

CONSOLIDATED FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION

Kansas University Endowment Association  
Years Ended June 30, 2021 and 2020  
With Report of Independent Auditors

Ernst & Young LLP



Kansas University Endowment Association  
Consolidated Financial Statements and Supplementary Information  
Years Ended June 30, 2021 and 2020

**Contents**

Report of Independent Auditors.....	1
Consolidated Financial Statements	
Consolidated Statements of Financial Position.....	3
Consolidated Statements of Activities .....	5
Consolidated Statements of Cash Flows.....	7
Notes to Consolidated Financial Statements.....	8
Supplementary Information	
Consolidating Statement of Financial Position.....	37



Ernst & Young LLP  
One Kansas City Place  
Suite 2500  
1200 Main Street  
Kansas City, MO 64105-2143

Tel: +1 816 474 5200  
Fax: +1 816 480 5369  
ey.com

## Report of Independent Auditors

The Board of Trustees  
Kansas University Endowment Association

We have audited the accompanying consolidated financial statements of the Kansas University Endowment Association, which comprise the statements of financial position as of June 30, 2021 and 2020, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management’s Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in conformity 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 of material misstatement, whether due to fraud or error.

### **Auditor’s 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditor’s 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 consolidated financial position of the Kansas University Endowment Association as of June 30, 2021 and 2020, and the related consolidated statements of activities and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

## **Report on Summarized Comparative Information**

We have previously audited the Kansas University Endowment Association's 2020 consolidated financial statements, and we expressed an unmodified audit opinion on those consolidated financial statements in our report dated September 18, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

## **Supplementary Information**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary statement of consolidating financial position as of June 30, 2021, is presented for purposes of responding to a state statute for compliance purposes and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects, in relation to the financial statements as a whole.

*Ernst + Young LLP*

September 17, 2021

Kansas University Endowment Association  
Consolidated Statements of Financial Position

	<b>June 30</b>	
	<b>2021</b>	<b>2020</b>
	<i>(In Thousands)</i>	
<b>Assets</b>		
Cash and cash equivalents	\$ 7,796	\$ 10,020
Receivables:		
Receivables from investment activities	680	479
Other receivables	9,711	8,396
Student loans receivable, less allowance of \$971 and \$1,100 in 2021 and 2020, respectively	21,770	23,197
Contributions pledged, less allowance of \$2,103 and \$1,752 in 2021 and 2020, respectively	67,843	86,992
Real estate loans receivable	1,465	6,927
Total receivables	<u>101,469</u>	<u>125,991</u>
Investments:		
Securities	2,580,671	1,955,245
Trusts held by others	55,761	45,589
Interest in other KU Endowment Entities	3,437	3,943
Real estate	21,642	18,700
Total investments	<u>2,661,511</u>	<u>2,023,477</u>
Property and facilities		
Land	16,812	16,828
Buildings	28,980	28,859
Equipment and furnishings	4,162	4,105
	<u>49,954</u>	<u>49,792</u>
Accumulated depreciation	(18,988)	(17,487)
Net property and facilities	<u>30,966</u>	<u>32,305</u>
Deposits and other assets	5,109	5,464
Total assets	<u><u>\$ 2,806,851</u></u>	<u><u>\$ 2,197,257</u></u>

	<b>June 30</b>	
	<b>2021</b>	<b>2020</b>
	<i>(In Thousands)</i>	
<b>Liabilities and net assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 31,686	\$ 31,959
Payables from investment activities	350	419
Trust payable	218	197
Life income gifts payable	22,818	22,599
Agency funds	90,592	70,231
Total liabilities	<u>145,664</u>	125,405
Net assets:		
Without donor restrictions	305,603	204,865
With donor restrictions	2,355,584	1,866,987
Total net assets	<u>2,661,187</u>	2,071,852

Total liabilities and net assets	<u><u>\$ 2,806,851</u></u>	<u><u>\$ 2,197,257</u></u>
----------------------------------	----------------------------	----------------------------

*See accompanying notes.*

# Kansas University Endowment Association

## Consolidated Statements of Activities

	Year Ended June 30, 2021			Summarized Financial Information for the Year Ended June 30, 2020
	Without Donor Restrictions	With Donor Restrictions	Total Current Year	
	<i>(In Thousands)</i>			
Revenue, gain (loss), and other support:				
Fundraising:				
Contributions and grants received and pledged	\$ 4,563	\$ 144,636	\$ 149,199	\$ 125,074
Bequests	4,037	18,395	22,432	16,629
Life income gifts	–	1,747	1,747	2,313
Change in value of life income gifts	(40)	1,919	1,879	(863)
Change in net interest in other KU Endowment entities	–	(506)	(506)	90
Total fundraising	8,560	166,191	174,751	143,243
Income (loss) from asset holdings:				
Investment income	13,167	40,341	53,508	46,287
Realized and unrealized gain (loss) on investments and trusts held by others	98,403	454,804	553,207	(5,876)
Loan interest income	525	877	1,402	1,861
Agricultural and mineral income	1,235	1,148	2,383	2,101
Rental, gain on sale of assets, and other income	1,093	38	1,131	889
Total income from asset holdings	114,423	497,208	611,631	45,262
Other receipts	300	862	1,162	4,899
Net assets released from restrictions:				
Satisfaction of program restrictions	177,162	(177,162)	–	–
Total revenue, gain (loss), and other support	\$ 300,445	\$ 487,099	\$ 787,544	\$ 193,404

## Kansas University Endowment Association

### Consolidated Statements of Activities (continued)

	Year Ended June 30, 2021			Financial
	Without Donor Restrictions	With Donor Restrictions	Total Current Year	Information for the Year Ended June 30, 2020
	<i>(In Thousands)</i>			
Expenses:				
University support:				
Student support	\$ 40,984	\$ —	\$ 40,984	\$ 41,929
Faculty support and contractual services	43,204	—	43,204	47,432
Construction, furnishings, equipment, and supplies	47,634	—	47,634	20,740
Program and other educational support	52,036	—	52,036	50,634
Total University support	183,858	—	183,858	160,735
Supporting services:				
Administrative and fundraising support	22,285	—	22,285	21,965
Asset management expense	997	—	997	270
Depreciation	1,219	—	1,219	1,182
Total supporting services	24,501	—	24,501	23,417
Total expenses	208,359	—	208,359	184,152
Excess (deficit) of revenues over expenses	92,086	487,099	579,185	9,252
Net interfund transfers	(1,498)	1,498	—	—
Change in net assets before amortization of unrecognized actuarial adjustments	90,588	488,597	579,185	9,252
Amortization of unrecognized actuarial adjustments	10,150	—	10,150	(8,738)
Change in net assets	100,738	488,597	589,335	514
Net assets at beginning of year	204,865	1,866,987	2,071,852	2,071,338
Net assets at end of year	\$ 305,603	\$ 2,355,584	\$ 2,661,187	\$ 2,071,852

