764) for the years ended June 30, 2021 and 2020, respectively.

(k) Fair Value Measurements

The Foundation applies the provisions of Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) Topic 820, *Fair Value Measurement*, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. ASC Topic 820 defines fair value 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. ASC Topic 820 also establishes a framework for measuring fair value and expands disclosures about fair value measurements (note 9).

The Foundation also applies the provisions of ASC Topic 820 to fair value measurements of nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis.

(l) Revenue Recognition

The Foundation has several revenue streams that are accounted for as reciprocal exchange transactions including fees and other. Fees, and others primarily consists of an annual $3 million fee for certain services provided to the University.

The Foundation earns an annual fee of $3 million for each year ended June 30, 2021 and 2020 from the University recorded in fees and other. The fee is compensation for the Foundation providing fund-raising and alumni services to the University (note 12).

These fees are recognized ratably over the period of the service is provided on a straight-line basis in an amount that reflects the consideration the Foundation expects to be entitled to in exchange for those services. All the Foundation’s revenue from contracts with customers are from performance obligations satisfied over time. Price are specific to a distinct performance obligation and do not consist of multiple transactions. Amounts billed but unpaid are contract assets and recorded as other receivables.

(m) Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and wages, employee benefits, professional services, office expenses, equipment, occupancy, bad debt expense, travel, affiliate research agreement, student scholarships/grants, grants and other, which are allocated on the basis of estimates of time and effort.

(n) Risks and Uncertainties

On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a global pandemic. The impact of COVID-19 on the Foundation continues to evolve, and its future effects remain uncertain. The Foundation continues to closely monitor the effects and risks of COVID-19 to assess its impact on the Foundation’s operations, financial position, change in net assets and liquidity.

(o) Recent Adopted Accounting Pronouncements

In August 2018, FASB issued Accounting Standards Update (ASU) No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements on fair value measurements in Topic 820. The new standard was adopted for the Foundation’s fiscal year ended June 30, 2020. The adoption of this guidance did not have a material effect on the financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires an entity to recognize revenue when the entity transfers control of promised goods and services to the customer. Revenue is recognized in an amount that reflects the consideration an entity expects to receive in exchange for those goods or services. An entity is also required to disclose sufficient quantitative and qualitative information to enable the users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The FASB also has issued several amendments to the standard, which are intended to promote a more consistent interpretation and application of the principles outlined in the standard. Entities are permitted to adopt the standard using a retrospective transition method (i.e., restate all prior priors presented) or a cumulative effect method (i.e., recognize the cumulative effect of initially applying the guidance at the date of initial application with no restatement of prior periods). However, both methods allow entities to elect certain practical expedients on transition that will help to simply how a company restates its contracts. The Foundation adopted ASU No. 2014-09 on July 1, 2020 using the retrospective method. Management determined that the provisions of ASU No. 2014-09 did not have a material effect on the financial statements.

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(p) Recent Issued Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842), which supersedes FASB ASC Topic 840, *Leases*, and makes other conforming amendments to U.S. GAAP. ASU No. 2016-02 requires, among other changes to the lease accounting guidance, lessees to recognize most leases on balance sheet via a right-of-offset asset and lease liability, and additional qualitative and quantitative disclosures. ASU No. 2016-02 permits early adoption and mandates a modified retrospective transition method.

In June 2020, FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Lease (Topic 842): Effective Dates for Certain Entities,* to defer ASU No. 2016-02 for privately owned companies and not-for-profit entities that have not yet adopted the standard. As allowed by ASU No. 2020-05, the Foundation has decided to defer adoption of ASU No. 2016-02 to its annual reporting period beginning on July 1, 2022. The Foundation is currently evaluating the potential impact of adopting this guidance on the financial statements.

