



**UNIVERSITY OF HAWAII FOUNDATION**

Financial Statements

June 30, 2019 and 2018

(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:

### *Report on the Financial Statements*

We have audited the accompanying financial statements of the University of Hawaii Foundation, which comprise the statements of financial position as of June 30, 2019 and 2018, 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, 2019 and 2018, 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.



*Emphasis of Matter*

As discussed in note 1(m) to the financial statements, during the year ended June 30, 2019, the University of Hawaii Foundation adopted new accounting guidance, Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

KPMG LLP

Honolulu, Hawaii  
November 15, 2019

**UNIVERSITY OF HAWAII FOUNDATION**

Statements of Financial Position

June 30, 2019 and 2018

<b>Assets</b>	<b>2019</b>	<b>2018</b>
Cash and cash equivalents	\$ 19,770,632	8,511,690
Contributions receivable, net	35,811,213	41,869,952
Prepaid expenses and other receivables	2,072,511	2,815,831
Property and equipment, at cost, net of accumulated depreciation and amortization of \$1,842,575 in 2019 and \$1,647,877 in 2018	10,386,481	10,543,768
Other assets, at cost	3,699,714	2,103,674
Investments	439,690,620	433,332,934
Beneficial interest in trusts held by others	31,916,538	96,782,348
	<hr/>	<hr/>
Total assets	\$ 543,347,709	595,960,197
	<hr/>	<hr/>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable	\$ 8,553,020	10,074,232
Liabilities under split-interest agreements	12,528,531	12,566,682
Amounts held for others	4,362,201	3,935,980
Long-term debt	8,200,000	8,200,000
Other liabilities	668,419	683,799
	<hr/>	<hr/>
Total liabilities	34,312,171	35,460,693
	<hr/>	<hr/>
Net assets:		
Without donor restrictions	4,639,887	3,237,824
With donor restrictions	504,395,651	557,261,680
	<hr/>	<hr/>
Total net assets	509,035,538	560,499,504
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Commitments and contingencies		
	<hr/>	<hr/>
Total liabilities and net assets	\$ 543,347,709	595,960,197
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See accompanying notes to financial statements.

**UNIVERSITY OF HAWAII FOUNDATION**

Statement of Activities

Year ended June 30, 2019

	<b>Net assets</b>		
	<b><u>Without Donor Restrictions</u></b>	<b><u>With Donor Restrictions</u></b>	<b><u>Total</u></b>
Revenue:			
Contributions	\$ 225,320	53,485,987	53,711,307
Fees, honoraria, royalties, and other	3,831,683	851,204	4,682,887
Investment income (loss), net	4,832,499	(55,315,002)	(50,482,503)
Administrative fees	6,718,217	(6,718,217)	—
Fund-raising events and projects	—	1,070,360	1,070,360
	<u>15,607,719</u>	<u>(6,625,668)</u>	<u>8,982,051</u>
Net assets released from restrictions	<u>46,240,361</u>	<u>(46,240,361)</u>	<u>—</u>
	<u>61,848,080</u>	<u>(52,866,029)</u>	<u>8,982,051</u>
Expenses:			
Program services:			
Extension and public services	1,035,899	—	1,035,899
Academic support	7,375,222	—	7,375,222
Research	11,396,712	—	11,396,712
Student aid and services	10,890,344	—	10,890,344
Faculty and staff support	3,308,802	—	3,308,802
Capital projects	696,850	—	696,850
Athletics	2,784,678	—	2,784,678
Special programs	8,074,786	—	8,074,786
Other	677,068	—	677,068
Total program services	<u>46,240,361</u>	<u>—</u>	<u>46,240,361</u>
Supporting services:			
Administrative, management, and fiscal services	5,502,497	—	5,502,497
Development	8,703,159	—	8,703,159
Total supporting services	<u>14,205,656</u>	<u>—</u>	<u>14,205,656</u>
Total expenses	<u>60,446,017</u>	<u>—</u>	<u>60,446,017</u>
Change in net assets	1,402,063	(52,866,029)	(51,463,966)
Net assets at beginning of year	<u>3,237,824</u>	<u>557,261,680</u>	<u>560,499,504</u>
Net assets at end of year	<u>\$ 4,639,887</u>	<u>504,395,651</u>	<u>509,035,538</u>

See accompanying notes to financial statements.

