

CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

Kansas University Endowment Association
Years Ended June 30, 2022 and 2021
With Report of Independent Auditors

Ernst & Young LLP



Kansas University Endowment Association
Consolidated Financial Statements and Supplementary Information
Years Ended June 30, 2022 and 2021

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Report of Independent Auditors

The Board of Trustees
Kansas University Endowment Association

Opinion

We have audited the consolidated financial statements of the Kansas University Endowment Association (the Company), which comprise the consolidated statements of financial position as of June 30, 2022, and 2021, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes (collectively referred to as the “financial statements”).

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, 2022, and 2021, and the related consolidated statements of activities and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis For Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the Kansas University Endowment Association's 2021 consolidated financial statements, and we expressed an unmodified audit opinion on those consolidated financial statements in our report dated September 17, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, 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, 2022, 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 14, 2022

Kansas University Endowment Association
Consolidated Statements of Financial Position

	June 30	
	2022	2021
	<i>(In Thousands)</i>	
Assets		
Cash and cash equivalents	\$ 7,276	\$ 7,796
Receivables:		
Receivables from investment activities	1,995	680
Other receivables	6,400	9,711
Student loans receivable, less allowance of \$901 and \$971 in 2022 and 2021, respectively	21,035	21,770
Contributions pledged, less allowance of \$1,592 and \$2,103 in 2022 and 2021, respectively	145,337	67,843
Real estate loans receivable	660	1,465
Total receivables	175,427	101,469
Investments:		
Securities	2,474,965	2,580,671
Trusts held by others	49,132	55,761
Interest in other KU Endowment Entities	3,214	3,437
Real estate	22,058	21,642
Total investments	2,549,369	2,661,511
Property and facilities		
Land	16,864	16,812
Buildings	27,118	28,980
Equipment and furnishings	4,407	4,162
	48,389	49,954
Accumulated depreciation	(19,111)	(18,988)
Net property and facilities	29,278	30,966
Deposits and other assets	4,919	5,109
Total assets	\$ 2,766,269	\$ 2,806,851

	June 30	
	2022	2021
	<i>(In Thousands)</i>	
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 21,994	\$ 31,686
Payables from investment activities	1,333	350
Trust payable	261	218
Life income gifts payable	18,264	22,818
Agency funds	91,855	90,592
Total liabilities	<u>133,707</u>	<u>145,664</u>
Net assets:		
Without donor restrictions	270,623	305,603
With donor restrictions	2,361,939	2,355,584
Total net assets	<u>2,632,562</u>	<u>2,661,187</u>

Total liabilities and net assets	<u><u>\$ 2,766,269</u></u>	<u><u>\$ 2,806,851</u></u>
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See accompanying notes.

Kansas University Endowment Association

Consolidated Statements of Activities

	Year Ended June 30, 2022			Summarized Financial Information
	Without Donor Restrictions	With Donor Restrictions	Total Current Year	for the Year Ended June 30, 2021
	<i>(In Thousands)</i>			
Revenue, gain (loss), and other support:				
Fundraising:				
Contributions and grants received and pledged	\$ 1,275	\$ 237,756	\$ 239,031	\$ 149,199
Bequests	1,093	21,139	22,232	22,432
Life income gifts	–	754	754	1,747
Change in value of life income gifts	(62)	6,434	6,372	1,879
Change in net interest in other KU Endowment entities	–	(223)	(223)	(506)
Total fundraising	2,306	265,860	268,166	174,751
Income (loss) from asset holdings:				
Investment income	15,220	69,979	85,199	53,508
Realized and unrealized gain (loss) on investments and trusts held by others	(27,624)	(146,686)	(174,310)	553,207
Loan interest income	258	749	1,007	1,402
Agricultural and mineral income	1,427	1,330	2,757	2,383
Rental, gain on sale of assets, and other income	(182)	(199)	(381)	1,131
Total income from asset holdings	(10,901)	(74,827)	(85,728)	611,631
Other receipts	110	1,703	1,813	1,162
Net assets released from restrictions:				
Satisfaction of program restrictions	186,856	(186,856)	–	–
Total revenue, gain (loss), and other support	\$ 178,371	\$ 5,880	\$ 184,251	\$ 787,544

Kansas University Endowment Association

Consolidated Statements of Activities (continued)

