



UNIVERSITY OF HAWAII FOUNDATION

Financial Statements

June 30, 2016 and 2015

(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, which comprise the statements of financial position as of June 30, 2016 and 2015, 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, 2016 and 2015, 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, 2016

UNIVERSITY OF HAWAII FOUNDATION

Statements of Financial Position

June 30, 2016 and 2015

Assets	2016	2015
Cash and cash equivalents	\$ 8,537,443	11,409,480
Contributions receivable, net	78,414,769	85,804,923
Prepaid expenses and other receivables	1,248,902	2,077,478
Property and equipment, at cost, net of accumulated depreciation and amortization of \$1,365,626 in 2016 and \$1,311,426 in 2015	2,276,522	2,284,042
Other assets, at cost	1,820,282	2,392,337
Investments	371,199,328	373,240,095
Beneficial interest in trusts held by others	16,342,684	17,043,376
Total assets	\$ 479,839,930	494,251,731
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 3,586,461	5,888,390
Liabilities under split-interest agreements	10,565,596	9,999,412
Amounts held for others	3,369,450	3,644,773
Other liabilities	470,887	379,027
Total liabilities	17,992,394	19,911,602
Net assets:		
Unrestricted	(3,769,004)	2,871,826
Temporarily restricted	192,693,097	206,107,682
Permanently restricted	272,923,443	265,360,621
Total net assets	461,847,536	474,340,129
Commitments and contingencies		
Total liabilities and net assets	\$ 479,839,930	494,251,731

See accompanying notes to financial statements.

UNIVERSITY OF HAWAII FOUNDATION

Statement of Activities

Year ended June 30, 2016

	Net assets			Total
	Unrestricted	Temporarily restricted	Permanently restricted	
Revenue:				
Contributions	\$ 1,596,394	31,941,182	7,870,536	41,408,112
Fees, honoraria, royalties, and other	3,975,069	977,669	1,312	4,954,050
Investment income (losses), net	(3,181,664)	2,384,647	(408,678)	(1,205,695)
Administrative fees	3,814,057	(3,814,057)	—	—
Fund-raising events and projects	13,847	1,369,896	99,652	1,483,395
	<u>6,217,703</u>	<u>32,859,337</u>	<u>7,562,822</u>	<u>46,639,862</u>
Net assets released from restrictions	<u>46,273,922</u>	<u>(46,273,922)</u>	<u>—</u>	<u>—</u>
	<u>52,491,625</u>	<u>(13,414,585)</u>	<u>7,562,822</u>	<u>46,639,862</u>
Expenses:				
Program services:				
Extension and public services	1,065,529	—	—	1,065,529
Academic support	7,329,083	—	—	7,329,083
Research	10,331,981	—	—	10,331,981
Student aid and services	8,741,846	—	—	8,741,846
Faculty and staff support	3,492,623	—	—	3,492,623
Capital projects	1,622,203	—	—	1,622,203
Athletics	5,115,181	—	—	5,115,181
Special programs	6,391,963	—	—	6,391,963
Other	2,183,513	—	—	2,183,513
Total program services	<u>46,273,922</u>	<u>—</u>	<u>—</u>	<u>46,273,922</u>
Supporting services:				
Administrative, management, and fiscal services	4,768,930	—	—	4,768,930
Development	8,089,603	—	—	8,089,603
Total supporting services	<u>12,858,533</u>	<u>—</u>	<u>—</u>	<u>12,858,533</u>
Change in net assets	<u>(6,640,830)</u>	<u>(13,414,585)</u>	<u>7,562,822</u>	<u>(12,492,593)</u>
Net assets at beginning of year	<u>2,871,826</u>	<u>206,107,682</u>	<u>265,360,621</u>	<u>474,340,129</u>
Net assets at end of year	\$ <u><u>(3,769,004)</u></u>	<u><u>192,693,097</u></u>	<u><u>272,923,443</u></u>	<u><u>461,847,536</u></u>

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	
Revenue:				
Contributions	\$ 3,532,467	29,328,208	49,364,734	82,225,409
Fees, honoraria, royalties, and other	4,130,248	2,310,225	403,916	6,844,389
Investment income (losses), net	213,895	4,428,495	(1,456,390)	3,186,000
Administrative fees	3,796,508	(3,796,508)	—	—
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

