



UNIVERSITY OF HAWAII FOUNDATION

Financial Statements

June 30, 2015 and 2014

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 2100
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 (the Foundation), which comprise the statements of financial position as of June 30, 2015 and 2014, 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, 2015 and 2014, 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

November 10, 2015

UNIVERSITY OF HAWAII FOUNDATION

Statements of Financial Position

June 30, 2015 and 2014

Assets	2015	2014
Cash and cash equivalents	\$ 11,409,480	3,828,718
Contributions receivable, net	85,804,923	59,928,398
Prepaid expenses and other receivables	2,077,478	2,072,761
Property and equipment, at cost, net of accumulated depreciation and amortization of \$1,311,426 in 2015 and \$1,307,282 in 2014	2,284,042	2,214,714
Other assets, at cost	2,392,337	2,710,638
Investments	373,240,095	365,835,135
Beneficial interest in trusts held by others	17,043,376	15,158,425
Total assets	\$ 494,251,731	451,748,789
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 5,888,390	5,093,896
Liabilities under split-interest agreements	9,999,412	6,889,672
Amounts held for others	3,644,773	3,181,973
Other liabilities	379,027	468,123
Total liabilities	19,911,602	15,633,664
Net assets:		
Unrestricted	2,871,826	3,978,937
Temporarily restricted	206,107,682	215,137,271
Permanently restricted	265,360,621	216,998,917
Total net assets	474,340,129	436,115,125
Commitments and contingencies		
Total liabilities and net assets	\$ 494,251,731	451,748,789

See accompanying notes to financial statements.

UNIVERSITY OF HAWAII FOUNDATION

Statement of Activities

Year ended June 30, 2015

	Net assets			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Revenues:				
Contributions	\$ 1,357,720	30,841,114	50,026,575	82,225,409
Fees, honoraria, royalties, and other	4,130,248	2,310,225	403,916	6,844,389
Investment gains (losses), net	213,895	4,428,495	(1,456,390)	3,186,000
Administrative fees	5,971,255	(5,309,414)	(661,841)	—
Fund-raising events and projects	—	1,903,062	49,444	1,952,506
	<u>11,673,118</u>	<u>34,173,482</u>	<u>48,361,704</u>	<u>94,208,304</u>
Net assets released from restrictions	<u>43,203,071</u>	<u>(43,203,071)</u>	<u>—</u>	<u>—</u>
	<u>54,876,189</u>	<u>(9,029,589)</u>	<u>48,361,704</u>	<u>94,208,304</u>
Expenses:				
Program services:				
Extension and public services	1,160,500	—	—	1,160,500
Academic support	5,725,936	—	—	5,725,936
Research	5,365,119	—	—	5,365,119
Student aid and services	9,634,863	—	—	9,634,863
Faculty and staff support	3,112,073	—	—	3,112,073
Capital projects	4,852,651	—	—	4,852,651
Athletics	5,115,332	—	—	5,115,332
Special programs	7,102,279	—	—	7,102,279
Other	1,134,318	—	—	1,134,318
Total program services	<u>43,203,071</u>	<u>—</u>	<u>—</u>	<u>43,203,071</u>
Supporting services:				
Administrative, management, and fiscal services	4,446,373	—	—	4,446,373
Development	8,333,856	—	—	8,333,856
Total supporting services	<u>12,780,229</u>	<u>—</u>	<u>—</u>	<u>12,780,229</u>
Change in net assets	<u>(1,107,111)</u>	<u>(9,029,589)</u>	<u>48,361,704</u>	<u>38,225,004</u>
Net assets at beginning of year	<u>3,978,937</u>	<u>215,137,271</u>	<u>216,998,917</u>	<u>436,115,125</u>
Net assets at end of year	\$ <u><u>2,871,826</u></u>	<u><u>206,107,682</u></u>	<u><u>265,360,621</u></u>	<u><u>474,340,129</u></u>

See accompanying notes to financial statements.