**UNIVERSITY OF HAWAII FOUNDATION**

Statement of Activities

Year ended June 30, 2018

	<b>Net assets</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Revenue:			
Contributions	\$ 614,315	54,667,726	55,282,041
Fees, honoraria, royalties, and other	3,937,650	1,039,898	4,977,548
Investment income, net	6,039,468	21,565,229	27,604,697
Administrative fees	6,293,101	(6,293,101)	—
Fund-raising events and projects	—	954,908	954,908
	<u>16,884,534</u>	<u>71,934,660</u>	<u>88,819,194</u>
Net assets released from restrictions	<u>47,363,175</u>	<u>(47,363,175)</u>	<u>—</u>
	<u>64,247,709</u>	<u>24,571,485</u>	<u>88,819,194</u>
Expenses:			
Program services:			
Extension and public services	804,977	—	804,977
Academic support	7,127,118	—	7,127,118
Research	12,567,178	—	12,567,178
Student aid and services	8,952,019	—	8,952,019
Faculty and staff support	3,880,837	—	3,880,837
Capital projects	2,020,505	—	2,020,505
Athletics	3,041,421	—	3,041,421
Special programs	7,851,588	—	7,851,588
Other	1,117,532	—	1,117,532
Total program services	<u>47,363,175</u>	<u>—</u>	<u>47,363,175</u>
Supporting services:			
Administrative, management, and fiscal services	4,952,786	—	4,952,786
Development	8,761,396	—	8,761,396
Total supporting services	<u>13,714,182</u>	<u>—</u>	<u>13,714,182</u>
Total expenses	<u>61,077,357</u>	<u>—</u>	<u>61,077,357</u>
Change in net assets	3,170,352	24,571,485	27,741,837
Net assets at beginning of year	<u>67,472</u>	<u>532,690,195</u>	<u>532,757,667</u>
Net assets at end of year	<u>\$ 3,237,824</u>	<u>557,261,680</u>	<u>560,499,504</u>

See accompanying notes to financial statements.

**UNIVERSITY OF HAWAII FOUNDATION**

Statements of Cash Flows

Years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Cash received from contributions	\$ 46,413,964	41,206,797
Cash received for fees, honoraria, royalties, and other	4,681,939	4,981,496
Investment return received	5,149,836	432,054
Program and supporting service expenses paid	<u>(59,560,761)</u>	<u>(59,628,716)</u>
Net cash used in operating activities	<u>(3,315,022)</u>	<u>(13,008,369)</u>
Cash flows from investing activities:		
Purchase of investments	(45,771,372)	(79,770,392)
Proceeds from sale of investments	50,451,807	76,809,589
Purchase of property and equipment	<u>(41,073)</u>	<u>(242,671)</u>
Net cash provided by (used in) investing activities	<u>4,639,362</u>	<u>(3,203,474)</u>
Cash flows from financing activity:		
Amounts restricted for long-term investment	<u>9,934,602</u>	<u>17,831,850</u>
Net cash provided by financing activity	<u>9,934,602</u>	<u>17,831,850</u>
Net increase in cash and cash equivalents	11,258,942	1,620,007
Cash and cash equivalents at beginning of year	<u>8,511,690</u>	<u>6,891,683</u>
Cash and cash equivalents at end of year	\$ <u><u>19,770,632</u></u>	\$ <u><u>8,511,690</u></u>
Reconciliation of change in net assets to net cash used in operating activities:		
Change in net assets	\$ (51,463,966)	27,741,837
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Amounts restricted for long-term investment	(9,934,602)	(17,831,850)
Other noncash contributions	(3,292,341)	(2,376,791)
Depreciation and amortization	198,359	211,578
Realized and unrealized net losses (gains) on investments	55,030,848	(23,492,006)
Provision for uncollectible pledges, net	67,447	(157,553)
Changes in assets and liabilities:		
Contributions receivable	5,991,292	(1,091,527)
Prepaid expenses and other receivables	743,320	(191,621)
Other assets	493,143	1,342,962
Accounts payable	(1,521,212)	2,612,882
Liabilities under split-interest agreements	(38,151)	(64,815)
Amounts held for others, net	426,221	54,290
Other liabilities	<u>(15,380)</u>	<u>234,245</u>
Net cash used in operating activities	\$ <u><u>(3,315,022)</u></u>	\$ <u><u>(13,008,369)</u></u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	\$ 249,417	249,417

See accompanying notes to financial statements.