*See accompanying notes.*



# Kansas University Endowment Association

## Consolidated Statements of Cash Flows

	<b>Year Ended June 30</b>	
	<b>2021</b>	<b>2020</b>
	<i>(In Thousands)</i>	
<b>Operating activities</b>		
Change in net assets	\$ 589,335	\$ 514
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,219	1,182
Net realized and unrealized (gain) loss on investments and trusts held by others	(553,207)	5,876
Contributions restricted for long-term investment	(38,923)	(21,242)
Noncash contributions	(3,861)	(1,476)
Changes in operating assets and liabilities:		
Decrease (increase) in student loans receivable, net	1,427	(1,122)
Decrease in contributions pledged, net	19,149	22,672
Decrease (increase) in real estate loans receivable	5,462	(235)
(Decrease) increase in accounts payable and accrued expenses	(273)	6,327
Decrease (increase) in net interest of KU Endowment entities	506	(90)
Increase in agency funds	20,361	517
Other	185	3,994
Net cash provided by operating activities	<u>41,380</u>	<u>16,917</u>
<b>Investing activities</b>		
Net expenditures for property and facilities	(162)	(4,096)
Net purchases of real estate held for investment	158	-
Net proceeds from sale of investments	180,044	273,966
Purchase of investments	(262,567)	(306,803)
Net cash used in investing activities	<u>(82,527)</u>	<u>(36,933)</u>
<b>Financing activities</b>		
Proceeds from donor-restricted contributions	38,923	21,242
Net cash provided by financing activities	<u>38,923</u>	<u>21,242</u>
Net (decrease) increase in cash and cash equivalents	(2,224)	1,226
Cash and cash equivalent at beginning of year	10,020	8,794
Cash and cash equivalent at end of year	<u>\$ 7,796</u>	<u>\$ 10,020</u>

*See accompanying notes.*

# Kansas University Endowment Association

## Notes to Consolidated Financial Statements

June 30, 2021

*(Dollars in thousands)*

### **1. Organization**

The Kansas University Endowment Association (KU Endowment) is an independent, nonprofit organization serving as the official fundraising and fund-management foundation for the University of Kansas (the University). Founded in 1891, KU Endowment is the oldest foundation of its kind and one of the largest at a public university in the United States. KU Endowment partners with donors in providing philanthropic support to build a greater university.

KU Endowment is an organization as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and has received an Internal Revenue Service (IRS) determination letter stating that it is exempt from tax, pursuant to Section 501(a) of the Code. Accordingly, income taxes are not provided for in the accompanying consolidated financial statements.

### **2. Summary of Significant Accounting Policies**

#### **Basis of Presentation**

KU Endowment's consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP). The following is a summary of the significant accounting and reporting policies used in preparing the accompanying consolidated financial statements.

KU Endowment has six wholly owned LLC companies to hold real estate and rental properties that are purchased or contributed to benefit the University. The assets and financial activity of the LLCs are presented in the accompanying consolidated financial statements. All material intercompany balances eliminate upon consolidation.

#### **Fund Accounting**

To ensure observance of limitations and restrictions that donors have placed on the use of resources available to KU Endowment, the accounts of KU Endowment are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes, as specified by the resource donor, are classified for accounting and reporting purposes into separate fund accounts that are established according to their individual nature and purpose. However, these separate accounts that have similar characteristics have been combined into groups in the accompanying consolidated financial statements, and all financial transactions have been recorded and reported accordingly by fund groups.

# Kansas University Endowment Association

## Notes to Consolidated Financial Statements (continued)

*(Dollars in thousands)*

### **2. Summary of Significant Accounting Policies (continued)**

Funds have been grouped by classification into two categories per adoption of the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, without donor restrictions and with donor restrictions. Funds without donor restrictions represent assets and contributions that are available for the broad benefit of the University but are not otherwise restricted by donors. Funds with donor restrictions represent assets and contributions with a donor-imposed restriction that permits the organization to use or expend the donated assets and income as specified, and the restriction is satisfied either by the passage of time or by actions of the organization.

#### **Cash and Cash Equivalents**

KU Endowment considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

#### **Student Loans Receivable**

As of June 30, 2021 and 2020, there was approximately \$3,352 and \$3,296, respectively, of loans 90 days or more past due. Interest is accrued on loans that are more than 90 days and less than 180 days past due at 5% and on loans 180 days or more past due at 14%, but this interest is fully reserved within the consolidated financial statements. KU Endowment writes off uncollectible loans, both principal and interest, after the external collection agency partners have determined that they are uncollectible.

#### **Pledges, Contributions, Bequests, and Grants**

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received or the condition has been satisfied. Contributions are reported as support with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction is satisfied (as to either time or purpose), donor-restricted net assets are reclassified as net assets without donor restrictions and reported on the accompanying consolidated statements of activities as net assets released from restrictions.

All unconditional contributions, bequests, and grants are included in the revenue of net assets without donor restrictions at the time they are received or pledged. Donated property is recorded at fair market value on the date it is received or pledged.

# Kansas University Endowment Association

## Notes to Consolidated Financial Statements (continued)

*(Dollars in thousands)*

### **2. Summary of Significant Accounting Policies (continued)**

#### **Real Estate Loans Receivable**

Real estate loans represent long-term loans for University-related construction projects that will be repaid by the University or its affiliates.

#### **Investment Programs**

##### *Short-Term Investment Program*

KU Endowment invests the excess cash balances in individual fund accounts by pooling them into a short-term investment program to produce a net investment yield. The total investment yield, less distributions of earnings to certain accounts, is retained by KU Endowment and is allocated to the unrestricted net asset classification to defray administrative costs.

##### *Long-Term Investment Program*

The individual fund accounts also may invest in the Long-Term Investment Program (LTIP), which are pooled together for investment purposes. Investment earnings of the LTIP are allocated to participating fund accounts on a market-value unit basis. Amounts allocated to participating fund accounts, under KU Endowment's spending policy, are based on a constant growth spending policy, where spending is adjusted annually by inflation, measured by the Consumer Price Index for All Urban Consumers (CPI-U). The target spending rate of the constant growth spending policy is 5.5% of the market value, with 4.6% out of 5.5% being allocated to participating funds for current expenditure. An amount equal to 0.9% out of 5.5% is allocated to the unrestricted fund group to defray administrative costs. To avoid potential under distributions or unsustainable overdistributions relative to the current market value in any given year, the constant growth spending policy is subject to a 4.5% floor and a 6.5% cap of the trailing four-quarter average market value.