UNIVERSITY OF HAWAII FOUNDATION

Statement of Activities

Year ended June 30, 2014

	Net assets			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Revenues:				
Contributions	\$ 316,579	61,013,992	15,601,775	76,932,346
Fees, honoraria, royalties, and other	4,321,161	1,344,057	1,992	5,667,210
Investment gains, net	8,688,225	31,193,933	1,849,156	41,731,314
Administrative fees	5,440,399	(4,813,753)	(626,646)	—
Fund-raising events and projects	—	2,336,701	68,835	2,405,536
	<u>18,766,364</u>	<u>91,074,930</u>	<u>16,895,112</u>	<u>126,736,406</u>
Net assets released from restrictions	<u>37,615,822</u>	<u>(37,615,822)</u>	<u>—</u>	<u>—</u>
	<u>56,382,186</u>	<u>53,459,108</u>	<u>16,895,112</u>	<u>126,736,406</u>
Expenses:				
Program services:				
Extension and public services	1,113,896	—	—	1,113,896
Academic support	5,005,069	—	—	5,005,069
Research	2,780,302	—	—	2,780,302
Student aid and services	10,795,568	—	—	10,795,568
Faculty and staff support	2,556,843	—	—	2,556,843
Capital projects	2,340,301	—	—	2,340,301
Athletics	3,914,964	—	—	3,914,964
Special programs	7,913,596	—	—	7,913,596
Other	1,195,283	—	—	1,195,283
Total program services	<u>37,615,822</u>	<u>—</u>	<u>—</u>	<u>37,615,822</u>
Supporting services:				
Administrative, management, and fiscal services	4,105,173	—	—	4,105,173
Development	8,068,266	—	—	8,068,266
Total supporting services	<u>12,173,439</u>	<u>—</u>	<u>—</u>	<u>12,173,439</u>
Change in net assets	6,592,925	53,459,108	16,895,112	76,947,145
Net assets at beginning of year	<u>(2,613,988)</u>	<u>161,678,163</u>	<u>200,103,805</u>	<u>359,167,980</u>
Net assets at end of year	\$ <u>3,978,937</u>	<u>215,137,271</u>	<u>216,998,917</u>	<u>436,115,125</u>

See accompanying notes to financial statements.

UNIVERSITY OF HAWAII FOUNDATION

Statements of Cash Flows

Years ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Cash received from contributions	\$ 39,277,706	36,525,124
Cash received for fees, honoraria, royalties, and other	6,440,473	5,665,218
Investment return received	10,105,086	3,132,137
Program and supporting service expenses paid	<u>(55,182,449)</u>	<u>(50,140,648)</u>
Net cash provided by (used in) operating activities	<u>640,816</u>	<u>(4,818,169)</u>
Cash flows from investing activities:		
Purchase of investments	(136,449,333)	(181,827,532)
Proceeds from sale of investments	<u>136,501,518</u>	<u>165,120,435</u>
Net cash provided by (used in) investing activities	<u>52,185</u>	<u>(16,707,097)</u>
Cash flows from financing activity:		
Amounts restricted for long-term investment	<u>6,887,761</u>	<u>15,785,790</u>
Net cash provided by financing activity	<u>6,887,761</u>	<u>15,785,790</u>
Net increase (decrease) in cash and cash equivalents	7,580,762	(5,739,476)
Cash and cash equivalents at beginning of year	<u>3,828,718</u>	<u>9,568,194</u>
Cash and cash equivalents at end of year	<u>\$ 11,409,480</u>	<u>3,828,718</u>
Reconciliation of change in net assets to net cash used in operating activities:		
Change in net assets	\$ 38,225,004	76,947,145
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Amounts restricted for long-term investment	(6,887,761)	(15,785,790)
Noncash contributions	(11,915,393)	(1,548,028)
Depreciation and amortization	35,845	35,836
Realized and unrealized net loss (gains) on investments	1,890,157	(37,387,808)
Provision for uncollectible pledges, net	41,023	14,750
Changes in assets and liabilities:		
Increase in contributions receivable	(25,917,548)	(36,895,542)
(Increase) decrease in prepaid expenses and other receivables	(4,717)	7,527,481
Increase in other assets	896,268	2,057,780
Increase (decrease) in accounts payable	794,494	(418,880)
Increase in liabilities under split-interest agreements	3,109,740	401,580
Increase in amounts held for others, net	462,800	236,207
Decrease in other liabilities	<u>(89,096)</u>	<u>(2,900)</u>
Net cash provided by (used in) operating activities	<u>\$ 640,816</u>	<u>(4,818,169)</u>

Supplemental disclosures of noncash activities:

The Foundation received noncash contributions in the amount of \$13,127,939 and \$2,205,855 in 2015 and 2014, respectively.

See accompanying notes to financial statements.