## UNIVERSITY OF HAWAII FOUNDATION

Notes to Financial Statements

June 30, 2019 and 2018

### (1) Summary of Significant Accounting Policies

#### (a) Organization

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

#### (b) Financial Statement Presentation

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

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

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

#### (c) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

#### (d) Cash Equivalents

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

#### (e) Contributions and Contributions Receivable

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

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. Certain noncash contributions are reported as other assets until liquidation. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without restrictions and reported in the statements of activities as net assets released from restrictions.

## UNIVERSITY OF HAWAII FOUNDATION

### Notes to Financial Statements

June 30, 2019 and 2018

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

#### **(f) Investments**

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

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

Fair value for investments in certain alternative investments, including limited partnership investments in domestic and foreign equities, natural resources and real estate, hedge funds, and private equity securities, are generally based on information provided by the respective external investment manager at the most recent valuation date and from the valuation date to fiscal year-end, if applicable. The private equity, 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.

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

#### **(g) Property and Equipment**

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

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

**UNIVERSITY OF HAWAII FOUNDATION**

Notes to Financial Statements

June 30, 2019 and 2018

The components of net property and equipment at June 30, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Land	\$ 7,927,482	7,927,482
Buildings	2,456,024	2,456,024
Equipment	1,711,639	1,685,465
Leasehold improvements	69,490	58,253
Furniture and fixtures	<u>64,421</u>	<u>64,421</u>
	12,229,056	12,191,645
Less accumulated depreciation	<u>(1,842,575)</u>	<u>(1,647,877)</u>
Property and equipment, net	\$ <u>10,386,481</u>	<u>10,543,768</u>

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

**(h) Split-Interest Agreements**

The Foundation's split-interest agreements with donors consist of irrevocable pooled income funds, charitable remainder trusts, and charitable gift annuities for which the Foundation serves as trustee. Assets held under these split-interest agreements are included in investments. Contribution revenue is recognized at the date the split-interest agreements are established after recording liabilities for the present value (utilizing discount rates ranging between 1.2% and 8.2%) 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, 2019 and 2018, contributions revenue attributed to split-interest agreements were \$703,109 and \$1,022,550, respectively. For the years ended June 30, 2019 and 2018, net investment realized and unrealized gains (losses) include a net (loss) gain of (\$81,738) and \$127,273, 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, 2019 and 2018, contribution revenue, excluding contributions of remainder interest in real estate properties, totaled \$70,194 and \$157,418, respectively, attributable to their beneficial interest in trusts held by others. For the years ended June 30, 2019 and 2018, net investment realized and unrealized gains (losses) associated with the beneficial interest in trust held by others include a net (loss) gain of (\$64,375,999) and \$4,025,244, respectively.

## UNIVERSITY OF HAWAII FOUNDATION

### Notes to Financial Statements

June 30, 2019 and 2018

#### **(j) Amounts Held for Others**

Resources received in transactions that the Foundation acts as an agent are reported as amounts held for others. Investment income earned on amounts received increases amounts held for others. Distributions to specified recipients decrease amounts held for others. Unrealized gains on assets held for others were \$7,851 and \$37,696 for the years ended June 30, 2019 and 2018, respectively.

#### **(k) Fair Value Measurements**

The Foundation applies the provisions of Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) Topic 820, *Fair Value Measurement*, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 also establishes a framework for measuring fair value and expands disclosures about fair value measurements (note 9).

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

#### **(l) Functional Allocation of Expenses**

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

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, depreciation, and amortization, salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, insurance, and other, which are allocated on the basis of estimates of time and effort.

#### **(m) Recent Adopted Accounting Pronouncements**

In August 2016, the FASB issued Accounting Standards Update (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: net assets without donor restrictions, previously reported as unrestricted net assets, and net assets with donor restrictions, previously reported as temporarily restricted net assets and permanently restricted net assets. Other provisions of ASU 2016-14 include the recognition of underwater endowment funds as a reduction in net assets with donor restrictions and requires to report investment expenses net against investment return. ASU 2016-14 also requires the 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. The ASU 2016-14 standard was implemented and the presentation in these financial statements was adjusted accordingly. The Foundation applied the changes retrospectively.