	Year Ended June 30, 2022			Financial Information for the Year Ended June 30, 2021
	Without Donor Restrictions	With Donor Restrictions	Total Current Year	
	<i>(In Thousands)</i>			
Expenses:				
University support:				
Student support	\$ 44,122	\$ —	\$ 44,122	\$ 40,984
Faculty support and contractual services	45,290	—	45,290	43,204
Construction, furnishings, equipment, and supplies	61,680	—	61,680	47,634
Program and other educational support	45,080	—	45,080	52,036
Total University support	196,172	—	196,172	183,858
Supporting services:				
Administrative and fundraising support	21,460	—	21,460	22,285
Asset management expense	233	—	233	997
Depreciation	1,175	—	1,175	1,219
Total supporting services	22,868	—	22,868	24,501
Total expenses	219,040	—	219,040	208,359
Excess (deficit) of revenues over expenses	(40,669)	5,880	(34,789)	579,185
Net interfund transfers	(475)	475	—	—
Change in net assets before amortization of unrecognized actuarial adjustments	(41,144)	6,355	(34,789)	579,185
Amortization of unrecognized actuarial adjustments	6,164	—	6,164	10,150
Change in net assets	(34,980)	6,355	(28,625)	589,335
Net assets at beginning of year	305,603	2,355,584	2,661,187	2,071,852
Net assets at end of year	\$ 270,623	\$ 2,361,939	\$ 2,632,562	\$ 2,661,187

See accompanying notes.

Kansas University Endowment Association

Consolidated Statements of Cash Flows

	Year Ended June 30	
	2022	2021
	<i>(In Thousands)</i>	
Operating activities		
Change in net assets	\$ (28,625)	\$ 589,335
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,175	1,219
Net realized and unrealized loss (gain) on investments and trusts held by others	174,310	(553,207)
Contributions restricted for long-term investment	(44,835)	(38,923)
Noncash contributions	(1,799)	(3,861)
Changes in operating assets and liabilities:		
Decrease in student loans receivable, net	735	1,427
(Increase) decrease in contributions pledged, net	(77,494)	19,149
Decrease in real estate loans receivable	805	5,462
(Decrease) in accounts payable and accrued expenses	(9,692)	(273)
Decrease in net interest of KU Endowment entities	223	506
Increase in agency funds	1,263	20,361
Other	879	185
Net cash provided by operating activities	<u>16,945</u>	<u>41,380</u>
Investing activities		
Net expenditures for property and facilities	(745)	(162)
Net purchases of real estate held for investment	709	158
Net proceeds from sale of investments	291,772	180,044
Purchase of investments	(354,036)	(262,567)
Net cash used in investing activities	<u>(62,300)</u>	<u>(82,527)</u>
Financing activities		
Proceeds from donor-restricted contributions	44,835	38,923
Net cash provided by financing activities	<u>44,835</u>	<u>38,923</u>
Net (decrease) in cash and cash equivalents	(520)	(2,224)
Cash and cash equivalent at beginning of year	7,796	10,020
Cash and cash equivalent at end of year	<u>\$ 7,276</u>	<u>\$ 7,796</u>

See accompanying notes.

Kansas University Endowment Association

Notes to Consolidated Financial Statements *(Dollars in Thousands)*

June 30, 2022

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 eight 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, 2022 and 2021, there was approximately \$4,471 and \$3,352, respectively, of loans 90 days or more past due. Interest is accrued on loans that are 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.

Kansas University Endowment Association

Notes to Consolidated Financial Statements (continued) (Dollars in Thousands)

2. Summary of Significant Accounting Policies (continued)

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.

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.

Kansas University Endowment Association

Notes to Consolidated Financial Statements (continued) *(Dollars in Thousands)*

2. Summary of Significant Accounting Policies (continued)

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.

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 \$91,855 and \$90,592 at June 30, 2022 and 2021, 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 \$196,172 and \$183,858 during the years ended June 30, 2022 and 2021, 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, 2022, were approximately \$7,184 for gift annuities and approximately \$11,080 for charitable remainder trusts. Obligations to beneficiaries at June 30, 2021, were approximately \$8,697 for gift annuities and approximately \$14,121 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 \$270,623 and \$305,603 at June 30, 2022 and 2021, 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.