UNIVERSITY OF HAWAII FOUNDATION

Notes to Financial Statements

June 30, 2015 and 2014

(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 into three classes (unrestricted, temporarily restricted, or permanently restricted) as follows:

Unrestricted Net Assets – net assets that represent resources generated from operations or that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets – net assets subject to donor-imposed stipulations that may or will be met by actions of the Foundation and/or by the passage of time.

Permanently Restricted Net Assets – net assets subject to donor-imposed stipulations that must be maintained permanently by the Foundation. Generally, the donor of these assets permits the Foundation to use all or part of the income earned on related investments for general or specific purposes in support of the University.

(c) *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 (\$96,219) and \$167,370 for the years ended June 30, 2015 and 2014, respectively.

(d) *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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

(e) *Cash Equivalents*

Short-term investments held for operations with original maturities of three months or less 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.

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Notes to Financial Statements

June 30, 2015 and 2014

(f) Contributions

Contributions received and unconditional promises to give are measured 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, temporarily restricted net assets are reclassified to unrestricted net assets 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.

(g) Investments

Traditional Structures – Values Based on Quoted Market Prices

These structures include debt and equity securities with readily determinable fair values and are reported at fair value based on quoted market prices.

Alternative Structures – Underlying Investment Values Based on Quoted Market Price

These structures include pooled investments that are not publicly traded. The underlying debt and equity securities are publicly traded and there is visibility to the individual securities within each pooled investment. The value is based on the quoted market prices of the underlying securities.

Alternative Structures – Underlying Investment Values Based on Estimates Provided by Fund Manager or General Partner

These structures include limited partnership investments in private equity, venture capital, real estate, and hedge funds including absolute return and long/short hedge funds. Fair value is generally based on information provided by the respective external investment manager at the most recent valuation date and from the valuation date to fiscal year-end, if applicable. The private equity, venture capital, and real estate investments are not readily marketable and involve assumptions and methods that are reviewed by 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. As described in note 1(k), the Foundation

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Notes to Financial Statements

June 30, 2015 and 2014

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.

Gains and losses on investments are reported in the statements of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

(h) *Property and Equipment*

Property and equipment are stated at cost and include approximately \$2,000,000 in land. Depreciation on property and equipment is calculated on the straight-line method over the estimated useful lives of the assets, ranging from 5 to 10 years, commencing at the time the asset is placed into service.

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.

(i) *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 revenues are recognized at the date the split-interest agreements are established after recording liabilities for the present value (utilizing discount rates ranging between 2% and 5%) 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, 2015 and 2014, contributions revenue attributed to split-interest agreements were \$4,048,726 and \$1,192,513, respectively. For the years ended June 30, 2015 and 2014, net investment realized and unrealized gains (losses) include a net loss of \$(1,193,279) and a net gain of \$897,301, respectively, for changes in the value of split-interest agreements.

(j) *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 revenues when the Foundation is notified of their existence. The reported value of the assets is fair value. For the years ended June 30, 2015 and 2014, contributions revenue, net of transfers to internal trusts, was \$2,656,542 and \$388,581, respectively, attributable to their beneficial interest in trusts held by others. For the years ended June 30, 2015 and 2014, net investment realized and unrealized gains (losses) associated with the beneficial interest in trust held by others include net a loss of \$(763,773) and a net gain of \$1,320,782, respectively.

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Notes to Financial Statements

June 30, 2015 and 2014

(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 (see 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.

The Foundation applies the provisions of Accounting Standards Update (ASU) No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, to its alternative investments. This standard amends ASC Topic 820 and allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value, using net asset value per share or its equivalent as a practical expedient.

(l) Recent Accounting Pronouncements

In May 2015, the Financial Accounting Standards Board issued Accounting Standards Update 2015-07 (ASU 2015-07), *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (Topic 820)*. ASU 2015-07 removes the requirement to categorize within the fair value hierarchy investments whose fair values are measured at net asset value per share or its equivalent under the practical expedient in the FASB's fair value measurement guidance. As permitted under ASU 2015-07, the Foundation elected to adopt this guidance for the year ended June 30, 2015 and amounts previously disclosed have been revised to reflect the adoption of ASU 2015-07. Accordingly, investments for which fair value is measured using net asset value per share as a practical expedient have not been categorized within the fair value hierarchy.