Statements of Cash Flows

Years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Cash received from contributions	\$ 40,528,986	39,277,706
Cash received for fees, honoraria, royalties, and other	4,952,738	6,440,473
Investment return received	5,804,927	10,105,086
Program and supporting service expenses paid	<u>(59,033,673)</u>	<u>(55,182,449)</u>
Net cash provided by (used in) operating activities	<u>(7,747,022)</u>	<u>640,816</u>
Cash flows from investing activities:		
Purchase of investments	(142,812,742)	(136,449,333)
Proceeds from sale of investments	<u>139,958,883</u>	<u>136,501,518</u>
Net cash provided by investing activities	<u>(2,853,859)</u>	<u>52,185</u>
Cash flows from financing activity:		
Amounts restricted for long-term investment	<u>7,728,844</u>	<u>6,887,761</u>
Net cash provided by financing activity	<u>7,728,844</u>	<u>6,887,761</u>
Net increase (decrease) in cash and cash equivalents	(2,872,037)	7,580,762
Cash and cash equivalents at beginning of year	<u>11,409,480</u>	<u>3,828,718</u>
Cash and cash equivalents at end of year	\$ <u><u>8,537,443</u></u>	\$ <u><u>11,409,480</u></u>
Reconciliation of change in net assets to net cash provided by (used in) operating activities:		
Change in net assets	\$ (12,492,593)	38,225,004
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Amounts restricted for long-term investment	(7,728,844)	(6,887,761)
Noncash contributions	(785,293)	(11,915,393)
Depreciation and amortization	65,048	35,845
Realized and unrealized net losses on investments	6,311,083	1,890,157
Provision for uncollectible pledges, net	473,040	41,023
Changes in assets and liabilities:		
Contributions receivable	6,917,114	(25,917,548)
Prepaid expenses and other receivables	828,576	(4,717)
Other assets	584,055	896,268
Accounts payable	(2,301,929)	794,494
Liabilities under split-interest agreements	566,184	3,109,740
Amounts held for others, net	(275,323)	462,800
Other liabilities	<u>91,860</u>	<u>(89,096)</u>
Net cash provided by (used in) operating activities	\$ <u><u>(7,747,022)</u></u>	\$ <u><u>640,816</u></u>

See accompanying notes to financial statements.

UNIVERSITY OF HAWAII FOUNDATION

Notes to Financial Statements

June 30, 2016 and 2015

(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) *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. 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.

UNIVERSITY OF HAWAII FOUNDATION

Notes to Financial Statements

June 30, 2016 and 2015

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.

(f) 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 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.

UNIVERSITY OF HAWAII FOUNDATION

Notes to Financial Statements

June 30, 2016 and 2015

(g) *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.

(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 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, 2016 and 2015, contributions revenue attributed to split-interest agreements was \$1,671,813 and \$4,048,726, respectively. For the years ended June 30, 2016 and 2015, net investment realized and unrealized losses include net losses of \$770,856 and \$1,193,279, 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, 2016 and 2015, contributions revenue, was \$38,743 and \$2,656,542, respectively, attributable to their beneficial interest in trusts held by others. For the years ended June 30, 2016 and 2015, net investment realized and unrealized losses associated with the beneficial interest in trust held by others include net losses of \$390,154 and \$763,773, 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 losses on assets held for others were \$144,832 and \$96,219 for the years ended June 30, 2016 and 2015, respectively.

UNIVERSITY OF HAWAII FOUNDATION

Notes to Financial Statements

June 30, 2016 and 2015

(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.

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.

The Foundation applies the provisions of 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. 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.

(l) Recent Accounting Pronouncements

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. This guidance reduces the number of net asset classes presented on the balance sheet from three to two; requires presentation of expenses by their functional and natural classification in one location in the financial statements; and requires quantitative and qualitative information about management of liquid resources and availability of financial assets to meet cash needs within one year of the balance sheet date. This guidance will be effective for the Foundation's fiscal year ending June 30, 2019. The Foundation is currently evaluating the potential impact of adopting this guidance on the financial statements.

UNIVERSITY OF HAWAII FOUNDATION

Notes to Financial Statements

June 30, 2016 and 2015

(2) Contributions Receivable

At June 30, 2016 and 2015, contributions receivable, net of discount for present value and allowance for uncollectible contributions, consisted of the following:

	2016	2015
Contributions receivable	\$ 106,259,848	112,854,150
Less discount to present value (0.3%–2.7% discount rate)	(25,248,378)	(24,925,566)
Subtotal	81,011,470	87,928,584
Less allowance for uncollectible pledges	(2,596,701)	(2,123,661)
Contributions receivable, net	\$ 78,414,769	85,804,923
Amounts to be collected in:		
Less than one year	\$ 19,217,789	16,627,805
One year to five years	87,042,059	96,226,345
Total	\$ 106,259,848	112,854,150