**UNIVERSITY OF HAWAII FOUNDATION**

Notes to Financial Statements

June 30, 2019 and 2018

A summary of net assets reclassifications resulting from the adoption of ASU 2016-14 as of June 30, 2018 are as follows:

Net assets, beginning of year as disclosed in the statement of activities for the year ended June 30, 2018	ASU 2016-14 classifications		
	Without donor restrictions	With donor restrictions	Total
As previously presented:			
Unrestricted	\$ (663,535)	—	(663,535)
Temporarily restricted	—	204,779,761	204,779,761
Permanently restricted	—	356,383,278	356,383,278
Net assets as previously presented	(663,535)	561,163,039	560,499,504
Reclassification to adopt ASU 2016-14:			
Underwater endowments	3,901,359	(3,901,359)	—
Net assets as reclassified	\$ 3,237,824	557,261,680	560,499,504

**(n) Recent Issued Accounting Pronouncements**

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842), which supersedes FASB ASC Topic 840, *Leases*, and makes other conforming amendments to U.S. GAAP. ASU No. 2016-02 requires, among other changes to the lease accounting guidance, lessees to recognize most leases on balance sheet via a right-of-offset asset and lease liability, and additional qualitative and quantitative disclosures. ASU No. 2016-02 is effective for the Foundation for annual periods in fiscal years beginning after December 15, 2019, permits early adoption, and mandates a modified retrospective transition method. The Foundation is required to adopt ASU No. 2016-02 on July 1, 2020. The Foundation is currently evaluating the potential impact of adopting this guidance on the financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new standard provides clarification in characterizing grants and similar contracts with resource providers as either exchange transactions or contributions and in determining whether a contribution is conditional when applying the revenue recognition guidance. The new standard is effective for the Foundation's fiscal year ending June 30, 2020. The Foundation is currently evaluating the potential impact of adopting this guidance on the financial statements.

In August 2018, FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies the disclosure requirements on fair value measurements in Topic 820. ASU No. 2018-13 is effective for the Foundation's annual period beginning after December 15, 2019. Early adoption is permitted, and an entity also is permitted to early adopt any removed or modified disclosures on issuance of

**UNIVERSITY OF HAWAII FOUNDATION**

Notes to Financial Statements

June 30, 2019 and 2018

ASU 2018-13, and delay adoption of the additional disclosures until their effective date. The Foundation is currently evaluating the potential impact of adopting this guidance on the financial statements.

**(2) Contributions Receivable**

At June 30, 2019 and 2018, contributions receivable, net of discount for present value and allowance for uncollectible contributions, consisted of the following:

	<u>2019</u>	<u>2018</u>
Contributions receivable	\$ 39,737,648	45,067,486
Less discount to present value (1.8%–6.1% discount rate)	<u>(1,327,998)</u>	<u>(666,544)</u>
Subtotal	38,409,650	44,400,942
Less allowance for uncollectible pledges	<u>(2,598,437)</u>	<u>(2,530,990)</u>
Contributions receivable, net	<u>\$ 35,811,213</u>	<u>41,869,952</u>
Amounts to be collected in:		
Less than one year	\$ 21,249,218	21,467,211
One year to five years	<u>18,488,430</u>	<u>23,600,275</u>
Total	<u>\$ 39,737,648</u>	<u>45,067,486</u>

**(3) Investments**

Investments at June 30, 2019 and 2018 consisted of the following:

	<u>2019</u>		<u>2018</u>	
	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>
Domestic equities	\$ 42,331,187	23,351,995	40,295,522	24,154,600
Fixed-income securities	132,903,076	134,254,467	137,510,216	142,455,359
Foreign equities	81,438,203	56,528,776	79,749,701	56,011,994
Money market funds	2,222,239	2,222,239	7,294,598	7,294,598
Hedge funds	107,618,585	59,700,747	104,983,101	60,245,029
Private equity securities	36,204,354	33,910,523	23,041,425	21,782,135
Natural resources/real estate	<u>36,972,976</u>	<u>41,077,026</u>	<u>40,458,371</u>	<u>44,173,144</u>
	<u>\$ 439,690,620</u>	<u>351,045,773</u>	<u>433,332,934</u>	<u>356,116,859</u>

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, 2019 and 2018

Investments are generally pooled and managed under various asset diversification strategies, depending upon the investment objectives and to avoid significant concentrations of market risk. Earnings on endowment contributions, which the donor designates as being available for program operations, are considered restricted until the specific restrictions have been met. Endowment investments classified as net assets with donor restrictions were \$266,031,124 and \$260,935,690 at June 30, 2019 and 2018, 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 2019 and 2018, \$11,909,554 and \$11,345,371, respectively, was made available to support programs. Investment management fees amounted to \$1,018,132 in 2019 and \$1,128,625 in 2018.