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Notes to Financial Statements

June 30, 2015 and 2014

(2) Contributions Receivable

At June 30, 2015 and 2014, contributions receivable, net of discount for present value and allowance for uncollectible contributions, consisted of the following:

	2015	2014
Contributions receivable	\$ 112,854,150	63,056,337
Less discount to present value (0.2%–0.7% discount rate)	(24,925,566)	(1,045,302)
Subtotal	87,928,584	62,011,035
Less allowance for uncollectible pledges	(2,123,661)	(2,082,637)
Contributions receivable, net	\$ 85,804,923	59,928,398
Amounts to be collected in:		
Less than one year	\$ 16,627,805	19,591,044
One year to five years	96,226,345	43,465,293
Total	\$ 112,854,150	63,056,337

(3) Investments

Investments at June 30, 2015 and 2014 consisted of the following:

	2015		2014	
	Fair value	Cost	Fair value	Cost
Domestic equities	\$ 17,557,022	9,242,604	17,348,417	7,843,021
Fixed income securities	129,726,178	132,132,497	130,079,353	131,999,615
Foreign equities	74,359,307	61,870,161	77,311,007	60,179,062
Money market funds	17,076,290	17,076,318	21,285,963	21,285,963
Hedge funds	96,753,541	65,180,326	79,328,975	53,261,002
Private equity securities	11,574,198	11,111,796	11,576,193	10,432,813
Natural resources/real estate	26,193,559	29,860,710	28,905,227	25,813,392
	\$ 373,240,095	326,474,412	365,835,135	310,814,868

UNIVERSITY OF HAWAII FOUNDATION

Notes to Financial Statements

June 30, 2015 and 2014

At June 30, 2015 and 2014, investments are classified as short-term and long-term as follows:

	2015	2014
Short term	\$ 107,535,519	149,140,183
Long term:		
Split-interest agreements	14,728,589	12,425,579
Permanently restricted	250,975,987	204,269,373
Total long term	265,704,576	216,694,952
	\$ 373,240,095	365,835,135

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.

Certain hedge funds that the Foundation invests in were unable to meet redemption requests at June 30, 2015 and 2014, without liquidating investments at prices at which the hedge fund managers believed to be unreasonable. As a result, these investments have restricted redemptions for lock-up periods. In many cases, redemption requests are satisfied both in cash and through the distribution of shares/limited partnership interests in separate liquidating vehicles, which will pay out funds when market conditions improve and funds become available. The Foundation had two redemption requests outstanding at June 30, 2015 and 2014, totaling \$38,874 and \$82,705, respectively.

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 permanently restricted contributions (endowment), which the donor designates as being available for program operations, are considered temporarily restricted until the specific restrictions have been met. 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 2015 and 2014, \$11,055,947 and \$9,894,192, respectively, were made available to support programs. Investment management fees amounted to \$1,127,266 in 2015 and \$1,126,137 in 2014.

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Notes to Financial Statements

June 30, 2015 and 2014

The following schedule summarizes the investment return and its classification in the statements of activities:

		Net assets			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
2015:					
Dividends and interest	\$	2,347,528	2,694,243	34,386	5,076,157
Realized and unrealized gains (losses), net		<u>(2,133,633)</u>	<u>1,734,252</u>	<u>(1,490,776)</u>	<u>(1,890,157)</u>
Total gain (loss) on investments	\$	<u>213,895</u>	<u>4,428,495</u>	<u>(1,456,390)</u>	<u>3,186,000</u>
		Net assets			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
2014:					
Dividends and interest	\$	2,022,944	2,259,439	61,123	4,343,506
Realized and unrealized gains, net		<u>6,665,281</u>	<u>28,934,494</u>	<u>1,788,033</u>	<u>37,387,808</u>
Total gain on investments	\$	<u>8,688,225</u>	<u>31,193,933</u>	<u>1,849,156</u>	<u>41,731,314</u>

(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 income taxes. Contributions to the Foundation are deductible for tax purposes by the donor, subject to the normal limitations imposed by the taxing authorities. 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. The Foundation recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in which the change in judgment occurs. 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 and College Retirement Equities Fund covering substantially all of its employees. The Foundation recorded contribution expense of \$729,026 in 2015 and \$733,240 in 2014.

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Notes to Financial Statements

June 30, 2015 and 2014

(6) Leases

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 revenue with an offsetting amount charged to supporting services of \$354,786 and \$344,452, respectively, in 2015 and 2014.