Investment earnings, including interest, dividends, realized gains, and unrealized gains in excess of amounts allocated as described above (accumulated investment earnings), are maintained in the LTIP. Such accumulated investment earnings are classified for consolidated financial statement purposes as funds with donor restrictions or agency funds, based on the donor's intentions for the use of the income in conjunction with KU Endowment's spending policy. Investment earnings from board-designated funds without donor restrictions that have been invested are classified as net assets without donor restrictions.

# Kansas University Endowment Association

## Notes to Consolidated Financial Statements (continued)

*(Dollars in thousands)*

### **2. Summary of Significant Accounting Policies (continued)**

#### **Investment Earnings**

Investment earnings that are distributed to individual fund accounts as expendable resources, in accordance with KU Endowment's LTIP spending policy, are classified as funds without donor restrictions or with donor restrictions primarily based on the donor's intentions for the use of the account (see Long-Term Investment Program). The spending policy determines investment earnings that can be spent and investment earnings that are treated as funds with donor restrictions functioning as an endowment.

Realized gains and losses on sales of investments are computed on an average-cost basis. Income from asset holdings is reported net of external and direct internal investment expenses.

KU Endowment has invested in common trust funds that retain all dividends for reinvestment. Such dividends have been recorded as investment earnings and as an increase in the cost of the fund.

#### **Property and Facilities**

Assets acquired are recorded at cost if purchased. Assets held for future earnings potential are classified as investments on the accompanying consolidated statements of financial position. Improvements and replacements are capitalized, and repairs and maintenance are expensed as incurred. Assets held for use by the University or KU Endowment are classified as property and facilities.

Assets contributed are recorded at fair value at the date of donation. If the donor stipulates how long the asset must be used, the contribution is recorded as support with donor restrictions. In the absence of such stipulations, the contribution is recorded as support without donor restrictions.

# Kansas University Endowment Association

## Notes to Consolidated Financial Statements (continued)

*(Dollars in thousands)*

### 2. Summary of Significant Accounting Policies (continued)

Depreciation of assets held for use is computed over the estimated useful lives of the respective assets using the straight-line method. Estimated useful lives used by principal asset groups for calculating depreciation are as follows:

<u>Assets</u>	<u>Estimated Useful Life</u>
Buildings:	
New:	
Laboratories	30 years
Other	30–50 years
Used	10–30 years
Building improvements	8–30 years
Equipment and furnishings	3–15 years

### Agency Funds

KU Endowment holds certain endowment and other funds on behalf of the University and other affiliated third parties. Such funds totaled approximately \$90,592 and \$70,231 at June 30, 2021 and 2020, respectively.

### University Support

Expenses include distributions to support purposes of the University as a whole, as well as specific departments or schools of the University. Certain distributions, such as faculty and staff salary support, are made to the University, while others, such as student awards, are paid directly to the recipients. Total University support was approximately \$183,858 and \$160,735 during the years ended June 30, 2021 and 2020, respectively.

### Fair Value of Financial Instruments

The following methods and assumptions were used to determine the fair value of each class of financial instruments that appears on the accompanying consolidated statements of financial position. For all categories listed, the carrying value approximates fair value.

*Cash and Cash Equivalents* – Cash and cash equivalents are defined as cash on hand and cash in demand accounts.

## Kansas University Endowment Association

### Notes to Consolidated Financial Statements (continued)

*(Dollars in thousands)*

#### **2. Summary of Significant Accounting Policies (continued)**

*Contributions Pledged* – Fair value, after allowance for uncollectible pledges, is determined by discounting the expected future cash flows.

*Loans Receivable* – Loans receivable are reported on the accompanying consolidated statements of financial position as outstanding principal, adjusted for the allowance for doubtful accounts. Management estimates the allowance for doubtful accounts based on losses inherent in the loan portfolio and existing economic conditions.

*Investments* – Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value, with gains and losses included on the accompanying consolidated statements of activities. The fair value is recorded based on prices quoted by securities dealers or brokers, investment bankers, or valuation specialists on the valuation date. Management's estimate of the fair value of investments is included in Note 5.

KU Endowment invests in limited partnerships and commingled vehicles, some of which employ traditional strategies in readily marketable securities and others of which employ less traditional strategies. The fair value of these investments is generally determined by an investment manager or its third-party administrator based on the net asset value (NAV) of the underlying investments. These investments are accounted for using the NAV practical expedient. A portion of the underlying investments is not readily marketable. Therefore, its estimated fair value is subject to uncertainty and may differ from the value that would have been used had a ready market for such investments existed.

*Trusts Held by Others* – Trusts that provide an irrevocable beneficial interest to KU Endowment and that are administered by third parties for the benefit of KU Endowment are included in the consolidated financial statements at the fair value of the assets contributed to the trust in the appropriate net asset class.

*Life Income Gifts* – Life income gifts consist primarily of gift annuities and charitable remainder trusts and are recognized at fair value in the period the trust is established and adjusted accordingly in subsequent years. Generally, the terms of the life income gifts require KU Endowment to pay a specified amount or percentage of a fund's market value to a designated beneficiary for a specified term or the beneficiary's lifetime. Assets of such gifts are reported as a component of investment securities. Liabilities related to the gifts are recognized at the present value of the expected future

# Kansas University Endowment Association

## Notes to Consolidated Financial Statements (continued)

*(Dollars in thousands)*

### **2. Summary of Significant Accounting Policies (continued)**

cash payments to the beneficiaries and are discounted at the 2012 Individual Annuity Reserving table rates. Obligations to beneficiaries at June 30, 2021, were approximately \$8,697 for gift annuities and approximately \$14,121 for charitable remainder trusts. Obligations to beneficiaries at June 30, 2020, were approximately \$10,082 for gift annuities and approximately \$12,517 for charitable remainder trusts.

Pursuant to charitable gift annuity regulations COMAR 31.09.07.03, KU Endowment maintains adequate reserves for these obligations in unrestricted net assets, which totaled approximately \$305,603 and \$204,865 at June 30, 2021 and 2020, respectively.

#### **Use of Estimates**

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue, gains, and other support and expenses during the reporting periods. Actual results could differ from those estimates.

#### **Concentrations of Credit Risk**

Financial instruments that potentially subject KU Endowment to concentrations of credit risk include cash and cash equivalents, investments, loans receivable, and contributions receivable. Investments and cash and cash equivalents are managed within guidelines established by KU Endowment, which, as a matter of policy, require prudent diversification in order to minimize risk exposures. Concentrations of credit risk with respect to loans receivable and contributions receivable are limited since amounts are generally due from a large number of individual donors or corporations.

KU Endowment's investment programs are exposed to various kinds and levels of risk. Fixed-income securities expose KU Endowment to interest rate risk, credit risk, and liquidity risk. The current value of many fixed-income securities is affected as interest rates change, particularly those with fixed interest rates. Credit risk is the risk that the obligor of the security will not fulfill its obligation. Liquidity risk is affected by the willingness of market participants to buy and sell given securities.