#### (4) Income Taxes

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

#### (5) Retirement Annuity Plan

The Foundation has defined-contribution retirement annuity plans with Teachers Insurance and Annuity Association covering substantially all of its employees. The Foundation recorded contribution expense of \$789,262 and \$811,865 in 2019 and 2018, respectively.

#### (6) Leases

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

	<b>Operating lease</b>
Years ending June 30:	
2020	\$ 108,038
2021	112,886
2022	116,348
2023	116,348
2024	38,783
Thereafter	—
Total minimum lease payments	\$ <u>492,403</u>
Rent expense	\$ 66,884

Office lease rent expense for the years ended June 30, 2019 and 2018 totaled \$66,884 and \$0, respectively.

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The Foundation leases office space from the University under an annual operating lease, which provides for a nominal rental amount. The estimated fair rental value of the property has been reported as unrestricted contribution revenue with an offsetting amount charged to supporting services of \$265,816 and \$387,684 in 2019 and 2018, respectively.

**(7) Net Assets with Donor Restrictions**

Net assets with donor restrictions consisted of the following restricted amounts at June 30, 2019 and 2018:

	<u>With Donor Restrictions</u>
2019:	
Extension and public services	\$ 6,316,331
Academic support	53,377,046
Research	35,868,275
Student aid and services	155,968,864
Faculty and staff support	130,500,136
Capital projects	25,667,229
Athletics	4,471,863
Special	43,409,653
Other	<u>48,816,254</u>
Total	\$ <u>504,395,651</u>

	<u>With Donor Restrictions</u>
2018:	
Extension and public services	\$ 5,901,974
Academic support	51,897,596
Research	42,754,926
Student aid and services	141,503,353
Faculty and staff support	198,411,577
Capital projects	19,498,947
Athletics	4,473,478
Special	42,922,895
Other	<u>49,896,934</u>
Total	\$ <u>557,261,680</u>

Net assets are released from donor restrictions primarily by incurring expenses that satisfy the restricted purpose. For the years ended June 30, 2019 and 2018, net assets released from restriction totaled \$46,240,361 and \$47,363,175, respectively.

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**(8) Endowment**

The Foundation's endowment consists of approximately 1,490 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, 2019 and 2018, the endowment net assets amounted to \$326,993,437 and \$321,039,892, respectively.

For the years ended June 30, 2019 and 2018, the changes in endowment net assets are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, June 30, 2017	\$ 1,611,271	293,077,338	294,688,609
Investment return:			
Investment income	71,074	2,091,463	2,162,537
Net appreciation, realized and unrealized, net expenses	<u>480,398</u>	<u>15,736,670</u>	<u>16,217,068</u>
Total investment return	551,472	17,828,133	18,379,605
Contributions, net of expenses	756	18,916,399	18,917,155
Appropriations	<u>(358,887)</u>	<u>(10,586,590)</u>	<u>(10,945,477)</u>
Endowment net assets, June 30, 2018	<u>1,804,612</u>	<u>319,235,280</u>	<u>321,039,892</u>
Investment return:			
Investment income	39,776	1,065,412	1,105,188
Net appreciation, realized and unrealized, net expenses	<u>441,592</u>	<u>3,398,873</u>	<u>3,840,465</u>
Total investment return	481,368	4,464,285	4,945,653
Contributions, net of expenses	778	12,538,376	12,539,154
Appropriations	<u>(423,301)</u>	<u>(11,107,961)</u>	<u>(11,531,262)</u>
Endowment net assets, June 30, 2019	\$ <u><u>1,863,457</u></u>	<u><u>325,129,980</u></u>	<u><u>326,993,437</u></u>

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Donor-restricted and board-designated endowment net asset composition is as follows as of June 30, 2019 and 2018:

	<b>2019</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Donor-restricted endowment funds	\$ —	325,129,980	325,129,980
Board-designated endowment funds	1,863,457	—	1,863,457
	<u>\$ 1,863,457</u>	<u>325,129,980</u>	<u>326,993,437</u>

  

	<b>2018</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Donor-restricted endowment funds	\$ —	319,235,280	319,235,280
Board-designated endowment funds	1,804,612	—	1,804,612
	<u>\$ 1,804,612</u>	<u>319,235,280</u>	<u>321,039,892</u>

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). At June 30, 2019, funds with original gift values of \$64,204,197, fair values of \$60,440,092, and deficiencies of \$3,764,105 were reported in net assets with donor restrictions. At June 30, 2018, funds with original gift values of \$65,985,862, fair values of \$62,084,503, and deficiencies of \$3,901,359 were reported in net assets with donor restrictions.