(2) Contributions Receivable

At June 30, 2021 and 2020, contributions receivable, net of discount for present value and allowance for uncollectible contributions, consisted of the following:

		2021	2020
Contributions receivable	$	50,857,617	31,042,133
Less discount to present value (1.7%–6.2% discount rate)		(1,063,106)	(851,395)
Subtotal		49,794,511	30,190,738
Less allowance for uncollectible pledges		(4,456,636)	(3,635,728)
Contributions receivable, net	$	45,337,875	26,555,010
Amounts to be collected in:			
Less than one year	$	23,757,246	12,740,738
One year to five years		27,100,371	18,301,395
Total	$	50,857,617	31,042,133

(3) Investments

Investments at June 30, 2021 and 2020 consisted of the following:

	2021		2020	
	Fair value	**Cost**	**Fair value**	**Cost**
Domestic equities	$ 39,354,751	17,418,980	43,903,029	25,672,813
Fixed-income securities	155,676,397	156,015,590	139,008,539	139,288,551
Foreign equities	102,036,717	61,119,638	68,971,582	51,918,190
Money market funds	15,062,864	15,062,864	590,250	590,250
Hedge funds	183,222,700	91,183,639	132,440,588	77,719,615
Private equity securities	89,837,240	39,879,849	45,850,697	39,904,296
Natural resources/real estate	26,947,147	35,904,037	26,504,598	39,339,256
	$ 612,137,816	416,584,597	457,269,283	374,432,971

The Foundation invests in various types of investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

Investments are generally pooled and managed under various asset diversification strategies, depending upon the investment objectives and to avoid significant concentrations of market risk. Earnings on endowment contributions, which the donor designates as being available for program operations, are considered restricted until the specific restrictions have been met. Endowment investments classified as net assets with donor restrictions were $474,692,405 and $340,789,170 at June 30, 2021 and 2020, respectively. Under the Foundation's endowment spending policy, certain amounts (based on a percentage of the adjusted fair value of the investment pool) are appropriated and are available to support operations. In 2021 and 2020, $13,338,950 and $12,840,128, respectively, was made available to support programs. Investment management fees amounted to $1,293,847 in 2021 and $1,225,652 in 2020.

(4) Income Taxes

The Foundation is an organization exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and is generally not subject to federal or state of Hawaii income taxes. However, the Foundation is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the basic financial statements taken as a whole.

(5) Retirement Annuity Plan

The Foundation has defined-contribution retirement annuity plans with Teachers Insurance and Annuity Association covering substantially all of its employees. The Foundation recorded contribution expense of $647,169 and $752,434 in 2021 and 2020, respectively.

(6) Leases

The Foundation leases office space under an operating lease expiring in October 2023. Future minimum lease payments are as follows:

		Operating lease
Years ending June 30:		
2022	$	116,348
2023		116,348
2024		38,783
2025		—
2026		—
Thereafter		—
Total minimum lease payments	$	271,479

Office lease rent expense for the years ended June 30, 2021 and 2020 totaled $112,968 per year.

The Foundation leases office space from the University under an annual operating lease, which provides for a nominal rental amount. The estimated fair rental value of the property has been reported as unrestricted contribution revenue with an offsetting amount charged to supporting services of $82,376 and $78,719 in 2021 and 2020, respectively.

(7) Net Assets with Donor Restrictions

Net assets with donor restrictions consisted of the following restricted amounts at June 30, 2021 and 2020:

		With donor restrictions
2021:		
Extension and public services	$	8,760,571
Academic support		71,372,960
Research		35,006,672
Student aid and services		235,341,186
Faculty and staff support		187,668,534
Capital projects		19,425,347
Athletics		10,555,838
Special		81,590,269
Other		19,507,085
Total	$	669,228,462

		With donor restrictions
2020:		
Extension and public services	$	7,485,214
Academic support		55,127,319
Research		30,249,512
Student aid and services		167,232,384
Faculty and staff support		135,590,932
Capital projects		24,107,931
Athletics		5,208,927
Special		50,257,355
Other		35,551,701
Total	$	510,811,275

Net assets are released from donor restrictions primarily by incurring expenses that satisfy the restricted purpose. For the years ended June 30, 2021 and 2020, net assets released from restriction totaled $43,994,927 and $46,428,755, respectively.

(8) Endowment

The Foundation's endowment consists of approximately 1,612 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. At June 30, 2021 and 2020, the endowment net assets amounted to $483,639,756 and $341,690,144, respectively.