2021 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, 2021, 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>2022</u>	<u>2021</u>
Without donor restrictions	\$ 321	\$ 4,363
With donor restrictions	<u>146,608</u>	<u>65,583</u>
	<u>\$ 146,929</u>	<u>\$ 69,946</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:

	<u>2022</u>	<u>2021</u>
Receivable in less than one year	\$ 52,445	\$ 32,847
Receivable in one to five years	96,068	34,510
Receivable after five years	4,000	4,617
Total undiscounted contributions receivable	<u>152,513</u>	<u>71,974</u>
Less present value discount (weighted-average discount rate of 1.67% and 1.65% in 2022 and 2021, respectively)	<u>(5,584)</u>	<u>(2,028)</u>
	146,929	69,946
Less allowance for doubtful contributions	<u>(1,592)</u>	<u>(2,103)</u>
Contributions receivable, net	<u>\$ 145,337</u>	<u>\$ 67,843</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:

	June 30	
	2022	2021
Money market and short-term investments	\$ 133,371	\$ 124,158
Marketable domestic equity	2,440	1,200
U.S. treasury obligations	1,098	2,411
Exchange-traded funds	56,996	64,675
Open-ended mutual funds	225,226	268,454
Closed-ended mutual funds	40,022	49,699
Collateralized mortgage obligations	52,330	60,757
Common trust funds – equities	378,139	410,108
Common trust funds – fixed income	120,142	128,285
Real estate	972	1,069
Royalties and mineral interests	97	97
Hedge funds	642,597	631,847
Private investments	748,346	755,790
Other LLCs and LLPs	73,189	82,121
	\$ 2,474,965	\$ 2,580,671

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, 2022:

	Fair Value Measurements at Reporting Date Using			
	June 30, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Long-term investments:				
Money markets and short-term investments	\$ 133,371	\$ 133,371	\$ —	\$ —
Marketable domestic equity securities	2,440	2,440	—	—
U.S. treasury obligations	1,098	—	1,098	—
Open-ended mutual funds	225,227	225,227	—	—
Closed-ended mutual funds	40,022	40,022	—	—
Exchange-traded funds	56,996	56,996	—	—
Collateralized mortgage obligations (CMOs)	52,330	—	52,330	—
Real estate	972	—	—	972
Royalties and mineral rights	97	—	—	97
	<u>512,553</u>	<u>458,056</u>	<u>53,428</u>	<u>1,069</u>
Trusts held by others	41,715	34,579	1,362	5,774
Interest in other KU Endowment entities	2,281	2,255	26	—
	<u>\$ 556,549</u>	<u>\$ 494,890</u>	<u>\$ 54,816</u>	<u>\$ 6,843</u>

Changes in Level 3 fair value measurements were as follows for the year ended June 30, 2022:

Fair value beginning balance	\$ 7,193
Realized and unrealized loss on trusts held by others	(254)
Realized and unrealized loss on real estate, royalties, and mineral rights	(96)
Fair value ending balance	<u>\$ 6,843</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, 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)
Assets				
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
	572,520	508,186	63,168	1,166
Trusts held by others	47,996	39,011	2,958	6,027
Interest in other KU Endowment entities	2,524	2,524	—	—
	\$ 623,040	\$ 549,721	\$ 66,126	\$ 7,193

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	\$ 7,193

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, 2022.

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, 2022	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Common trust funds – equities	\$ 383,941	\$ –	Daily, monthly	1–31 days
Common trust funds – fixed income	121,729	–	Daily, monthly	1–10 days
Hedge funds	642,907	–	Monthly, quarterly, semiannually, annually	2–180 days
Private investments	748,743	312,846	N/A	N/A
Other LLCs and LLPs	73,442	–	Monthly, quarterly	5–90 days
Total	<u>\$ 1,970,762</u>	<u>\$ 312,846</u>		

Kansas University Endowment Association

Notes to Consolidated Financial Statements (continued)
(Dollars in Thousands)

5. Fair Value Measurements (continued)

	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>		

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, 2022, approximately 85% is available for redemption within 12 months and 14.5% 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, 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. 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, 2022, 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:

	2022	2021
Change in benefit obligation		
Benefit obligation at beginning of year:	\$ 60,180	\$ 57,858
Service cost	2,266	2,179
Interest cost	1,717	1,624
Actuarial loss	(15,127)	(182)
Benefits and expenses paid	(1,424)	(1,299)
Benefit obligation at end of year	47,612	60,180
Change in plan assets		
Fair value of plan assets at beginning of year:	47,188	36,030
Actual return on plan assets	(6,322)	10,802
Employer contribution	2,148	1,655
Benefits and expenses paid	(1,424)	(1,299)
Fair value of plan assets at end of year	41,590	47,188
Unfunded status included in accounts payable and accrued expenses on the consolidated statement of financial position	\$ (6,022)	\$ (12,992)

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, 2022 and 2021, the percentage of the value of accrued benefits then funded in the Plan was 124.16% and 122.35%, respectively, as certified by KU Endowment's independent actuarial consultant. The Plan's accumulated benefit obligation was approximately \$42,812 and \$52,973 on June 30, 2022, and 2021, respectively.

