



UNIVERSITY OF HAWAII FOUNDATION

Financial Statements

June 30, 2020 and 2019

(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, 2020 and 2019, 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, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Honolulu, Hawaii
November 6, 2020

UNIVERSITY OF HAWAII FOUNDATION

Statements of Financial Position

June 30, 2020 and 2019

Assets	2020	2019
Cash and cash equivalents	\$ 16,027,858	19,770,632
Contributions receivable, net	26,555,010	35,811,213
Prepaid expenses and other receivables	7,780,868	2,072,511
Property and equipment, at cost, net of accumulated depreciation and amortization of \$2,037,607 in 2020 and \$1,842,575 in 2019	10,191,449	10,386,481
Other assets, at cost	1,917,525	3,699,714
Investments	457,269,283	439,690,620
Beneficial interest in trusts held by others	28,664,513	31,916,538
Total assets	<u>\$ 548,406,506</u>	<u>543,347,709</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 5,617,692	8,553,020
Liabilities under split-interest agreements	12,140,659	12,528,531
Amounts held for others	4,486,858	4,362,201
Long-term debt	7,400,000	8,200,000
Other liabilities	3,244,721	668,419
Total liabilities	<u>32,889,930</u>	<u>34,312,171</u>
Net assets:		
Without donor restrictions	4,705,301	4,639,887
With donor restrictions	510,811,275	504,395,651
Total net assets	515,516,576	509,035,538
Commitments and contingencies		
Total liabilities and net assets	<u>\$ 548,406,506</u>	<u>543,347,709</u>

See accompanying notes to financial statements.

UNIVERSITY OF HAWAII FOUNDATION

Statement of Activities

Year ended June 30, 2020

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

See accompanying notes to financial statements.

UNIVERSITY OF HAWAII FOUNDATION

Statement of Activities

Year ended June 30, 2019

	Net assets		
	Without Donor Restrictions	With Donor Restrictions	Total
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

Statements of Cash Flows

Years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Cash received from contributions	\$ 44,237,039	46,413,964
Cash received for fees, honoraria, royalties, and other	4,346,949	4,681,939
Investment return received	12,256,268	5,149,836
Program and supporting service expenses paid	<u>(59,998,214)</u>	<u>(59,560,761)</u>
Net cash provided by (used in) operating activities	<u>842,042</u>	<u>(3,315,022)</u>
Cash flows from investing activities:		
Purchase of investments	(91,437,240)	(45,771,372)
Proceeds from sale of investments	70,284,448	50,451,807
Purchase of property and equipment	<u>—</u>	<u>(41,073)</u>
Net cash (used in) provided by investing activities	<u>(21,152,792)</u>	<u>4,639,362</u>
Cash flows from financing activities:		
Amounts restricted for long-term investment	17,367,976	9,934,602
Repayment on long-term debt	<u>(800,000)</u>	<u>—</u>
Net cash provided by financing activities	<u>16,567,976</u>	<u>9,934,602</u>
Net (decrease) increase in cash and cash equivalents	(3,742,774)	11,258,942
Cash and cash equivalents at beginning of year	<u>19,770,632</u>	<u>8,511,690</u>
Cash and cash equivalents at end of year	\$ <u><u>16,027,858</u></u>	\$ <u><u>19,770,632</u></u>
Reconciliation of change in net assets to net cash used in operating activities:		
Change in net assets	\$ 6,481,038	(51,463,966)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Amounts restricted for long-term investment	(17,367,976)	(9,934,602)
Other noncash contributions	(4,073,325)	(3,292,341)
Depreciation and amortization	195,032	198,359
Realized and unrealized net losses on investments	9,989,177	55,030,848
Provision for uncollectible pledges, net	1,037,291	67,447
Changes in assets and liabilities:		
Contributions receivable	8,218,912	5,991,292
Prepaid expenses and other receivables	(5,708,357)	743,320
Other assets	2,692,491	493,143
Accounts payable	(2,935,328)	(1,521,212)
Liabilities under split-interest agreements	(387,872)	(38,151)
Amounts held for others, net	124,657	426,221
Other liabilities	<u>2,576,302</u>	<u>(15,380)</u>
Net cash provided by (used in) operating activities	\$ <u><u>842,042</u></u>	\$ <u><u>(3,315,022)</u></u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	\$ 249,450	249,417

See accompanying notes to financial statements.