For the years ended June 30, 2021 and 2020, the changes in endowment net assets are as follows:

		Without donor restrictions	With donor restrictions	Total
Endowment net assets, June 30, 2019	$	1,863,457	325,129,980	326,993,437
Investment return:				
Investment income		67,027	1,147,591	1,214,618
Net depreciation, realized and unrealized, net expenses		(647,150)	(6,620,826)	(7,267,976)
Total investment return		(580,123)	(5,473,235)	(6,053,358)

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		Without donor restrictions	With donor restrictions	Total
Contributions, net of expenses	$	255,304	32,877,219	33,132,523
Appropriations		(637,664)	(11,744,794)	(12,382,458)
Endowment net assets, June 30, 2020		900,974	340,789,170	341,690,144
Investment return:				
Investment income		22,214	649,099	671,313
Net appreciation, realized and unrealized, net expenses		6,927,620	127,518,745	134,446,365
Total investment return		6,949,834	128,167,844	135,117,678
Contributions, net of expenses		1,787,237	17,936,928	19,724,165
Appropriations		(690,694)	(12,201,537)	(12,892,231)
Endowment net assets, June 30, 2021	$	8,947,351	474,692,405	483,639,756

Donor-restricted and board-designated endowment net asset composition is as follows as of June 30, 2021 and 2020:

		2021		
		Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	$	—	474,692,405	474,692,405
Board-designated endowment funds		8,947,351	—	8,947,351
	$	8,947,351	474,692,405	483,639,756

		2020		
		Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	$	—	340,789,170	340,789,170
Board-designated endowment funds		900,974	—	900,974
	$	900,974	340,789,170	341,690,144

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). At June 30, 2021, funds with original gift values of $1,519,596, fair values of $1,143,980, and deficiencies of $375,616 were reported in net assets with donor restrictions. At June 30, 2020, funds with original gift values of $132,888,915, fair values of $123,851,387, and deficiencies of $9,037,528 were reported in net assets with donor restrictions.

Net assets with donor restrictions are restricted for the following purposes:

		2021	2020
The portion of endowment funds that is required to be retained permanently either by explicit donor stipulation or by HUPMIFA	$	294,668,617	280,151,834
The portion of the perpetual endowment funds subject to time restriction under HUPMIFA with purpose restrictions		180,023,788	60,637,336
The portion of net assets, excluding endowment funds, subject to purpose restrictions		100,597,782	102,264,938
Contribution and other receivables, net		53,180,690	30,019,311
Beneficial interest in trusts held by others		32,716,885	28,664,513
Split-interest agreements, net and other assets		8,040,700	9,073,343
Total net assets with donor restrictions	$	669,228,462	510,811,275

(a) Interpretation of Relevant Law

The Foundation is subject to Hawaii's Uniform Prudent Management of Institutional Funds Act (HUPMIFA), which was enacted by the State of Hawaii on July 1, 2009, and thus classified in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the Board of Trustees appropriates such amounts for expenditure. Most of those net assets are also subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The Board of Trustees of the Foundation has interpreted HUPMIFA as not requiring the maintenance of purchase power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Foundation considers a fund to be underwater if the fair value of the funds is less than the sum of (a) the original value of initial and subsequent gifts donated to the fund, and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Foundation has interpreted HUPMIFA to permit spending from underwater funds in accordance with the prudent measure required under the law. Additionally, in accordance with HUPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund

(2) The purposes of the organization and the donor-restricted endowment fund

(3) General economic conditions

(4) The possible effect of inflation and deflation

(5) The expected total return from income and the appreciation of investments

(6) Other resources of the organization

(7) The investment policies of the organization

(b) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or HUPMIFA requires the Foundation to retain as a fund of perpetual duration. At June 30, 2021 and 2020, in accordance with U.S. GAAP, deficiencies of this nature that are reported in net assets with donor restrictions were $375,616 and $9,037,528, respectively. These deficiencies resulted from unfavorable market fluctuations and continued appropriation for certain programs that were deemed prudent by the Board of Trustees.