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

	2022	2021
Unrecognized actuarial losses	\$ 6,703	\$ 12,867

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

	2022	2021
Unrecognized actuarial loss (gain)	\$ (5,479)	\$ (8,427)
Amortization of actuarial loss	(685)	(1,723)
	\$ (6,164)	\$ (10,150)

The amount of unrecognized actuarial losses expected to be recognized through the net periodic pension cost during the year ending June 30, 2023, is \$194.

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

	2022	2021
Service cost	\$ 2,266	\$ 2,179
Interest cost	1,717	1,624
Expected return on plan assets	(3,325)	(2,557)
Recognized net actuarial loss	685	1,723
Net periodic pension cost	\$ 1,343	\$ 2,969

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, 2023, will be approximately \$2,000.

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	
	2022	2021
Equity securities	71%	71%
Debt and other securities	29	29
	100%	100%

The fair value of pension plan assets was determined using the following inputs at June 30, 2022:

	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	\$ 203	\$ 203	\$ —	\$ —
Domestic equity funds	18,420	18,420	—	—
International equity funds	11,028	11,028	—	—
Domestic fixed-income funds	9,868	9,868	—	—
Foreign fixed-income funds	2,071	2,071	—	—
	\$ 41,590	\$ 41,590	\$ —	\$ —

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, 2021:

	Fair Value	Fair Value Measurements Using		
		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	—	—
	<u>\$ 47,188</u>	<u>\$ 47,188</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, 2022 and 2021. 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.

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:

	2022	2021
Benefit obligations:		
Weighted average discount rate	4.66%	2.89%
Rate of compensation increase	2.5% – 6.5%	2.5% – 6.5%
Benefit costs:		
Weighted average discount rate	2.89%	2.84%
Expected return on plan assets	7.00	7.00
Rate of compensation increase	3.70	3.74

Kansas University Endowment Association

Notes to Consolidated Financial Statements (continued)

(Dollars in Thousands)

6. Benefit Plans (continued)

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

Fiscal Year	Future Expected Benefit Payments
2023	\$ 1,742
2024	1,782
2025	1,847
2026	1,973
2027	2,083
2028–2032	13,249

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 \$392 and \$386 related to the 401(k) Plan during fiscal years 2022 and 2021, 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:

	2022	2021
Program restrictions:		
University support:		
Student support	\$ 40,526	\$ 37,934
Faculty support and contractual services	42,980	40,734
Construction, furnishings, equipment, and supplies	60,191	47,443
Program and other educational support	43,159	51,051
	\$ 186,856	\$ 177,162

8. Net Assets With Donor Restrictions

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

	2022	2021
Subject to expenditure for specified purpose:		
Scholarships, fellowships, and awards	\$ 43,348	\$ 37,789
Construction	61,849	114,266
Equipment	4,577	4,239
Research	30,804	31,664
Salaries and services	58,383	53,840
Other University support	160,027	113,244
Subject to passage of time	3,232	3,860
Endowments, subject to spending policy and appropriation:		
Scholarships, fellowships, and awards	793,882	769,725
Construction	9,190	9,231
Equipment	8,362	7,893
Research	82,980	81,946
Salaries and services	412,459	400,146
Other University support	624,578	648,664
Unrealized planned gifts for multiple purposes	68,268	79,077
	\$ 2,361,939	\$ 2,355,584

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 3,950 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, 2022, KU Endowment's net assets composition by type of fund consisted of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ 3,137	\$ 1,647,919	\$ 1,651,056
Board-designated endowment funds	198,691	282,190	480,881
Total funds	\$ 201,828	\$ 1,930,109	\$ 2,131,937

For the year ended June 30, 2022, the changes in the endowment net assets are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 219,686	\$ 1,862,121	\$ 2,081,807
Investment return:			
Investment income	6,365	68,088	74,453
Net appreciation	(788)	(10,748)	(11,536)
Total investment return	5,577	57,340	62,917
Contributions	1,769	54,442	56,211
Appropriation of endowment assets for expenditure	(443)	(50,137)	(50,580)
Other changes:			
Other receipts	1,396	2,043	3,439
Interfund transfer within KU			
Endowment fund accounts, including wholly expendable accounts	(26,157)	4,300	(21,857)
Endowment net assets, end of year	\$ 201,828	\$ 1,930,109	\$ 2,131,937

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:

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

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

	Without Donor Restrictions	With Donor Restrictions	Total
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
Endowment net assets, end of year	\$ 219,686	\$ 1,862,121	\$ 2,081,807