(7) Restricted Net Assets

Restricted net assets consisted of the following restricted amounts at June 30, 2015 and 2014:

	Temporarily restricted	Permanently restricted
	<u> </u>	<u> </u>
2015:		
Extension and public services	\$ 4,474,794	1,978,827
Academic support	27,335,740	17,668,863
Research	49,519,171	7,471,138
Student aid and services	23,149,144	94,186,186
Faculty and staff support	18,714,228	111,973,950
Capital projects	21,293,212	2,242,183
Athletics	3,202,454	473,509
Special and other	58,418,939	29,365,965
	<u> </u>	<u> </u>
Total	\$ 206,107,682	265,360,621
	<u> </u>	<u> </u>
	Temporarily restricted	Permanently restricted
	<u> </u>	<u> </u>
2014:		
Extension and public services	\$ 3,331,406	1,978,550
Academic support	26,588,151	15,023,595
Research	53,003,681	7,232,368
Student aid and services	19,330,076	86,954,669
Faculty and staff support	13,074,576	74,403,491
Capital projects	25,884,718	2,240,283
Athletics	5,720,837	472,129
Special and other	68,203,826	28,693,832
	<u> </u>	<u> </u>
Total	\$ 215,137,271	216,998,917
	<u> </u>	<u> </u>

Net assets are released from donor restrictions primarily by incurring expenses that satisfy the restricted purpose. For the years ended June 30, 2015 and 2014, net assets released from restriction totaled \$43,203,071 and \$37,615,822, respectively.

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(8) Endowment

The Foundation's endowment consists of approximately 1,200 individual funds established for a variety of purposes. Its 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, 2015 and 2014, the endowment net assets amounted to \$267,384,686 and \$261,070,433, respectively.

For the years ended June 30, 2015 and 2014, the changes in endowment net assets are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2013	\$ (3,649,794)	53,658,712	175,156,598	225,165,516
Investment return:				
Investment income	71,658	1,896,344	—	1,968,002
Net appreciation, realized and unrealized	<u>4,748,090</u>	<u>28,137,830</u>	<u>—</u>	<u>32,885,920</u>
Total investment return	4,819,748	30,034,174	—	34,853,922
Contributions, net of expenses	712	78,578	15,105,697	15,184,987
Appropriations and fees	<u>(519,485)</u>	<u>(13,614,507)</u>	<u>—</u>	<u>(14,133,992)</u>
Endowment net assets, June 30, 2014	<u>651,181</u>	<u>70,156,957</u>	<u>190,262,295</u>	<u>261,070,433</u>
Investment return:				
Investment income	77,413	2,257,474	—	2,334,887
Net appreciation (depreciation), realized and unrealized	<u>(2,174,800)</u>	<u>3,296,210</u>	<u>—</u>	<u>1,121,410</u>
Total investment return	(2,097,387)	5,553,684	—	3,456,297
Contributions, net of expenses	1,185,208	410,926	17,117,102	18,713,236
Appropriations and fees	<u>(564,690)</u>	<u>(15,290,590)</u>	<u>—</u>	<u>(15,855,280)</u>
Endowment net assets, June 30, 2015	<u>\$ (825,688)</u>	<u>60,830,977</u>	<u>207,379,397</u>	<u>267,384,686</u>

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Donor-restricted and board-designated endowment net asset composition is as follows as of June 30, 2015 and 2014:

	2015			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	\$ (3,821,206)	60,830,977	207,379,397	264,389,168
Board-designated endowment funds	2,995,518	—	—	2,995,518
	<u>\$ (825,688)</u>	<u>60,830,977</u>	<u>207,379,397</u>	<u>267,384,686</u>
	2014			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	\$ (1,748,482)	70,156,957	190,262,295	258,670,770
Board-designated endowment funds	2,399,663	—	—	2,399,663
	<u>\$ 651,181</u>	<u>70,156,957</u>	<u>190,262,295</u>	<u>261,070,433</u>

Description of amounts classified as permanently restricted net assets and temporarily restricted net assets is as follows:

	2015	2014
Permanently restricted net assets:		
The portion of endowment funds that is required to be retained permanently either by explicit donor stipulation or by HUPMIFA	\$ 207,379,397	190,262,295
Contribution and other receivables, net	41,269,765	10,515,942
Beneficial interest in trusts held by others	14,384,633	12,729,544
Split-interest agreements, net and other assets	2,326,826	3,491,136
Total permanently restricted net assets	<u>\$ 265,360,621</u>	<u>216,998,917</u>
Temporarily restricted net assets:		
The portion of temporarily restricted net assets, excluding endowment funds, subject to purpose restrictions	\$ 92,474,346	87,975,656
The portion of the perpetual endowment funds subject to time restriction under HUPMIFA with purpose restrictions	60,830,977	70,156,957
Contribution and other receivables, net	46,158,935	51,060,697
Beneficial interest in trusts held by others	2,658,745	2,428,881
Split-interest agreements, net and other assets	3,984,679	3,515,080
Total temporarily restricted net assets	<u>\$ 206,107,682</u>	<u>215,137,271</u>

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(a) Interpretation of Relevant Law

The Board of Trustees of the Foundation has interpreted Hawaii's Uniform Prudent Management of Institutional Funds Act (HUPMIFA), which was enacted by the State of Hawaii on July 1, 2009, 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 Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are expended by the organization in a manner consistent with the standard of prudence prescribed by HUPMIFA. In accordance with HUPMIFA, the organization 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, 2015 and 2014, in accordance with U.S. GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$3,821,206 and \$1,748,482, respectively. These deficiencies resulted from unfavorable market fluctuations and continued appropriation for certain programs that was 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

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approximately 8.5% 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 5.5% 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 3.0% 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

(a) Fair Value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of the Foundation's financial instruments at June 30, 2015 and 2014. The fair value of a financial instrument is the amount 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.

	2015		2014	
	Reported amount	Fair value	Reported amount	Fair value
Cash and cash equivalents	\$ 11,409,480	11,409,480	3,828,718	3,828,718
Contributions receivable, net	85,804,923	85,804,923	59,928,398	59,928,398
Other receivables	1,958,308	1,958,308	1,960,657	1,960,657
Investments	373,240,095	373,240,095	365,835,135	365,835,135
Beneficial interest in trusts held by others	17,043,376	17,043,376	15,158,425	15,158,425
Accounts payable	5,888,390	5,888,390	5,093,896	5,093,896
Amounts held for others	3,644,773	3,644,773	3,181,973	3,181,973
Other liabilities	379,027	379,027	468,123	468,123

The reported amounts shown in the table are included in the statements of financial position under the indicated captions.

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The fair values of the financial instruments shown in the above table as of June 30, 2015 and 2014 represent management's best estimates of the amounts that would be received to sell those assets or that would be paid to transfer those liabilities in an orderly transaction between market participants at that date. Those fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects the Foundation's own judgments about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by the Foundation based on the best information available in the circumstances.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents, accounts payable, and other liabilities – the reported amounts approximate fair value because of the short maturity of these instruments.

Contributions receivable, net, and other receivables – the fair value of contribution receivables (Level 3), and other receivables is valued at the present value of expected future cash flows discounted at an interest rate commensurate with the risk associated with the respective financial instrument.

Investments, beneficial interest in trusts held by others, and amounts held for others – the fair value of investments in marketable securities and beneficial interest in trusts held by others is based primarily on quoted market prices. The fair value of other investments that do not have readily determinable fair values is generally based on quoted market prices of the underlying investments and information provided by the respective external investment managers at the most recent valuation date and adjusted for cash flows from the valuation date to fiscal year-end, if applicable. As described in note 1(k), 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. The fair value for amounts held for others is based on the fair value of the underlying investments.

(b) Fair Value Hierarchy

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.

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The following tables present assets that are measured at fair value on a recurring basis at June 30, 2015 and 2014:

	June 30, 2015	Fair value measurements at reporting date using				Investments measured at net asset value	
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)			
Assets:							
Domestic equities	\$ 17,557,022	4,347,293	—	—	13,209,729	a	
Fixed income securities	129,726,176	128,703,304	—	—	1,022,872	b	
Foreign equities	74,359,307	22,790,939	—	—	51,568,368	c	
Money market funds	17,076,290	17,076,290	—	—	—		
Natural resources/real estate	26,193,585	—	—	6,215,000	19,978,585	d	
Hedge funds	96,753,517	3,587,154	—	—	93,166,363	e	
Private equity securities	11,574,198	—	—	1,630,605	9,943,593	d	
Beneficial interest in trusts held by others	17,043,376	—	11,096,998	5,946,378	—		
Total	\$ 390,283,471	176,504,980	11,096,998	13,791,983	188,889,510		