(3) Investments

Investments at June 30, 2016 and 2015 consisted of the following:

	2016		2015	
	Fair value	Cost	Fair value	Cost
Domestic equities	\$ 25,011,354	15,469,206	17,557,022	9,242,604
Fixed-income securities	133,136,030	133,879,657	129,726,178	132,132,497
Foreign equities	66,602,612	61,362,095	74,359,307	61,870,161
Money market funds	10,362,871	10,362,871	17,076,290	17,076,318
Hedge funds	94,221,058	64,191,441	96,753,541	65,180,326
Private equity securities	14,354,254	14,620,155	11,574,198	11,111,796
Natural resources/real estate	27,511,149	31,191,127	26,193,559	29,860,710
	\$ 371,199,328	331,076,552	373,240,095	326,474,412

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.

UNIVERSITY OF HAWAII FOUNDATION

Notes to Financial Statements

June 30, 2016 and 2015

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. Investments classified as permanently restricted net assets were \$259,292,967 and \$250,975,987 at June 30, 2016 and 2015, 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 2016 and 2015, \$11,016,656 and \$11,055,947, respectively, were made available to support programs. Investment management fees amounted to \$1,143,555 in 2016 and \$1,127,266 in 2015.

The following schedule summarizes the components of investment return:

		Net assets			
		Unrestricted	Temporarily restricted	Permanently restricted	Total
2016:					
	Dividends and interest	\$ 2,101,760	2,961,495	42,133	5,105,388
	Realized and unrealized losses, net	<u>(5,283,424)</u>	<u>(576,848)</u>	<u>(450,811)</u>	<u>(6,311,083)</u>
	Total investment income (loss)	<u>\$ (3,181,664)</u>	<u>2,384,647</u>	<u>(408,678)</u>	<u>(1,205,695)</u>
		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 losses, net	<u>(2,133,633)</u>	<u>1,734,252</u>	<u>(1,490,776)</u>	<u>(1,890,157)</u>
	Total investment income (loss)	<u>\$ 213,895</u>	<u>4,428,495</u>	<u>(1,456,390)</u>	<u>3,186,000</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 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.

UNIVERSITY OF HAWAII FOUNDATION

Notes to Financial Statements

June 30, 2016 and 2015

The Foundation recognizes in its financial statements the effect of income tax positions taken or expected to be taken in a tax return only if those tax positions are more likely than not to not be sustained in an examination. 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. The Foundation has evaluated the financial statement impact of tax positions taken or expected to be taken and determined it has no uncertainty in income taxes that would require recording or disclosure.

(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 \$700,006 and \$729,026 in 2016 and 2015, respectively.

(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 \$365,429 and \$354,786, respectively, in 2016 and 2015.

(7) Restricted Net Assets

Restricted net assets consisted of the following restricted amounts at June 30, 2016 and 2015:

	Temporarily restricted	Permanently restricted
2016:		
Extension and public services	\$ 4,444,849	2,101,280
Academic support	27,836,560	19,497,954
Research	40,868,040	7,520,874
Student aid and services	27,046,348	98,575,708
Faculty and staff support	21,686,506	113,995,545
Capital projects	20,302,554	2,292,833
Athletics	3,039,805	514,425
Special and other	47,468,435	28,424,824
Total	\$ 192,693,097	272,923,443

UNIVERSITY OF HAWAII FOUNDATION

Notes to Financial Statements

June 30, 2016 and 2015

	Temporarily restricted	Permanently restricted
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
Total	\$ 206,107,682	265,360,621

Net assets are released from donor restrictions primarily by incurring expenses that satisfy the restricted purpose. For the years ended June 30, 2016 and 2015, net assets released from restriction totaled \$46,273,922 and \$43,203,071, respectively.

(8) Endowment

The Foundation's endowment consists of approximately 1,300 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, 2016 and 2015, the endowment net assets amounted to \$259,182,814 and \$267,384,686, respectively.

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

	2016	2015
Permanently restricted net assets:		
The portion of endowment funds that is required to be retained permanently either by explicit donor stipulation or by HUPMIFA	\$ 218,311,158	207,379,397
Contribution and other receivables, net	39,020,452	41,269,765
Beneficial interest in trusts held by others	13,630,476	14,384,633
Split-interest agreements, net and other assets	1,961,357	2,326,826
Total permanently restricted net assets	\$ 272,923,443	265,360,621
Temporarily restricted net assets:		
The portion of temporarily restricted net assets, excluding endowment funds, subject to purpose restrictions	\$ 96,851,568	92,474,346
The portion of the perpetual endowment funds subject to time restriction under HUPMIFA with purpose restrictions	49,944,800	60,830,977
Contribution and other receivables, net	39,852,513	46,158,935
Beneficial interest in trusts held by others	2,712,208	2,658,745
Split-interest agreements, net and other assets	3,332,008	3,984,679
Total temporarily restricted net assets	\$ 192,693,097	206,107,682

(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

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- (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, 2016 and 2015, in accordance with U.S. GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$9,997,822 and \$3,821,206, 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 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.