# Kansas University Endowment Association

## Notes to Consolidated Financial Statements (continued)

(Dollars in thousands)

### 2. Summary of Significant Accounting Policies (continued)

Equity securities expose KU Endowment to market risk, performance risk, and liquidity risk. Market risk is the risk associated with major movements of equity markets, both domestic and international. Performance risk is the risk associated with a particular company's operating performance. Liquidity risk, as previously defined, tends to be higher for international equities and small capitalization equity companies.

### 2020 Financial Information

The accompanying consolidated financial statements include certain prior year summarized, comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the organization's consolidated financial statements for the year ended June 30, 2020, from which the summarized information was derived.

### New Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 offers specific accounting guidance for a lessee, a lessor, and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2021, and requires a modified retrospective adoption, with early adoption permitted. KU Endowment is in the process of evaluating the future impact of ASU 2016-02 on its consolidated statements of financial position, activities, and cash flows.

### 3. Contributions Receivable

Contributions are generally recognized at fair value when unconditional contributions are made. Contributions receivable at June 30 are classified in the accompanying consolidated financial statements as follows:

	<u>2021</u>	<u>2020</u>
Without donor restrictions	\$ 4,363	\$ 6,283
With donor restrictions	65,583	82,461
	<u>\$ 69,946</u>	<u>\$ 88,744</u>

Kansas University Endowment Association

Notes to Consolidated Financial Statements (continued)

*(Dollars in thousands)*

**3. Contributions Receivable (continued)**

Contributions receivable at June 30 are due to be received in the following periods:

	<b>2021</b>	<b>2020</b>
Receivable in less than one year	\$ 32,847	\$ 34,458
Receivable in one to five years	34,510	54,634
Receivable after five years	4,617	3,101
Total undiscounted contributions receivable	<u>71,974</u>	<u>92,193</u>
Less present value discount (weighted-average discount rate of 1.65% and 1.89% in 2021 and 2020, respectively)	<u>(2,028)</u>	<u>(3,449)</u>
	<b>69,946</b>	88,744
Less allowance for doubtful contributions	<u>(2,103)</u>	<u>(1,752)</u>
Contributions receivable, net	<u><b>\$ 67,843</b></u>	<u>\$ 86,992</u>

An allowance for doubtful contributions is estimated from past-due pledge balances. Special consideration is given to significant pledges for which KU Endowment is concerned about future collectability.

## Kansas University Endowment Association

### Notes to Consolidated Financial Statements (continued)

*(Dollars in thousands)*

#### 4. Securities

Securities carried at fair value or amounts that approximate fair value consist of the following:

	<b>June 30</b>	
	<b>2021</b>	<b>2020</b>
Money market and short-term investments	\$ 124,158	\$ 87,536
Marketable domestic equity	1,200	10,047
U.S. treasury obligations	2,411	1,115
Exchange-traded funds	64,675	62,754
Open-ended mutual funds	268,454	236,395
Closed-ended mutual funds	49,699	35,008
Collateralized mortgage obligations	60,757	86,868
Common trust funds – equities	410,108	296,792
Common trust funds – fixed income	128,285	119,043
Real estate	1,069	1,294
Royalties and mineral interests	97	194
Hedge funds	631,847	445,609
Private investments	755,790	466,081
Other LLCs and LLPs	82,121	106,509
	<b>\$ 2,580,671</b>	<b>\$ 1,955,245</b>

#### 5. Fair Value Measurements

Fair value is 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. Accounting Standards Codification 820, *Fair Value Measurement*, issued by the FASB, establishes a fair value hierarchy that prioritizes the inputs 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 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). In determining fair value, KU Endowment uses various methods, including the market, income, and cost approaches. Based on these approaches, KU Endowment utilizes certain assumptions that market participants would use in pricing the assets, including assumptions about risk and the risks inherent in the inputs to

## Kansas University Endowment Association

### Notes to Consolidated Financial Statements (continued)

*(Dollars in thousands)*

#### **5. Fair Value Measurements (continued)**

the valuation techniques. The inputs can be readily observable, market corroborated, or generally unobservable inputs. KU Endowment uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The observability of the inputs used in the valuation techniques is the basis for determining the appropriate fair value hierarchy level.

Certain of KU Endowment's financial assets and financial liabilities are measured at fair value on a recurring basis, including money market, fixed-income, and equity instruments. The three levels of the fair value hierarchy and a description of the valuation methodologies used for instruments measured at fair value are as follows:

*Level 1* – Quoted prices (unadjusted) in active markets for identical assets or liabilities as of the reporting date. Level 1 primarily consists of financial instruments, such as money market securities and exchange-traded equities.

*Level 2* – Pricing inputs other than quoted prices included in Level 1 that are either directly observable or that can be derived or supported by observable data as of the reporting date. Instruments in this category include certain U.S. government agency and sponsored entity debt securities and commingled common trust funds.

*Level 3* – Pricing inputs include those that are significant to the fair value of the financial asset or financial liability and are not observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

Kansas University Endowment Association

Notes to Consolidated Financial Statements (continued)

(Dollars in thousands)

**5. Fair Value Measurements (continued)**

The fair value of financial assets measured at fair value on a recurring basis was determined using the following inputs at June 30, 2021:

	Fair Value Measurements at Reporting Date Using			
	June 30, 2021	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Long-term investments:				
Money markets and short-term investments	\$ 124,158	\$ 124,158	\$ —	\$ —
Marketable domestic equity securities	1,200	1,200	—	—
U.S. treasury obligations	2,411	—	2,411	—
Open-ended mutual funds	268,454	268,454	—	—
Closed-ended mutual funds	49,699	49,699	—	—
Exchange-traded funds	64,675	64,675	—	—
Collateralized mortgage obligations (CMOs)	60,757	—	60,757	—
Real estate	1,069	—	—	1,069
Royalties and mineral rights	97	—	—	97
	<u>572,520</u>	<u>508,186</u>	<u>63,168</u>	<u>1,166</u>
Trusts held by others	47,996	39,011	2,958	6,027
Interest in other KU Endowment entities	2,524	2,524	—	—
	<u>\$ 623,040</u>	<u>\$ 549,721</u>	<u>\$ 66,126</u>	<u>\$ 7,193</u>

Changes in Level 3 fair value measurements were as follows for the year ended June 30, 2021:

Fair value beginning balance	\$ 7,127
Realized and unrealized gain on trusts held by others	388
Realized and unrealized loss on real estate, royalties, and mineral rights	(322)
Fair value ending balance	<u>\$ 7,193</u>

# Kansas University Endowment Association

## Notes to Consolidated Financial Statements (continued)

*(Dollars in thousands)*

### 5. Fair Value Measurements (continued)

The fair value of financial assets measured at fair value on a recurring basis was determined using the following inputs at June 30, 2020:

	Fair Value Measurements at Reporting Date Using			
	June 30, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Long-term investments:				
Money markets and short-term investments	\$ 87,536	\$ 87,536	\$ —	\$ —
Marketable domestic equity securities	10,047	10,047	—	—
U.S. treasury obligations	1,115	—	1,115	—
Open-ended mutual funds	236,395	236,395	—	—
Closed-ended mutual funds	35,008	35,008	—	—
Exchange-traded funds	62,754	62,754	—	—
Collateralized mortgage obligations (CMOs)	86,868	—	86,868	—
Real estate	1,294	—	—	1,294
Royalties and mineral rights	194	—	—	194
	521,211	431,740	87,983	1,488
Trusts held by others	39,659	31,047	2,973	5,639
Interest in other KU Endowment entities	3,265	3,219	46	—
	\$ 564,135	\$ 466,006	\$ 91,002	\$ 7,127

Changes in Level 3 fair value measurements were as follows for the year ended June 30, 2020:

Fair value beginning balance	\$ 7,120
Realized and unrealized gain on trusts held by others	(120)
Realized and unrealized loss on real estate, royalties, and mineral rights	127
Fair value ending balance	\$ 7,127

## Kansas University Endowment Association

### Notes to Consolidated Financial Statements (continued)

*(Dollars in thousands)*

#### 5. Fair Value Measurements (continued)

The fair values of the securities included in Level 1 were determined through quoted market prices. The fair values of Level 2 securities were determined through evaluated bid prices based on recent trading activity and other relevant information, including market interest rate curves, referenced credit spreads, and estimated prepayment rates, where applicable, which are used for valuation purposes and are provided by third-party pricing services where quoted market values are not available. Level 2 investments include corporate fixed income, government bonds, American depository receipts, CMOs, and commingled common trust funds. Due to the volatility of the capital markets, there is a reasonable possibility of significant changes in fair value and additional gains (losses) in the near term subsequent to June 30, 2021.

The fair value of trusts held by others is estimated based on KU Endowment's beneficial interests in the trusts held by others. Certain of the underlying investments within the trusts held by others utilize significant unobservable inputs. Thus, KU Endowment's ownership of these underlying investments is categorized as Level 3 in the fair value hierarchy. The fair values of real estate, royalties, and mineral rights are based on inputs that are not observable in the market. Thus, KU Endowment's ownership of these investments is categorized as Level 3 in the fair value hierarchy.

In accordance with the amendments to FASB issued ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, KU Endowment has removed certain investments that are measured using the NAV practical expedient from the fair value hierarchy in all periods presented in the consolidated financial statements. These investments, by type, are outlined in the table below:

	Fair Value June 30, 2021	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Common trust funds – equities	\$ 416,419	\$ –	Daily, monthly	1–31 days
Common trust funds – fixed income	129,735	–	Daily, monthly	1–10 days
Hedge funds	632,165	2,500	Monthly, quarterly, semiannually, annually	2–180 days
Private investments	756,131	247,480	N/A	N/A
Other LLCs and LLPs	82,379	–	Monthly, quarterly	5–90 days
Total	<u>\$ 2,016,829</u>	<u>\$ 249,980</u>		

Kansas University Endowment Association

Notes to Consolidated Financial Statements (continued)

(Dollars in thousands)

**5. Fair Value Measurements (continued)**

	<b>Fair Value June 30, 2020</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency (if Currently Eligible)</b>	<b>Redemption Notice Period</b>
Common trust funds – equities	\$ 301,477	\$ –	Daily, monthly, quarterly	1–45 days
Common trust funds – fixed income	120,261	–	Daily, monthly	1–10 days
Hedge funds	445,846	11,000	Monthly, quarterly, semiannually, annually	2–90 days
Private investments	466,309	256,505	N/A	N/A
Other LLCs and LLPs	106,749	–	Monthly, quarterly	1–90 days
<b>Total</b>	<u>\$ 1,440,642</u>	<u>\$ 267,505</u>		

Investments in common trust funds are invested primarily in marketable common stocks and bonds. The fair values of these investments have been estimated using the NAV per share of the investments.

Hedge funds, private investments (private equity, venture capital, and private real assets), and investments in other LLCs and LLPs are also accounted for at fair value using the NAV as the practical expedient. The primary objectives for these investment types are to improve diversification and reduce volatility. These investments have various liquidity schedules, which are monitored on a continuous basis. Redemption frequency of hedge funds and other LLCs and LLPs can be subject to rolling lockups. Of the hedge funds and other LLCs and LLPs listed above, for the year ended June 30, 2021, approximately 83% is available for redemption within 12 months and 16.5% is available for redemption within 3 years. The remaining 0.5% is deemed to be illiquid due to special investments of the manager. For the year ended June 30, 2020, approximately 83% is available for redemption within 12 months and 16% is available for redemption within 3 years. The remaining 1% is deemed to be illiquid due to special investments of the manager. Private investments cannot be redeemed with the investees, but instead KU Endowment will receive distributions through the liquidation of the underlying assets of the investees.



## Kansas University Endowment Association

### Notes to Consolidated Financial Statements (continued)

*(Dollars in thousands)*

#### 6. Benefit Plans

##### Pension Plan

KU Endowment has a defined benefit pension plan (the Plan) that provides the participants of the Plan with a life annuity benefit. Employees of KU Endowment meeting years of service requirements are eligible to participate in the Plan with contributions funded solely by KU Endowment. KU Endowment's policy is to make periodic employer contributions in conformance with at least the minimum funding requirements as set forth in the Employee Retirement Income Security Act of 1974, as amended (ERISA).

The benefit obligation is the present value of benefits for all retired and vested terminated participants, plus a present value of benefits for active participants, based on service rendered prior to June 30, 2021, and projected future pay levels at expected retirement ages. The Plan's funded status and the amounts recognized on KU Endowment's consolidated statements of financial position are as follows:

	<b>2021</b>	<b>2020</b>
<b>Change in benefit obligation</b>		
Benefit obligation at beginning of year:	\$ 57,858	\$ 48,903
Service cost	2,179	1,777
Interest cost	1,624	1,733
Actuarial loss	(182)	7,153
Benefits and expenses paid	(1,299)	(1,708)
Benefit obligation at end of year	<b>60,180</b>	<b>57,858</b>
 <b>Change in plan assets</b>		
Fair value of plan assets at beginning of year:	<b>36,030</b>	34,930
Actual return on plan assets	<b>10,802</b>	(47)
Employer contribution	<b>1,655</b>	2,855
Benefits and expenses paid	(1,299)	(1,708)
Fair value of plan assets at end of year	<b>47,188</b>	<b>36,030</b>
 Unfunded status included in accounts payable and accrued expenses on the consolidated statement of financial position	<b>\$ (12,992)</b>	<b>\$ (21,828)</b>

## Kansas University Endowment Association

### Notes to Consolidated Financial Statements (continued)

*(Dollars in thousands)*

#### 6. Benefit Plans (continued)

Federal legislation requires KU Endowment to fund the value of accrued benefits for the pension plan over time, based on the average discount rate derived from high-quality corporate bonds. The intent of the legislation is to measure the Plan's liability based on benefits earned to date by plan participants. For the Plan years ended June 30, 2021 and 2020, the percentage of the value of accrued benefits then funded in the Plan was 122.35% and 110.6%, respectively, as certified by KU Endowment's independent actuarial consultant. The Plan's accumulated benefit obligation was approximately \$52,973 and \$51,120 on June 30, 2021, and 2020, respectively.