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

	<b>2019</b>	<b>2018</b>
The portion of endowment funds that is required to be retained permanently either by explicit donor stipulation or by HUPMIFA	\$ 259,002,569	248,309,292
The portion of the perpetual endowment funds subject to time restriction under HUPMIFA with purpose restrictions	66,127,410	70,925,988
The portion of net assets, excluding endowment funds, subject to purpose restrictions	102,756,230	90,886,668
Contribution and other receivables, net	36,778,273	43,791,727
Beneficial interest in trusts held by others	31,916,538	96,782,348
Split-interest agreements, net and other assets	7,814,631	6,565,657
Total net assets with donor restrictions	<u>\$ 504,395,651</u>	<u>557,261,680</u>

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### Notes to Financial Statements

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#### **(a) Interpretation of Relevant Law**

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

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization

#### **(b) Funds with Deficiencies**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or HUPMIFA requires the Foundation to retain as a fund of perpetual duration. At June 30, 2019 and 2018, in accordance with U.S. GAAP, deficiencies of this nature that are reported in net assets with donor restrictions were \$3,764,105 and \$3,901,359, respectively. These deficiencies resulted from unfavorable market fluctuations and continued appropriation for certain programs that were deemed prudent by the Board of Trustees.

#### **(c) Return Objectives and Risk Parameters**

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified periods, as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the

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endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 5.5% annually (including inflation). Actual returns in any given year may vary from this amount.

**(d) Strategies Employed for Achieving Objectives**

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

**(e) Spending Policy**

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

**(9) Fair Value Measurements**

**(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, 2019 and 2018. 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.

	2019		2018	
	Reported amount	Fair value	Reported amount	Fair value
Cash and cash equivalents	\$ 19,770,632	19,770,632	8,511,690	8,511,690
Contributions receivable, net	35,811,213	35,811,213	41,869,952	41,869,952
Other receivables	1,699,876	1,699,876	2,815,831	2,815,831
Investments	439,690,620	439,690,620	433,332,934	433,332,934
Beneficial interest in trusts held by others	31,916,538	31,916,538	96,782,348	96,782,348
Accounts payable	8,553,020	8,553,020	10,074,232	10,074,232
Amounts held for others	4,362,201	4,362,201	3,935,980	3,935,980
Long-term debt	8,200,000	8,236,720	8,200,000	7,948,233
Other liabilities	668,419	668,419	683,799	683,799

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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, 2019 and 2018 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.

**Investments, and amounts held for others** – The fair value of investments and amounts held for others in marketable securities 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.

**Beneficial interest in trusts held by others** – The Foundation's interests in the trusts are reported at fair value, based on the value of the underlying assets multiplied by the Foundation's beneficial interest, which approximates the present value of future income from these trusts or are valued using the observable inputs other than quoted prices.

**Long-term debt** – The fair value of long-term debt is estimated by discounting scheduled cash flow payments over the contractual borrowing period at the estimated market rate for similar borrowing arrangements.

#### **(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

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measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

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

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

The following tables present assets that are measured at fair value on a recurring basis at June 30, 2019 and 2018:

	<u>June 30, 2019</u>	<u>Fair value measurements at reporting date using</u>				<u>Investments measured at net asset value</u>
		<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>		
Assets:						
Domestic equities	\$ 42,331,184	10,221,422	—	—	32,109,762	a
Fixed-income securities	132,903,076	122,578,990	10,324,086	—	—	
Foreign equities	81,438,204	38,734,466	—	—	42,703,738	b
Money market funds	2,222,239	2,222,239	—	—	—	
Natural resources/real estate	36,972,976	7,669,880	—	10,258,499	19,044,597	c
Hedge funds	107,618,585	5,280,570	—	—	102,338,015	d
Private equity securities	<u>36,204,356</u>	<u>—</u>	<u>—</u>	<u>1,905,605</u>	<u>34,298,751</u>	c
Total investments	439,690,620	186,707,567	10,324,086	12,164,104	230,494,863	
Beneficial interest in trusts held by others	<u>31,916,538</u>	<u>—</u>	<u>11,080,823</u>	<u>20,835,715</u>	<u>—</u>	
Total	<u>\$ 471,607,158</u>	<u>186,707,567</u>	<u>21,404,909</u>	<u>32,999,819</u>	<u>230,494,863</u>	