(c) Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified periods, as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 5.5% annually (including inflation). Actual returns in any given year may vary from this amount.

(d) Strategies Employed for Achieving Objectives

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

(e) Spending Policy

The Foundation has a policy of appropriating for distribution each year up to 6% of its endowment fund’s average fair value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 5.5% annually. This is consistent with the organization’s objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

(9) Fair Value Measurements

ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest-level input that is significant to the fair value measurement in its entirety at the measurement date.

The following tables present assets that are measured at fair value on a recurring basis at June 30, 2021 and 2020:

		Fair value measurements at reporting date using				
	June 30, 2021	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Investments measured at net asset value	
Assets:						
Domestic equities	$ 39,354,751	25,974,969	—	—	13,379,782	a
Fixed-income securities	155,676,397	99,344,423	56,331,974	—	—	
Foreign equities	102,036,717	45,056,607	—	—	56,980,110	b
Money market funds	15,062,864	15,062,864	—	—	—	
Natural resources/real estate	26,947,147	—	—	9,918,130	17,029,017	c
Hedge funds	183,222,700	2,201,447	—	—	181,021,253	d
Private equity securities	89,837,240	—	—	105,603	89,731,637	c
Total investments	612,137,816	187,640,310	56,331,974	10,023,733	358,141,799	
Beneficial interest in trusts held by others	32,716,885	—	13,176,133	19,540,752	—	
Total	$ 644,854,701	187,640,310	69,508,107	29,564,485	358,141,799	

			Fair value measurements at reporting date using			
	June 30, 2020	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Investments measured at net asset value	
Assets:						
Domestic equities	$ 43,903,029	12,416,542	—	—	31,486,487	a
Fixed-income securities	139,008,539	130,506,059	8,502,480	—	—	
Foreign equities	68,971,582	26,665,533	—	—	42,306,049	b
Money market funds	590,250	590,250	—	—	—	
Natural resources/real estate	26,504,598	3,439,339	—	9,497,159	13,568,100	c
Hedge funds	132,440,588	4,130,294	—	—	128,310,294	d
Private equity securities	45,850,697	—	—	1,905,605	43,945,092	c
Total investments	457,269,283	177,748,017	8,502,480	11,402,764	259,616,022	
Beneficial interest in trusts held by others	28,664,513	—	10,734,166	17,930,347	—	
Total	$ 485,933,796	177,748,017	19,236,646	29,333,111	259,616,022	

a. Investments in this class can be redeemed on a monthly/quarterly basis, with notification provided between 15–30 days prior to redemption.

b. Investments in this class can be redeemed on a monthly basis with notification provided between 5–30 days prior to redemption.

c. Investments in this class can be redeemed at the discretion of the investment managers. The Foundation has commitments to contribute additional amounts to this class of investments of approximately $39,500,000 and $39,700,000 at June 30, 2021 and 2020, respectively.

d. Redemption frequency for investments in this class range from monthly to annually redemptions, with notification provided between 2–90 days prior to redemption. Additionally, certain investments can be redeemed at the discretion of the investment managers.

The following table presents the Foundation's activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in ASC Topic 820 for the years ended June 30, 2021 and 2020:

		Assets			
		Private equity securities	Natural resources/ real estate	Beneficial interest in trusts held by others	Total
Balance at June 30, 2019	$	1,905,605	10,258,499	20,835,715	32,999,819
Total losses included in income:					
Realized		—	—	—	—
Unrealized		—	(761,340)	(2,905,368)	(3,666,708)
Purchases		—	—	—	—
Balance at June 30, 2020		1,905,605	9,497,159	17,930,347	29,333,111
Total (losses) gains included in income:					
Realized		—	—	—	—
Unrealized		(1,800,002)	420,971	1,610,405	231,374
Purchases		—	—	—	—
Balance at June 30, 2021	$	105,603	9,918,130	19,540,752	29,564,485

Investments in domestic equities, foreign equities, hedge funds, private equity securities, and natural resources/real estate are recorded at estimated fair value based on the net asset value of the Foundation's ownership interest in the partners' capital, which includes assumptions and methods that were prepared by the general partner of the limited partnerships and were reviewed by the Foundation's management. The Foundation believes that the reported amounts for these investments are a reasonable estimate of their fair value at June 30, 2021 and 2020.