Included in unrestricted net assets at June 30 are the following amounts, that have not yet been recognized in net periodic pension cost:

	<b>2021</b>	<b>2020</b>
Unrecognized actuarial losses	<b>\$ 12,867</b>	<b>\$ 23,017</b>

Changes in plan assets and benefit obligations in unrestricted net assets during the years ended June 30 include the following:

	<b>2021</b>	<b>2020</b>
Unrecognized actuarial loss (gain)	<b>\$ (8,427)</b>	<b>\$ 9,677</b>
Amortization of actuarial loss	<b>(1,723)</b>	<b>(939)</b>
	<b>\$ (10,150)</b>	<b>\$ 8,738</b>

The amount of unrecognized actuarial losses expected to be recognized through the net periodic pension cost during the year ending June 30, 2022, is \$685.

The components of the net periodic pension cost were as follows for the years ended June 30:

	<b>2021</b>	<b>2020</b>
Service cost	<b>\$ 2,179</b>	<b>\$ 1,777</b>
Interest cost	<b>1,624</b>	<b>1,733</b>
Expected return on plan assets	<b>(2,557)</b>	<b>(2,478)</b>
Recognized net actuarial loss	<b>1,723</b>	<b>939</b>
Net periodic pension cost	<b>\$ 2,969</b>	<b>\$ 1,971</b>

## Kansas University Endowment Association

### Notes to Consolidated Financial Statements (continued)

*(Dollars in thousands)*

#### 6. Benefit Plans (continued)

KU Endowment's funding policy is to make at least the minimum annual contributions required by ERISA. The expected total contributions during the year ending June 30, 2022, will be approximately \$2,148.

KU Endowment's asset-allocation target is 71% equity and 29% fixed income for pension fund assets. The actual pension plan weighted average asset allocations by asset category are as follows:

	June 30	
	2021	2020
Equity securities	71%	70%
Debt and other securities	29	30
	100%	100%

The fair value of pension plan assets was determined using the following inputs at June 30, 2021:

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money markets and short-term investments	\$ 335	\$ 335	\$ -	\$ -
Domestic equity funds	20,793	20,793	-	-
International equity funds	12,616	12,616	-	-
Domestic fixed-income funds	11,109	11,109	-	-
Foreign fixed-income funds	2,335	2,335	-	-
	\$ 47,188	\$ 47,188	\$ -	\$ -

Kansas University Endowment Association

Notes to Consolidated Financial Statements (continued)

(Dollars in thousands)

**6. Benefit Plans (continued)**

The fair value of pension plan assets was determined using the following inputs at June 30, 2020:

	<b>Fair Value Measurements Using</b>			
	<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Money markets and short-term investments	\$ 178	\$ 178	\$ -	\$ -
Domestic equity funds	15,441	15,441	-	-
International equity funds	9,650	9,650	-	-
Domestic fixed-income funds	8,869	8,869	-	-
Foreign fixed-income funds	1,892	1,892	-	-
	<u>\$ 36,030</u>	<u>\$ 36,030</u>	<u>\$ -</u>	<u>\$ -</u>

The actuarial valuation of the Plan used a 7.0% long-term return assumption for the years ended June 30, 2021 and 2020. These amounts are consistent with the return expectations for a diversified, equity-oriented portfolio of publicly traded stocks and bonds over long periods of time. KU Endowment's review of long-term risk and return assumptions supports this target allocation.

## Kansas University Endowment Association

### Notes to Consolidated Financial Statements (continued)

*(Dollars in thousands)*

#### 6. Benefit Plans (continued)

The assumptions used in determining pension information for the Plan for the years ended June 30, using a June 30 measurement date, were as follows:

	2021	2020
Benefit obligations:		
Weighted average discount rate	<b>2.89%</b>	2.84%
Rate of compensation increase	<b>2.5% – 6.5%</b>	2.5% – 6.5%
Benefit costs:		
Weighted average discount rate	<b>2.84%</b>	3.59%
Expected return on plan assets	<b>7.00</b>	7.00
Rate of compensation increase	<b>3.74</b>	3.74

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Fiscal Year	Future Expected Benefit Payments
2022	\$ 1,509
2023	1,686
2024	1,713
2025	1,794
2026	1,980
2027–2031	12,207

#### Defined Contribution Plan

KU Endowment also has a 401(k) Plan, which is a defined contribution plan that covers substantially all employees meeting the eligibility requirements set forth under the 401(k) Plan. KU Endowment contributes an amount based on a percentage of the amount contributed to the 401(k) Plan by eligible employees. KU Endowment recorded expenses of \$386 and \$561 related to the 401(k) Plan during fiscal years 2021 and 2020, respectively, which are included in administrative and fundraising support on the accompanying consolidated statements of activities.

## Kansas University Endowment Association

### Notes to Consolidated Financial Statements (continued)

*(Dollars in thousands)*

#### 7. Donor Restrictions Satisfied

For the years ended June 30, donor-restricted net assets were released from restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors, as follows:

	2021	2020
Program restrictions:		
University support:		
Student support	\$ 37,934	\$ 39,644
Faculty support and contractual services	40,734	46,397
Construction, furnishings, equipment, and supplies	47,443	20,669
Program and other educational support	51,051	48,535
	\$ 177,162	\$ 155,245

#### 8. Net Assets With Donor Restrictions

Restricted net assets available at June 30 are restricted for the following purposes:

	2021	2020
Subject to expenditure for specified purpose:		
Scholarships, fellowships, and awards	\$ 37,789	\$ 35,472
Construction	114,266	159,882
Equipment	4,239	3,232
Research	31,664	27,099
Salaries and services	53,840	50,956
Other University support	113,244	51,266
Subject to passage of time	3,860	2,911
Endowments, subject to spending policy and appropriation:		
Scholarships, fellowships, and awards	769,725	581,693
Construction	9,231	7,036
Equipment	7,893	6,185
Research	81,946	67,699
Salaries and services	400,146	308,499
Other University support	648,664	502,467
Unrealized planned gifts for multiple purposes	79,077	62,590
	\$ 2,355,584	\$ 1,866,987

The income generated from donor-restricted assets is to be used for activities relating to the purpose.