UNIVERSITY OF HAWAII FOUNDATION

Notes to Financial Statements

June 30, 2020 and 2019

(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.

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Notes to Financial Statements

June 30, 2020 and 2019

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

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Notes to Financial Statements

June 30, 2020 and 2019

The components of net property and equipment at June 30, 2020 and 2019 were as follows:

	2020	2019
Land	\$ 7,927,481	7,927,482
Buildings	2,456,024	2,456,024
Equipment	1,711,639	1,711,639
Leasehold improvements	69,491	69,490
Furniture and fixtures	64,421	64,421
	12,229,056	12,229,056
Less accumulated depreciation	(2,037,607)	(1,842,575)
Property and equipment, net	\$ 10,191,449	10,386,481

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, 2020 and 2019, contributions revenue attributed to split-interest agreements were \$113,911 and \$703,109, respectively. For the years ended June 30, 2020 and 2019, net investment income (loss) include a net loss of \$275,228 and \$81,738, 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, 2020 and 2019, contribution revenue totaled \$0 and \$70,194, respectively, attributable to their beneficial interest in trusts held by others. For the years ended June 30, 2020 and 2019, net investment income (loss) associated with the beneficial interest in trust held by others include a net loss of \$3,244,207 and \$64,375,999, respectively.

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Notes to Financial Statements

June 30, 2020 and 2019

(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) gains on assets held for others were \$(122,764) and \$7,851 for the years ended June 30, 2020 and 2019, 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 salaries and wages, employee benefits, professional services, office expenses, equipment, occupancy, bad debt expense, travel, affiliate research agreement, student scholarships/grants, grants and other, which are allocated on the basis of estimates of time and effort.

(m) Risks and Uncertainties

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

UNIVERSITY OF HAWAII FOUNDATION

Notes to Financial Statements

June 30, 2020 and 2019

(n) Recent Adopted Accounting Pronouncements

In June 2018, the FASB issued Accounting Standard Update (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 was adopted for the Foundation's fiscal year ended June 30, 2020. The adoption of this guidance did not have a material effect on the financial statements.

(o) Recent Issued Accounting Pronouncements

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

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

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 ASU No. 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.

UNIVERSITY OF HAWAII FOUNDATION

Notes to Financial Statements

June 30, 2020 and 2019

(2) Contributions Receivable

At June 30, 2020 and 2019, contributions receivable, net of discount for present value and allowance for uncollectible contributions, consisted of the following:

	2020	2019
Contributions receivable	\$ 31,042,133	39,737,648
Less discount to present value (1.7%–6.1% discount rate)	(851,395)	(1,327,998)
Subtotal	30,190,738	38,409,650
Less allowance for uncollectible pledges	(3,635,728)	(2,598,437)
Contributions receivable, net	\$ 26,555,010	35,811,213
Amounts to be collected in:		
Less than one year	\$ 12,740,738	21,249,218
One year to five years	18,301,395	18,488,430
Total	\$ 31,042,133	39,737,648

(3) Investments

Investments at June 30, 2020 and 2019 consisted of the following:

	2020		2019	
	Fair value	Cost	Fair value	Cost
Domestic equities	\$ 43,903,029	25,672,813	42,331,187	23,351,995
Fixed-income securities	139,008,539	139,288,551	132,903,076	134,254,467
Foreign equities	68,971,582	51,918,190	81,438,203	56,528,776
Money market funds	590,250	590,250	2,222,239	2,222,239
Hedge funds	132,440,588	77,719,615	107,618,585	59,700,747
Private equity securities	45,850,697	39,904,296	36,204,354	33,910,523
Natural resources/real estate	26,504,598	39,339,256	36,972,976	41,077,026
	\$ 457,269,283	374,432,971	439,690,620	351,045,773

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.