Investments in real estate and certain private equity securities are recorded at estimated fair value at June 30, 2021 and 2020.

All realized and unrealized gains (losses) for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3), as defined in ASC Topic 820, are reported in net investment income (loss) in the accompanying statements of activities.

(10) Long-Term Debt

On April 20, 2017, the Foundation entered into a 10-year $13.2 million acquisition and construction credit facility (the Loan) for the purchase and renovation of the Charles Atherton House and the Mary Atherton Richards House (the Atherton property). The Loan is secured by the fee simple interest and improvements on the Atherton property, along with an assignment of a long-term lease and rents due thereunder from the

(Continued)

University. Under terms of the credit facility, interest-only payments are required for the first 36 months at a fixed rate of 3.00% and, thereafter, monthly installments of principal and interest, based on a 25-year amortization schedule, at a fixed rate of 4.00% through the remaining term of the Loan.

On May 1, 2020, the terms of the credit facility were modified to interest-only payments for 36 months at a fixed rate of 3.65%.

The Loan matures on May 1, 2023. As of June 30, 2021 and 2020, the outstanding balance on the Loan was $7.4 million.

The aggregate maturities of the long-term debt is $7.4 million which is payable in 2023.

The Loan contains provisions for nonfinancial covenants. Management believes that the Foundation is in compliance with the covenants in its debt agreement.

(11) Other Liabilities

At June 30, 2021, the Foundation had an unsecured note payable of $1.6 million to a financial institution under the Paycheck Protection Program (PPP) of the Coronavirus Aid, Relief, and Economic Security Act, P.L. 116-136 (CARES Act). The note matures on April 11, 2022 with interest accruing at 1.00% per annum.

Management expects to meet the PPP’s eligibility criteria and concludes that the PPP loan represents, in substance, a grant that is expected to be forgiven and accounts for the PPP loan as a conditional contribution. Under this model, the conditional contribution is recorded in other liabilities and not recognized until there is reasonable assurance that any conditions attached to the note payable will be met.

(12) Transactions with the University

The Foundation has an agreement with the University to provide fund-raising and alumni services through June 30, 2021. Annual compensation from this agreement amounted to $3 million for each of the years ended June 30, 2021 and 2020. Under separate agreements to provide fund-raising and alumni services for individual University units, compensation amounted to $369,856 and $443,972 for the years ended June 30, 2021 and 2020, respectively. For these payments, sources other than the University tuition and fees special fund were used.

In conjunction with acquisition of the Atherton property in April 2017, the Foundation entered into a 15-year ground lease with the University expiring on April 30, 2032. Monthly lease rent is adjustable every six months during the entire lease term. The monthly lease rent may be increased to reimburse the Foundation for any costs, as mutually agreed upon between the Foundation and the University, in connection with the ownership, management, maintenance and operation of the property, including debt service and cost incurred to acquire the property. For the years ended June 30, 2021 and 2020, monthly lease rent was $23,560 for both years. The University paid $282,722 and $277,487 as rental income for the years ended June 30, 2021 and 2020.

(13) Functionalized Expenses

Expenses by natural and functional classification for the year ended June 30, 2021, with comparable totals for June 30, 2020, were as follows:

	Program services									Supporting services			
	Extension and public services	Academic support	Research	Student aid and services	Faculty and staff support	Capital projects	Athletics	Special programs	Other	Administrative, management, and fiscal services	Development	2021 Total	2020 Total
Expenses:													
Salaries and wages	$ —	4,787	—	—	—	—	—	—	—	2,636,469	4,719,271	7,360,527	8,058,254
Employee benefits	—	1,882	—	—	—	—	728	3,275	—	713,815	1,269,232	1,988,932	2,247,850
Professional services	252,476	923,138	54,517	28,750	385,433	17,446	79,732	944,676	80,422	480,099	325,801	3,572,490	3,312,156
Office expenses	73,438	1,252,103	97,313	47,640	156,391	298,581	1,694,942	596,035	394,314	136,045	239,306	4,986,108	5,669,995
Equipment	74,768	509,340	156,124	1,166	75,195	642,932	118,252	258,507	29,626	271,802	282,346	2,420,058	2,608,184
Occupancy	2,719	7,617	12,154	—	2,700	12,570	4,949	5,518	1,593	339,184	233,204	622,208	684,253
Bad debt expense	52,251	117,622	220,291	326,635	10,806	4,770	153,799	318,115	1,653	39,393	3,780	1,249,115	1,324,196
Travel	5,533	75,492	19,818	14,883	44,369	—	148,144	83,922	—	593	6,230	398,984	1,872,084
Affiliate research agreement	286,009	1,337,672	3,089,720	595,851	1,541,699	7,050,032	—	2,047,010	430,913	—	—	16,378,906	15,136,750
Student scholarships/grants	1,000	281,064	3,891	11,311,497	29,000	—	463,762	1,081,697	3,760	—	—	13,175,671	13,100,208
Grants	148,684	167,403	1,490,615	19,140	569,242	—	350,868	749,693	—	—	—	3,495,645	5,309,998
Other	598	7,158	470	60	132	2,167	16,506	12,422	3,340	358,879	100,494	502,226	1,574,000
Total expenses	$ 897,476	4,685,278	5,144,913	12,345,622	2,814,967	8,028,498	3,031,682	6,100,870	945,621	4,976,279	7,179,664	56,150,870	60,897,928

(14) Liquidity and Availability

The Foundation receives significant contributions with donor restrictions to be used in accordance with the associated purpose restrictions. It also receives gifts to establish endowments that will exist in perpetuity; the income generated from such endowments is used to fund programs. In addition, the Foundation receives support without donor restrictions; such support has historically represented approximately 0.4% of annual program funding needs, with the remainder funded by investment income, appropriated earnings from gifts with donor restrictions, and service fees from the University as described in note 12.

The Foundation considers investment income, appropriated earnings from donor-restricted and board-designated (quasi) endowments, contributions without donor restrictions, and contributions with donor restrictions for use in current programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. General expenditures include administrative and general expenses, fundraising expenses, and program expenses expected to be paid in the subsequent year. Annual operations are defined as activities occurring during the Foundation's fiscal year.

The Foundation manages its cash available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability,
- Maintaining adequate liquid assets, and
- Maintaining sufficient reserves to provide reasonable assurance that long term commitments and obligations under endowments with donor restrictions and quasi-endowments that support mission fulfillment will continue to be met, ensuring the sustainability of the Foundation.

The table below presents financial assets available for general expenditures within one year at June 30, 2021:

		2021
Financial assets at year-end:		
Cash and cash equivalents	$	8,890,927
Contributions receivable, net		45,337,875
Other receivables		8,444,648
Investments		612,137,816
Beneficial interest in trusts held by others		32,716,885
Total financial assets		707,528,151
Less amounts not available to be used within one year:		
Restricted by donor with purpose restrictions		(100,597,782)
Subject to appropriation and satisfaction of donor restrictions		(483,639,757)
Investments in non-liquid securities		(105,603)
Investments held in custodial and non-custodial trusts		(54,283,283)
Contribution receivable – for restricted gifts, net		(45,337,875)
Financial assets not available to be used within one year		(683,964,300)
Financial assets available to meet general expenditures within one year	$	23,563,851

(15) Subsequent Events

The Foundation has evaluated subsequent events from the balance sheet date through November 9, 2021, the date at which the financial statements were available to be issued noting the following items to disclose.

On July 21, 2021, the Foundation paid off the Loan. The outstanding balance as of June 30, 2021 was $7.4 million.

In October 2021, the Foundation’s unsecured note payable of $1.6 million to a financial institution under the PPP of the CARES Act was forgiven and the Foundation recognized $1.6 million as other income in fiscal year 2022.