# Kansas University Endowment Association

## Notes to Consolidated Financial Statements (continued)

*(Dollars in thousands)*

### **9. Endowment**

KU Endowment's endowment consists of approximately 3,833 individual fund accounts established for a variety of purposes to benefit the University. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported on the existence or absence of donor-imposed restrictions.

#### **Interpretation of Relevant Law**

KU Endowment has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, KU Endowment classifies as net assets with donor restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with UPMIFA, KU Endowment considers the following factors in making a determination whether to appropriate or to accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of KU Endowment
- The investment policies of KU Endowment

## Kansas University Endowment Association

### Notes to Consolidated Financial Statements (continued)

*(Dollars in thousands)*

#### 9. Endowment (continued)

At June 30, 2021, KU Endowment's net assets composition by type of fund consisted of the following:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Donor-restricted endowment funds	\$ 3,772	\$ 1,598,327	\$ 1,602,099
Board-designated endowment funds	215,914	263,794	479,708
<b>Total funds</b>	<b>\$ 219,686</b>	<b>\$ 1,862,121</b>	<b>\$ 2,081,807</b>

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

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 166,995	\$ 1,432,840	\$ 1,599,835
Investment return:			
Investment income	3,675	38,639	42,314
Net appreciation	36,694	389,828	426,522
Total investment return	40,369	428,467	468,836
Contributions	7,560	46,431	53,991
Appropriation of endowment assets for expenditure	(822)	(45,378)	(46,200)
Other changes:			
Other receipts	1,171	1,414	2,585
Interfund transfer within KU Endowment fund accounts, including wholly expendable accounts	4,413	(1,653)	2,760
<b>Endowment net assets, end of year</b>	<b>\$ 219,686</b>	<b>\$ 1,862,121</b>	<b>\$ 2,081,807</b>



## Kansas University Endowment Association

### Notes to Consolidated Financial Statements (continued)

*(Dollars in thousands)*

#### 9. Endowment (continued)

At June 30, 2020, KU Endowment's net assets composition by type of fund consisted of the following:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Donor-restricted endowment funds	\$ 6,482	\$ 1,221,109	\$ 1,227,591
Board-designated endowment funds	160,513	211,731	372,244
<b>Total funds</b>	<b>\$ 166,995</b>	<b>\$ 1,432,840</b>	<b>\$ 1,599,835</b>

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

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 163,292	\$ 1,476,335	\$ 1,639,627
Investment return:			
Investment income	3,262	34,489	37,751
Net depreciation	(5,409)	(55,999)	(61,408)
Total investment return	(2,147)	(21,510)	(23,657)
Contributions	3,845	32,754	36,599
Appropriation of endowment assets for expenditure	(832)	(50,711)	(51,543)
Other changes:			
Other receipts	1,044	1,807	2,851
Interfund transfer within KU Endowment fund accounts, including wholly expendable accounts	1,793	(5,835)	(4,042)
<b>Endowment net assets, end of year</b>	<b>\$ 166,995</b>	<b>\$ 1,432,840</b>	<b>\$ 1,599,835</b>

# Kansas University Endowment Association

## Notes to Consolidated Financial Statements (continued)

*(Dollars in thousands)*

### **9. Endowment (continued)**

#### **Underwater Endowment Funds**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor contributed, which is defined by KU Endowment as the amount required under UPMIFA to be retained as a fund of perpetual duration. In the absence of donor stipulations or law to the contrary, decreases in the value of assets of a donor-restricted endowment fund to an amount below the historical gift value shall reduce donor-restricted net assets. Accordingly, the aggregate of these deficiencies shall reduce donor-restricted net assets to the extent there is net appreciation on related funds with donor-imposed restrictions. As of June 30, 2021 there were no deficiencies of this nature. As of June 30, 2020 deficiencies of this nature existed in 112 donor-restricted endowment funds, of which together had an original gift value of approximately \$65,794, and the current fair value was \$63,918, resulting in a deficiency of \$1,875. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment funds and continued appropriation for certain programs, which was deemed prudent by the Board of Trustees.

#### **Return Objectives and Risk Parameters**

KU Endowment has investment policies that attempt to provide a predictable stream of funding to programs supported by operations, as well as endowment donations. Assets are invested in a manner that is intended to produce results that exceed the respective benchmark, while assuming a moderate level of investment risk. KU Endowment expects its endowment funds, over time, to provide an average rate of return of approximately 8% annually. Actual returns in any given year may vary from this amount.

#### **Strategies Employed for Achieving Objectives**

To satisfy its long-term rate of return objectives, KU Endowment 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, net of fees). KU Endowment targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

## Kansas University Endowment Association

### Notes to Consolidated Financial Statements (continued)

*(Dollars in thousands)*

#### **9. Endowment (continued)**

##### **Spending Policy and How the Investment Objectives Relate to Spending Policy**

Except as specified by the donor, KU Endowment has adopted a constant growth policy in which earnings are allocated monthly for spending using a target spending rate of 5.5% of the market value of the endowment fund investment pool. Spending is adjusted annually by inflation, measured by the CPI-U. The policy is subject to a 4.5% floor and a 6.5% cap of the trailing four-quarter average market value. In establishing this policy, KU Endowment considered the long-term expected return on its endowment. Accordingly, over the long term, KU Endowment expects the current spending policy to allow its endowment to grow at an average of the long-term rate of inflation. This is consistent with KU Endowment's objective to maintain the purchasing power of the endowed assets held in perpetuity while providing a stable source of funding for the University, as well as growing over the years through the addition of new gifts.

#### **10. Liquidity**

The general expenditures of KU Endowment are currently adequately funded by the administrative fee charged on investment accounts. Amounts generated by the fee are classified as funds without donor restrictions. Funds without donor restrictions also make possible various grants to benefit specific projects of the University, as recommended by the Chancellor and approved by the Executive Committee of the Board of Trustees, in addition to funding KU Endowment's operations. The Executive Committee meets three times a year, and on an ad hoc basis, to review and approve grant requests from resources that are without donor restrictions.

KU Endowment manages its funds available to meet general expenditures following these principles:

- Operating within a prudent range of financial soundness and stability
- Maintaining a sufficient level of liquidity
- Monitoring and maintaining reserves to provide reasonable assurance that long-term obligations related to endowments with donor restrictions and quasi-endowments continue to be met

## Kansas University Endowment Association

### Notes to Consolidated Financial Statements (continued)

*(Dollars in thousands)*

#### 10. Liquidity (continued)

KU Endowment's general operating expenditures include administrative and fundraising expenses. KU Endowment has established a guideline for an annual minimum cash balance of funds without donor restrictions that are available to fund operations equal to no less than 75% of KU Endowment's annual operating budget that is funded by such funds without donor restriction. The Executive Committee approves the annual operating budget.