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Notes to Financial Statements

June 30, 2020 and 2019

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 \$290,785,403 and \$266,031,124 at June 30, 2020 and 2019, 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 2020 and 2019, \$12,840,128 and \$11,909,554, respectively, was made available to support programs. Investment management fees amounted to \$1,225,652 in 2020 and \$1,018,132 in 2019.

(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 \$752,434 and \$789,262 in 2020 and 2019, respectively.

(6) Leases

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

	<u>Operating lease</u>
Years ending June 30:	
2021	\$ 112,886
2022	116,348
2023	116,348
2024	38,783
2025	—
Thereafter	<u>—</u>
Total minimum lease payments	<u>\$ 384,365</u>

Office lease rent expense for the years ended June 30, 2020 and 2019 totaled \$112,968 and \$66,884, respectively.

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Notes to Financial Statements

June 30, 2020 and 2019

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 \$78,719 and \$265,816 in 2020 and 2019, respectively.

(7) Net Assets with Donor Restrictions

Net assets with donor restrictions consisted of the following restricted amounts at June 30, 2020 and 2019:

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

	<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>

Net assets are released from donor restrictions primarily by incurring expenses that satisfy the restricted purpose. For the years ended June 30, 2020 and 2019, net assets released from restriction totaled \$46,428,755 and \$46,240,361, respectively.

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Notes to Financial Statements

June 30, 2020 and 2019

(8) Endowment

The Foundation's endowment consists of approximately 1,551 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, 2020 and 2019, the endowment net assets amounted to \$341,690,144 and \$326,993,437, respectively.

For the years ended June 30, 2020 and 2019, 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, 2018	\$ 1,804,612	319,235,280	321,039,892
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>1,863,457</u>	<u>325,129,980</u>	<u>326,993,437</u>
Investment return:			
Investment income	67,027	1,147,591	1,214,618
Net depreciation, realized and unrealized, net expenses	<u>(647,150)</u>	<u>(6,620,826)</u>	<u>(7,267,976)</u>
Total investment return	(580,123)	(5,473,235)	(6,053,358)
Contributions, net of expenses	255,304	32,877,219	33,132,523
Appropriations	<u>(637,664)</u>	<u>(11,744,794)</u>	<u>(12,382,458)</u>
Endowment net assets, June 30, 2020	\$ <u><u>900,974</u></u>	<u><u>340,789,170</u></u>	<u><u>341,690,144</u></u>

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Donor-restricted and board-designated endowment net asset composition is as follows as of June 30, 2020 and 2019:

	2020		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	340,789,170	340,789,170
Board-designated endowment funds	900,974	—	900,974
	<u>\$ 900,974</u>	<u>340,789,170</u>	<u>341,690,144</u>

	2019		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
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>

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, 2020, funds with original gift values of \$132,888,915, fair values of \$123,851,387, and deficiencies of \$9,037,528 were reported in net assets with donor restrictions. 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.

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

	<u>2020</u>	<u>2019</u>
The portion of endowment funds that is required to be retained permanently either by explicit donor stipulation or by HUPMIFA	\$ 280,151,834	259,002,569
The portion of the perpetual endowment funds subject to time restriction under HUPMIFA with purpose restrictions	60,637,336	66,127,410
The portion of net assets, excluding endowment funds, subject to purpose restrictions	102,264,938	102,756,230
Contribution and other receivables, net	30,019,311	36,778,273
Beneficial interest in trusts held by others	28,664,513	31,916,538
Split-interest agreements, net and other assets	9,073,343	7,814,631
Total net assets with donor restrictions	<u>\$ 510,811,275</u>	<u>504,395,651</u>

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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, 2020 and 2019, in accordance with U.S. GAAP, deficiencies of this nature that are reported in net assets with donor restrictions were \$9,037,528 and \$3,764,105, respectively. These deficiencies resulted from unfavorable market fluctuations and continued appropriation for certain programs that were deemed prudent by the Board of Trustees.