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	<u>June 30, 2018</u>	<u>Fair value measurements at reporting date using</u>				<u>Investments measured at net asset value</u>
		<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>		
Assets:						
Domestic equities	\$ 40,295,522	10,928,727	—	—	29,366,795	a
Fixed-income securities	137,510,216	122,652,102	14,858,114	—	—	
Foreign equities	79,749,701	36,936,403	—	—	42,813,298	b
Money market funds	7,294,598	7,294,598	—	—	—	
Natural resources/real estate	40,458,369	8,748,867	—	15,347,678	16,361,824	c
Hedge funds	104,983,101	5,883,079	—	—	99,100,022	d
Private equity securities	23,041,427	—	—	1,680,605	21,360,822	c
<b>Total investments</b>	<b>433,332,934</b>	<b>192,443,776</b>	<b>14,858,114</b>	<b>17,028,283</b>	<b>209,002,761</b>	
Beneficial interest in trusts held by others	96,782,348	—	11,004,241	85,778,107	—	
<b>Total</b>	<b>\$ 530,115,282</b>	<b>192,443,776</b>	<b>25,862,355</b>	<b>102,806,390</b>	<b>209,002,761</b>	

- a. Investments in this class can be redeemed on a monthly/quarterly basis, with notification provided between 15–30 days prior to redemption.
- b. Investments in this class can be redeemed on a monthly basis with notification provided between 5–30 days prior to redemption.
- c. Investments in this class can be redeemed at the discretion of the investment managers. The Foundation has commitments to contribute additional amounts to this class of investments of approximately \$37,316,786 at June 30, 2019.
- 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.

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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, 2019 and 2018:

	<b>Assets</b>			<b>Total</b>
	<b>Private equity securities</b>	<b>Natural resources/ real estate</b>	<b>Beneficial interest in trusts held by others</b>	
Balance at June 30, 2017	\$ 1,955,605	15,050,412	83,314,602	100,320,619
Total gains (losses) included in income:				
Realized	—	415,575	—	415,575
Unrealized	(275,000)	—	2,463,505	2,188,505
Purchases	—	(118,309)	—	(118,309)
Balance at June 30, 2018	1,680,605	15,347,678	85,778,107	102,806,390
Total gains (losses) included in income:				
Realized	—	—	—	—
Unrealized	(275,000)	(5,089,179)	(64,942,392)	(70,306,571)
Purchases	500,000	—	—	500,000
Balance at June 30, 2019	\$ <u>1,905,605</u>	<u>10,258,499</u>	<u>20,835,715</u>	<u>32,999,819</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, 2019 and 2018.

Investments in real estate and certain private equity securities are recorded at estimated fair value at June 30, 2019 and 2018.

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) Long-Term Debt**

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

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University. Under terms of the credit facility, interest-only payments are required for the first 36 months at a fixed rate of 3.00% and, thereafter, monthly installments of principal and interest, based on a 25-year amortization schedule, at a fixed rate of 4.00% through the remaining term of the Loan. The Loan matures on April 1, 2027. As of June 30, 2019 and 2018, the outstanding balance on the Loan was \$8.2 million.

The aggregate maturities of the long-term debt for each of the five years subsequent to June 30, 2019 are \$15,949 in 2020, \$195,589 in 2021, \$203,558 in 2022, \$211,851 in 2023, and \$7,573,053 in 2024 and thereafter.

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

#### (11) Transactions with the University

The Foundation has an agreement with the University to provide fund-raising and alumni services through June 30, 2019. Annual compensation from this agreement amounted to \$3,000,000 for each of the years ended June 30, 2019 and 2018. Under separate agreements to provide fund-raising and alumni services for individual University units, compensation amounted to \$341,405 and \$336,961 for the years ended June 30, 2019 and 2018, respectively. For these payments, sources other than the University tuition and fees special fund were used.