The following balances of financial assets without donor restriction would be available for funding of operations within one year:

	<b>June 30</b>	
	<b>2021</b>	<b>2020</b>
Financial assets:		
Cash and cash equivalents	\$ 7,796	\$ 10,020
Receivables	12,792	19,508
Investments	272,984	173,076
Real estate and mineral interests	31,201	29,607
Other assets	82	684
Total financial assets	324,855	232,895
Less amounts not available in one year:		
Cash designated for specific University uses	7,102	4,495
Receivables	8,239	14,779
Investments	78,529	46,231
Real estate and mineral interests	31,201	29,607
Other assets	82	684
Total financial assets not available in one year	125,153	95,796
Total financial assets available within one year	\$ 199,702	\$ 137,099

# Kansas University Endowment Association

## Notes to Consolidated Financial Statements (continued)

*(Dollars in thousands)*

### 11. Functional Expenses

KU Endowment is the fundraising entity for the University of Kansas and its affiliates. The University of Kansas controls and has written affiliation agreements with the following affiliated corporations: University of Kansas Center for Research, Inc.; University of Kansas Memorial Corporation (d.b.a. Kansas and Burge Unions); Kansas Athletics, Inc.; Studio 804, Inc.; Hilltop Child Development Center, Inc.; KU Campus Development Corporation; Jayhawk Community Partners, Inc.; University of Kansas Medical Center Research Institute (including its subsidiary corporations, the KU Center for Technology Commercialization; KUMC Research Properties, Inc.; Precede Fund, LLC; and Kansas Life Sciences Development Company, Inc.); The Student Union Corporation of The University of Kansas Medical Center; KU Health Partners, Inc.; KU Medical Alumni Association; and Center for Residency Education, Inc. Funds are also held by KU Endowment for entities that are affiliated with the University of Kansas but are not controlled by the University. These noncontrolled affiliates include the University of Kansas Alumni Association, the University of Kansas Health System, and other related organizations.

Expenses are presented below by functional classification in accordance with the overall service mission of KU Endowment. Each functional classification displays all expenses related to the underlying operations by natural classification.

	Year Ended June 30, 2021				Summarized Financial Information for the Year Ended June 30, 2020
	University	University Controlled Affiliates	University Noncontrolled Affiliates	Total	
<b>Expenses</b>					
University support:					
Student support	\$ 32,088	\$ 8,620	\$ 276	\$ 40,984	\$ 41,929
Faculty support and contractual services	39,439	501	3,264	43,204	47,432
Construction, furnishings, equipment, and supplies	5,999	61	41,574	47,634	20,740
Program and other educational support	17,006	21,804	13,226	52,036	50,634
Total University support	<u>94,532</u>	<u>30,986</u>	<u>58,340</u>	<u>183,858</u>	160,735
Supporting services:					
Administrative and fundraising support	-	-	22,285	22,285	21,965
Asset management expense	96	9	893	998	270
Depreciation	8	1	1,210	1,219	1,182
Total supporting services	<u>104</u>	<u>10</u>	<u>24,388</u>	<u>24,502</u>	23,417
Total expenses	<u>\$ 94,636</u>	<u>\$ 30,996</u>	<u>\$ 82,728</u>	<u>\$ 208,360</u>	\$ 184,152

Kansas University Endowment Association

Notes to Consolidated Financial Statements (continued)

*(Dollars in thousands)*

**12. Subsequent Events**

KU Endowment evaluated events and transactions occurring subsequent to June 30, 2021, through September 17, 2021, the date of issuance of the accompanying consolidated financial statements. During this period, there were no subsequent events requiring recognition or disclosure in the consolidated financial statements.

# Supplementary Information

Kansas University Endowment Association  
 Consolidating Statement of Financial Position

June 30, 2021

*(Dollars in thousands)*

The following supplemental statement is provided to fulfill certain statutory requirements as part of KU Endowment's Life Income Gift Program. The column labeled Kansas University Endowment Association within the consolidating statements of financial position below includes the assets, liabilities, and net assets directly controlled by KU Endowment. The column labeled Combined Real Estate LLCs includes the LLCs wholly owned by KU Endowment as described in Note 2, which are included within the consolidated financial statements of KU Endowment.

	<b>Kansas University Endowment Association</b>	<b>Combined Real Estate LLCs</b>	<b>Consolidated</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 7,796	\$ –	\$ 7,796
Receivables:			
Receivables from investment activities	680	–	680
Other receivables	9,705	6	9,711
Due from (to) affiliates	3,097	(3,097)	–
Student loans receivable, less allowance of \$971	21,770	–	21,770
Contributions pledged, less allowance of \$2,103	67,843	–	67,843
Real estate loans receivable	1,465	–	1,465
Total receivables	104,560	(3,091)	101,469
Investments:			
Securities	2,580,671	–	2,580,671
Trusts held by others	55,761	–	55,761
Interest in other KU Endowment entities	3,437	–	3,437
Real estate	21,642	–	21,642
Total investments	2,661,511	–	2,661,511
Property and facilities:			
Land	10,876	5,936	16,812
Buildings	21,858	7,122	28,980
Equipment and furnishings	4,162	–	4,162
	36,896	13,058	49,954
Less accumulated depreciation	(16,444)	(2,544)	(18,988)
Net property and facilities	20,452	10,514	30,966
Deposits and other assets	5,109	–	5,109
Total assets	\$ 2,799,428	\$ 7,423	\$ 2,806,851



Kansas University Endowment Association

Consolidating Statement of Financial Position (continued)

*(Dollars in thousands)*

	<b>Kansas University Endowment Association</b>	<b>Combined Real Estate LLCs</b>	<b>Consolidated</b>
<b>Liabilities and net assets</b>			
Liabilities:			
Accounts payable and accrued expenses	\$ 28,789	\$ 2,897	\$ 31,686
Payables from investment activities	350	-	350
Trust payable	218	-	218
Life income gift payable	22,818	-	22,818
Agency funds	90,592	-	90,592
Total liabilities	142,767	2,897	145,664
Net assets:			
Without donor restrictions	303,901	1,702	305,603
With donor restrictions	2,352,760	2,824	2,355,584
Total net assets	2,656,661	4,526	2,661,187
Total liabilities and net assets	\$ 2,799,428	\$ 7,423	\$ 2,806,851

## **EY | Building a better working world**

**EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.**

**Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.**

**Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.**

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via [ey.com/privacy](https://ey.com/privacy). EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit [ey.com](https://ey.com).

Ernst & Young LLP is a client-serving member firm of Ernst & Young Global Limited operating in the US.

© 2021 Ernst & Young LLP.  
All Rights Reserved.

**[ey.com](https://ey.com)**