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(c) Return Objectives and Risk Parameters

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

(d) Strategies Employed for Achieving Objectives

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

(e) Spending Policy

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

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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, 2020 and 2019. 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.

	2020		2019	
	Reported amount	Fair value	Reported amount	Fair value
Cash and cash equivalents	\$ 16,027,858	16,027,858	19,770,632	19,770,632
Contributions receivable, net	26,555,010	26,555,010	35,811,213	35,811,213
Other receivables	7,552,413	7,552,413	1,699,876	1,699,876
Investments	457,269,283	457,269,283	439,690,620	439,690,620
Beneficial interest in trusts held by others	28,664,513	28,664,513	31,916,538	31,916,538
Accounts payable	5,617,692	5,617,692	8,553,020	8,553,020
Amounts held for others	4,486,858	4,486,858	4,362,201	4,362,201
Long-term debt	7,400,000	8,009,757	8,200,000	8,236,720
Other liabilities	3,244,721	3,244,721	668,419	668,419

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, 2020 and 2019 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, 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 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, 2020 and 2019:

	<u>June 30, 2020</u>	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	\$ 43,903,029	12,416,542	—	—	31,486,487 a
Fixed-income securities	139,008,539	130,506,059	8,502,480	—	—
Foreign equities	68,971,582	26,665,533	—	—	42,306,049 b
Money market funds	590,250	590,250	—	—	—
Natural resources/real estate	26,504,598	3,439,339	—	9,497,159	13,568,100 c
Hedge funds	132,440,588	4,130,294	—	—	128,310,294 d
Private equity securities	45,850,697	—	—	1,905,605	43,945,092 c
Total investments	457,269,283	177,748,017	8,502,480	11,402,764	259,616,022
Beneficial interest in trusts held by others	28,664,513	—	10,734,166	17,930,347	—
Total	\$ 485,933,796	177,748,017	19,236,646	29,333,111	259,616,022

	<u>June 30, 2019</u>	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	\$ 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	36,204,356	—	—	1,905,605	34,298,751 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	31,916,538	—	11,080,823	20,835,715	—
Total	\$ 471,607,158	186,707,567	21,404,909	32,999,819	230,494,863

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- a. Investments in this class can be redeemed on a monthly/quarterly basis, with notification provided between 15–30 days prior to redemption.
- b. Investments in this class can be redeemed on a monthly basis with notification provided between 5–30 days prior to redemption.
- c. Investments in this class can be redeemed at the discretion of the investment managers. The Foundation has commitments to contribute additional amounts to this class of investments of approximately \$39,700,000 at June 30, 2020.
- 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, 2020 and 2019:

	Assets			
	Private equity securities	Natural resources/ real estate	Beneficial interest in trusts held by others	Total
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	1,905,605	10,258,499	20,835,715	32,999,819
Total gains included in income:				
Realized	—	—	—	—
Unrealized	—	(761,340)	(2,905,368)	(3,666,708)
Purchases	—	—	—	—
Balance at June 30, 2020	\$ 1,905,605	9,497,159	17,930,347	29,333,111

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, 2020 and 2019.

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Investments in real estate and certain private equity securities are recorded at estimated fair value at June 30, 2020 and 2019.

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

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

The Loan matures on May 1, 2023. As of June 30, 2020 and 2019, the outstanding balance on the Loan was \$7.4 million and \$8.2 million.

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

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

(11) Other Liabilities

At June 30, 2020, the Foundation had an unsecured note payable of \$1.6 million to a financial institution under the Paycheck Protection Program (PPP) of the Coronavirus Aid, Relief, and Economic Security Act, P.L. 116-136 (CARES Act). The note matures on April 11, 2022 with interest accruing at 1.00% per annum.