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, 2022 deficiencies of this nature exist in 99 donor-restricted endowment funds, which together have an original gift value of approximately \$28,939, a current fair value of \$27,921, resulting in a deficiency of \$1,018. As of June 30, 2021, there were no deficiencies of this nature. 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:

	June 30	
	2022	2021
Financial assets:		
Cash and cash equivalents	\$ 7,276	\$ 7,796
Receivables	6,319	12,792
Investments	243,186	272,984
Real estate and mineral interests	29,618	31,201
Other assets	359	82
Total financial assets	<u>286,758</u>	<u>324,855</u>
Less amounts not available in one year:		
Cash designated for specific University uses	7,276	7,102
Receivables	2,528	8,239
Investments	64,376	78,529
Real estate and mineral interests	29,618	31,201
Other assets	359	82
Total financial assets not available in one year	<u>104,157</u>	<u>125,153</u>
Total financial assets available within one year	<u>\$ 182,601</u>	<u>\$ 199,702</u>

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. (KUCR); 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; University of Kansas Medical Center Research Institute (KUMC RI) (including its subsidiary corporations, the KU Center for Technology Commercialization (KUCTC); 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; Center for Residency Education, Inc.; Jayhawk Community Partners, Inc.; and Jayhawk Health, 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, 2022				Summarized Financial Information for the Year Ended June 30, 2021
	University	University Controlled Affiliates	University Noncontrolled Affiliates	Total	
Expenses					
University support:					
Student support	\$ 34,967	\$ 8,919	\$ 236	\$ 44,122	\$ 40,984
Faculty support and contractual services	42,799	797	1,694	45,290	43,204
Construction, furnishings, equipment, and supplies	8,333	51	53,296	61,680	47,634
Program and other educational support	22,860	18,114	4,106	45,080	52,036
Total University support	<u>108,959</u>	<u>27,881</u>	<u>59,332</u>	<u>196,172</u>	183,858
Supporting services:					
Administrative and fundraising support	-	-	21,460	21,460	22,285
Asset management expense	119	7	107	233	998
Depreciation	4	1	1,170	1,175	1,219
Total supporting services	<u>123</u>	<u>8</u>	<u>22,737</u>	<u>22,868</u>	24,502
Total expenses	<u>\$ 109,082</u>	<u>\$ 27,889</u>	<u>\$ 82,069</u>	<u>\$ 219,040</u>	<u>\$ 208,360</u>

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, 2022, through September 14, 2022, 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
 (Dollars in Thousands)

June 30, 2022

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.

	Kansas University Endowment Association	Combined Real Estate LLCs	Consolidated
Assets			
Cash and cash equivalents	\$ 7,276	\$ –	\$ 7,276
Receivables:			
Receivables from investment activities	1,995	–	1,995
Other receivables	6,390	10	6,400
Due from (to) affiliates	397	(397)	–
Student loans receivable, less allowance of \$901	21,035	–	21,035
Contributions pledged, less allowance of \$1,592	145,337	–	145,337
Real estate loans receivable	660	–	660
Total receivables	175,814	(387)	175,427
Investments:			
Securities	2,473,465	1,500	2,474,965
Trusts held by others	49,132	–	49,132
Interest in other KU Endowment entities	3,214	–	3,214
Real estate	22,058	–	22,058
Total investments	2,547,869	1,500	2,549,369
Property and facilities:			
Land	10,873	5,991	16,864
Buildings	22,056	5,062	27,118
Equipment and furnishings	4,407	–	4,407
	37,336	11,053	48,389
Less accumulated depreciation	(17,506)	(1,605)	(19,111)
Net property and facilities	19,830	9,448	29,278
Deposits and other assets	4,919	–	4,919
Total assets	\$ 2,755,708	\$ 10,561	\$ 2,766,269

Kansas University Endowment Association

Consolidating Statement of Financial Position (continued)

(Dollars in Thousands)

	Kansas University Endowment Association	Combined Real Estate LLCs	Consolidated
Liabilities and net assets			
Liabilities:			
Accounts payable and accrued expenses	\$ 14,507	\$ 7,487	\$ 21,994
Payables from investment activities	1,333	-	1,333
Trust payable	261	-	261
Life income gift payable	18,264	-	18,264
Agency funds	93,360	-	93,360
Total liabilities	127,725	7,487	135,212
Net assets:			
Without donor restrictions	278,261	347	278,608
With donor restrictions	2,401,811	2,727	2,404,538
Total net assets	2,680,072	3,074	2,683,146
Total liabilities and net assets	\$ 2,807,797	\$ 10,561	\$ 2,818,358

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