In conjunction with acquisition of the Atherton property in April 2017, the Foundation entered into a 15-year ground lease with the University expiring on April 30, 2032. Monthly lease rent is adjustable every six months during the entire lease term. The monthly lease rent may be increased to reimburse the Foundation for any costs, as mutually agreed upon between the Foundation and the University, in connection with the ownership, management, maintenance and operation of the property, including debt service and cost incurred to acquire the property. For the years ended June 30, 2019 and 2018, monthly lease rent was \$23,037 per month. The University paid \$207,330 as rental income for the years ended June 30, 2019 and 2018.

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**(12) Functionalized Expenses**

Expenses by natural and functional classification for the year ended June 30, 2019, with comparable totals for June 30, 2018, were as follows:

	Program services								Supporting services		2019 Total	2018 Total	
	Extension and public services	Academic support	Research	Student aid and services	Faculty and staff support	Capital projects	Athletics	Special programs	Other	Administrative, management, and fiscal services			Development
Expenses:													
Salaries and wages	\$ —	7,668	—	—	—	—	—	—	—	2,919,800	5,770,591	8,698,059	8,621,806
Employee benefits	4,485	47,793	3,231	—	209	—	31,752	40,265	959	715,836	1,374,079	2,218,609	2,580,053
Professional services	131,772	988,670	99,255	4,542	402,314	29,877	70,009	509,215	35,526	610,572	356,475	3,238,227	3,285,278
Office expenses	269,849	1,988,718	146,490	100,627	250,723	310,185	1,222,563	1,653,589	241,968	243,129	508,740	6,936,581	7,063,188
Equipment	39,272	692,402	74,750	14,438	41,183	348,691	150,527	231,397	3,946	165,003	239,422	2,001,031	1,802,704
Occupancy	23,624	63,568	1,708	66	7,537	—	14,465	34,163	—	321,551	240,661	707,343	574,236
Bad debt expense	1,440	151,670	4,123	265,923	15,385	250	28,939	33,098	177,604	23,177	1,804	703,413	531,169
Travel	83,759	759,180	201,172	78,161	484,717	2,860	510,308	561,877	12,680	27,368	21,277	2,743,359	2,983,786
Research	372,658	2,355,147	6,251,680	750,175	1,731,294	463	314	3,378,976	173,398	—	—	15,014,105	16,345,684
Student scholarships/grants	3,000	275,557	9,683	9,673,937	31,000	—	235,759	1,039,575	5,000	—	—	11,273,511	9,152,401
Grants	85,886	11,263	4,510,925	(2,505)	343,310	—	465,880	536,089	33,700	—	—	5,984,548	6,418,757
Other	20,154	33,586	93,695	4,980	1,130	4,524	54,162	56,542	(7,713)	476,061	190,110	927,231	1,718,295
Total expenses	\$ 1,035,899	7,375,222	11,396,712	10,890,344	3,308,802	696,850	2,784,678	8,074,786	677,068	5,502,497	8,703,159	60,446,017	61,077,357

**(13) Liquidity and Availability**

The Foundation receives significant contributions with donor restrictions to be used in accordance with the associated purpose restrictions. It also receives gifts to establish endowments that will exist in perpetuity; the income generated from such endowments is used to fund programs. In addition, the Foundation receives support without donor restrictions; such support has historically represented approximately 0.4% of annual program funding needs, with the remainder funded by investment income, appropriated earnings from gifts with donor restrictions, and service fees from the University as described in note 11.

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

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

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

The table below presents financial assets available for general expenditures within one year at June 30, 2019:

	<u>2019</u>
Financial assets at year-end:	
Cash and cash equivalents	\$ 19,770,632
Contributions receivable, net	35,811,213
Investments	439,690,620
Beneficial interest in trusts held by others	<u>31,916,538</u>
Total financial assets	<u>527,189,003</u>
Less amounts not available to be used within one year:	
Restricted by donor with purpose restrictions	(135,410,068)
Subject to appropriation and satisfaction of donor restrictions	(313,481,050)
Investments in non-liquid securities	(1,905,603)
Investments held in custodial and non-custodial trusts	(36,331,475)
Contribution receivable - for restricted gifts, net	<u>(35,811,213)</u>
Financial assets not available to be used within one year	<u>(522,939,409)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 4,249,594</u>

#### (14) Subsequent Events

The Foundation has evaluated subsequent events from the balance sheet date through November 15, 2019, the date at which the financial statements were available to be issued.