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

(12) Transactions with the University

The Foundation has an agreement with the University to provide fund-raising and alumni services through June 30, 2020. Annual compensation from this agreement amounted to \$3 million for each of the years ended June 30, 2020 and 2019. Under separate agreements to provide fund-raising and alumni services for individual University units, compensation amounted to \$443,972 and \$341,405 for the years ended June 30, 2020 and 2019, respectively. For these payments, sources other than the University tuition and fees special fund were used.

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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, 2020 and 2019, monthly lease rent was \$23,560 and \$23,037 per month. The University paid \$277,487 and \$207,330 as rental income for the years ended June 30, 2020 and 2019.

(13) Functionalized Expenses

Expenses by natural and functional classification for the year ended June 30, 2020, with comparable totals for June 30, 2019, were as follows:

	Program services								Supporting services		2020 Total	2019 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	\$ —	54,338	—	—	—	—	—	—	—	2,737,546	5,266,370	8,058,254	8,698,059
Employee benefits	16,695	43,903	748	—	2,959	—	49,106	48,149	180	772,790	1,313,320	2,247,850	2,218,609
Professional services	418,955	998,294	82,138	4,386	396,206	61,856	87,548	460,170	49,516	498,523	254,564	3,312,156	3,238,227
Office expenses	267,243	1,864,881	162,277	52,648	251,290	257,323	851,035	1,039,705	367,953	168,667	386,973	5,669,995	6,936,581
Equipment	16,690	712,091	162,968	1,380	38,219	549,029	244,349	389,912	12,192	255,988	225,766	2,608,184	2,001,031
Occupancy	2,906	26,265	5,665	—	15,007	—	847	31,502	1,355	360,313	240,393	694,253	707,943
Bad debt expense	4,204	194,191	95,146	130,214	10,325	689,747	31,508	77,795	33,262	53,775	4,029	1,324,196	703,413
Travel	42,829	550,316	142,243	59,948	330,035	394	318,961	387,194	5,559	17,821	16,784	1,872,084	2,743,359
Affiliate Research Agreement	329,167	2,124,520	6,614,488	717,759	1,881,569	318,428	(7,619)	3,072,392	86,046	—	—	15,136,750	15,014,105
Student scholarships/grants	8,250	323,526	8,600	10,604,726	33,400	—	384,114	1,737,592	—	—	—	13,100,208	11,273,511
Grants	81,270	15,536	3,725,238	—	450,407	—	532,128	483,584	21,835	—	—	5,309,998	5,984,548
Other	7,742	30,533	1,641	3,478	5,206	120	42,669	45,847	(458,788)	1,742,998	152,554	1,574,000	927,231
Total expenses	\$ 1,195,951	6,938,394	11,000,752	11,574,539	3,414,623	1,876,897	2,534,646	7,773,842	119,110	6,608,421	7,860,753	60,897,928	60,446,017

(14) Liquidity and Availability

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

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

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

- Operating within a prudent range of financial soundness and stability,
- Maintaining adequate liquid assets, and

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- 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, 2020:

	<u>2020</u>
Financial assets at year-end:	
Cash and cash equivalents	\$ 16,027,858
Contributions receivable, net	26,555,010
Other receivables	7,552,413
Investments	457,269,283
Beneficial interest in trusts held by others	<u>28,664,513</u>
Total financial assets	<u>536,069,077</u>
Less amounts not available to be used within one year:	
Restricted by donor with purpose restrictions	(102,264,938)
Subject to appropriation and satisfaction of donor restrictions	(341,690,144)
Investments in non-liquid securities	(1,905,603)
Investments held in custodial and non-custodial trusts	(46,238,850)
Contribution receivable – for restricted gifts, net	(26,555,010)
Other receivables – restricted	<u>(7,220,228)</u>
Financial assets not available to be used within one year	<u>(525,874,773)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 10,194,304</u>

(15) Subsequent Events

The Foundation has evaluated subsequent events from the balance sheet date through November 6, 2020, the date at which the financial statements were available to be issued.