	June 30, 2014	Fair value measurements at reporting date using				Investments measured at net asset value	
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)			
Assets:							
Domestic equities	\$ 17,348,417	1,374,386	—	—	15,974,031	a	
Fixed income securities	130,079,353	129,012,293	—	—	1,067,060	b	
Foreign equities	77,311,007	30,846,842	—	—	46,464,165	c	
Money market funds	21,285,963	21,285,963	—	—	—		
Natural resources/real estate	29,935,832	—	—	1,030,605	28,905,227	d	
Hedge funds	79,328,975	—	—	—	79,328,975	e	
Private equity securities	10,545,588	—	—	—	10,545,588	d	
Beneficial interest in trusts held by others	15,158,425	—	10,893,863	4,264,562	—		
Total	\$ 380,993,560	182,519,484	10,893,863	5,295,167	182,285,046		

- a. Investments in this class can be redeemed on a quarterly basis, with notification provided 30 days prior to redemption.
- b. Investments in this class can be redeemed on a monthly basis with notification provided 10 days prior to redemption.

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- c. Redemption frequency for investments in this class range from daily to monthly redemptions, with notification provided between 5 – 30 days prior to redemption
- d. Investments in this class can be redeemed at the discretion of the investment managers.
- e. Redemption frequency for investments in this class range from monthly to annually redemptions, with notification provided between 30 – 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, 2015 and 2014:

	Assets			Total
	Private equity securities	Natural resources/ real estate	Beneficial interest in trust held by others	
Balance at June 30, 2013	\$ 1,030,605	—	3,918,920	4,949,525
Total gains included in income:				
Realized	—	—	—	—
Unrealized	—	—	343,894	343,894
Purchases	—	—	116,781	116,781
Settlements	—	—	(87,695)	(87,695)
Net transfers into Level 3 (1)	—	—	109,695	109,695
Net transfers out of Level 3 (1)	—	—	(137,033)	(137,033)
Balance at June 30, 2014	1,030,605	—	4,264,562	5,295,167
Total gains included in income:				
Realized	—	—	—	—
Unrealized	—	—	133,127	133,127
Purchases	600,000	6,215,000	1,514,479	8,329,479
Settlements	—	—	(116,781)	(116,781)
Net transfers into Level 3 (2)	—	—	520,471	520,471
Net transfers out of Level 3 (2)	—	—	(369,480)	(369,480)
Balance at June 30, 2015	\$ <u>1,630,605</u>	<u>6,215,000</u>	<u>5,946,378</u>	<u>13,791,983</u>

Investments in 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, 2015 and 2014.

Investments in real estate and certain private equity securities are recorded at estimated fair value at June 30, 2015 and 2014.

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Beneficial interests in trusts held by others are recorded at the net present value of the estimated future amount to be received on such assets.

- (1) The balance consists of the following transfers into and/or out of Level 3 in 2014:
 - a. Investments held by others of \$109,695 classified as Level 2, which were reclassified to Level 3 based on lack of information obtained on the underlying securities within the investments.
 - b. Investments held by others of \$137,033 classified as Level 3, which were reclassified to Level 2 due to additional of information obtained on the underlying securities within the investments.
- (2) The balance consists of the following transfers into and/or out of Level 3 in 2015:
 - a. Investments held by others of \$520,471 classified as Level 2, which were reclassified to Level 3 based on lack of information obtained on the underlying securities within the investments.
 - b. Investments held by others of \$369,480 classified as Level 3, which were reclassified to Level 2 due to additional information obtained on the underlying securities within the investments.

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 investment return in the accompanying statements of activities.

(10) Transactions with the University

The Foundation has an agreement with the University to provide fund-raising and alumni services through June 30, 2018. Annual compensation from this agreement amounted to \$3,000,000 for each of the years ended June 30, 2015 and 2014. Under separate agreements to provide fund-raising and alumni services for individual University units, compensation amounted to \$685,246 and \$888,290 for the years ended June 30, 2015 and 2014, respectively. For these payments, sources other than the University tuition and fees special fund were used.

(11) Commitments

The Foundation has commitments to contribute additional amounts to its existing investments of up to approximately \$18,500,000 at June 30, 2015.

(12) Subsequent Events

The Foundation has evaluated subsequent events from the balance sheet date through November 10, 2015, the date at which the financial statements were available to be issued.