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(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, 2016 and 2015. 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.

	2016		2015	
	Reported amount	Fair value	Reported amount	Fair value
Cash and cash equivalents	\$ 8,537,443	8,537,443	11,409,480	11,409,480
Contributions receivable, net	78,414,769	78,414,769	85,804,923	85,804,923
Other receivables	1,248,902	1,248,902	1,958,308	1,958,308
Investments	371,199,328	371,199,328	373,240,095	373,240,095
Beneficial interest in trusts held by others	16,342,684	16,342,684	17,043,376	17,043,376
Accounts payable	3,586,461	3,586,461	5,888,390	5,888,390
Amounts held for others	3,369,450	3,369,450	3,644,773	3,644,773
Other liabilities	470,887	470,887	379,027	379,027

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

The fair values of the financial instruments shown in the above table as of June 30, 2016 and 2015 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 carrying amount of the contributions receivables and other receivables approximates fair value as the present value of expected future cash flows are discounted at an interest rate commensurate with the risk associated with the respective financial instrument.

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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, 2016 and 2015:

	June 30, 2016	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	\$ 25,011,354	8,080,778	—	—	16,930,576	a	
Fixed-income securities	133,136,030	101,566,030	31,570,000	—	—		
Foreign equities	66,602,612	30,099,513	—	—	36,503,099	b	
Money market funds	10,362,871	10,362,871	—	—	—		
Natural resources/real estate	27,511,149	7,250,774	—	6,440,277	13,820,098	c	
Hedge funds	94,221,058	4,666,375	—	—	89,554,683	d	
Private equity securities	14,354,254	—	—	2,375,000	11,979,254	c	
Beneficial interest in trusts held by others	16,342,684	—	9,979,801	6,362,883	—		
Total	\$ 387,542,012	162,026,341	41,549,801	15,178,160	168,787,710		

	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	29,217,568	—	—	45,141,739	b	
Money market funds	17,076,290	17,076,290	—	—	—		
Natural resources/real estate	26,193,585	—	—	6,215,000	19,978,585	c	
Hedge funds	96,753,517	3,587,154	—	—	93,166,363	d	
Private equity securities	11,574,198	—	—	1,630,605	9,943,593	c	
Beneficial interest in trusts held by others	17,043,376	—	11,096,998	5,946,378	—		
Total	\$ 390,283,471	182,931,609	11,096,998	13,791,983	182,462,881		

a. Investments in this class can be redeemed on a quarterly basis, with notification provided between 30–60 days' prior to redemption.

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- b. Investments in this class can be redeemed on a monthly basis with notification provided between 10–30 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 \$26,619,000 at June 30, 2016.
- 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, 2016 and 2015:

	Assets			Total
	Private equity securities	Natural resources/ real estate	Beneficial interest in trust held by others	
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 (1)	—	—	520,471	520,471
Net transfers out of Level 3 (1)	—	—	(369,480)	(369,480)
Balance at June 30, 2015	1,630,605	6,215,000	5,946,378	13,791,983
Total gains (losses) included in income:				
Realized	—	—	—	—
Unrealized	(55,605)	225,277	140,957	310,629
Purchases	800,000	—	552,342	1,352,342
Settlements	—	—	(236,014)	(236,014)
Net transfers out of Level 3 (2)	—	—	(40,780)	(40,780)
Balance at June 30, 2016	\$ <u>2,375,000</u>	<u>6,440,277</u>	<u>6,362,883</u>	<u>15,178,160</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, 2016 and 2015.

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Investments in real estate and certain private equity securities are recorded at estimated fair value at June 30, 2016 and 2015.

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 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.

- (2) The balance consists of the following transfers out of Level 3 in 2016:

Investments held by others of \$40,780 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, 2016 and 2015. Under separate agreements to provide fund-raising and alumni services for individual University units, compensation amounted to \$513,315 and \$685,246 for the years ended June 30, 2016 and 2015, respectively. For these payments, sources other than the University tuition and fees special fund were used.

(11) Subsequent Events

The Foundation has evaluated subsequent events from the balance sheet date through November 10, 2016, the date at which the financial statements were available to be issued.