

Kansas State University Foundation

Independent Auditor's Report and Consolidated Financial Statements

June 30, 2021 and 2020



Kansas State University Foundation
June 30, 2021 and 2020

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Independent Auditor's Report

The Board of Directors of
Kansas State University Foundation
Manhattan, Kansas

We have audited the accompanying consolidated financial statements of Kansas State University Foundation and its supporting organizations (the Foundation), which comprise the consolidated statements of financial position as of June 30, 2021 and 2020, and the related consolidated statements of activities, functional expenses 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 consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

The Board of Directors of
Kansas State University Foundation
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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kansas State University Foundation and its supporting organizations as of June 30, 2021 and 2020, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

Kansas City, Missouri
September 23, 2021

Kansas State University Foundation
Consolidated Statements of Financial Position
June 30, 2021 and 2020

Assets

	2021	2020
Cash and cash equivalents	\$ 29,511,589	\$ 80,278,830
Investments	1,153,016,819	848,530,291
Pledges receivable – net of allowance and discounts	83,235,816	82,810,060
Receivables from estates	26,255,240	1,278,683
Loans receivable	31,389	36,556
Property and equipment, net of accumulated depreciation; 2021 - \$3,789,866, 2020 - \$3,137,979	13,754,662	14,205,259
Golf Course property and equipment, net of accumulated depreciation; 2021 - \$5,091,450, 2020 - \$4,655,366	6,991,578	6,905,485
Note receivable	10,374,000	10,374,000
Cash surrender value of life insurance policies	8,668,045	7,574,922
Other assets and accrued investment income	7,271,257	7,025,512
	<u>\$ 1,339,110,395</u>	<u>\$ 1,059,019,598</u>

Liabilities and Net Assets

Liabilities

Accounts payable, deposits and other liabilities	\$ 1,852,172	\$ 2,136,880
Accrued liabilities	3,958,267	3,378,449
Assets held for others	18,489,758	13,342,373
Unitrust and annuity liabilities	24,699,065	22,497,790
Long-term debt and lines of credit	46,916,755	44,441,783
	<u>95,916,017</u>	<u>85,797,275</u>

Net Assets

Net assets without donor restrictions	136,748,821	94,584,254
Net assets with donor restrictions	1,106,445,557	878,638,069
	<u>1,243,194,378</u>	<u>973,222,323</u>
	<u>\$ 1,339,110,395</u>	<u>\$ 1,059,019,598</u>

Kansas State University Foundation
Consolidated Statement of Activities
Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support			
Contributions	\$ 5,106,166	\$ 114,820,628	\$ 119,926,794
Recovery for bad debts	14,278	292,193	306,471
Net contribution revenue, less provision for bad debts	<u>5,120,444</u>	<u>115,112,821</u>	<u>120,233,265</u>
Investment income (loss), net	(12,920,461)	1,802,782	(11,117,679)
Net realized and unrealized gains on investments	56,916,755	188,897,135	245,813,890
Other support			
Operational service charges, management fees and other	19,621,207	(35,737)	19,585,470
Receipts for grants, research, supplies, travel and other			
University departmental activities and funding allotments, etc.	615,211	1,850,406	2,465,617
Actuarial losses on unitrusts and annuity obligations	(142)	(17,589)	(17,731)
Net assets released from restrictions and change in donor designation	<u>79,802,330</u>	<u>(79,802,330)</u>	<u>-</u>
Total revenues, gains and other support	<u>149,155,344</u>	<u>227,807,488</u>	<u>376,962,832</u>
Expenses and Support			
Direct University support			
Scholarships and other student awards	17,533,196	-	17,533,196
Academic support	14,263,238	-	14,263,238
Administrative support	36,596,938	-	36,596,938
Capital improvements	15,999,112	-	15,999,112
Subtotal	<u>84,392,484</u>	<u>-</u>	<u>84,392,484</u>
Management and general	10,560,456	-	10,560,456
Fundraising and development	<u>12,037,837</u>	<u>-</u>	<u>12,037,837</u>
Total expenses and support	<u>106,990,777</u>	<u>-</u>	<u>106,990,777</u>
Change in Net Assets	42,164,567	227,807,488	269,972,055
Net Assets, Beginning of Year	<u>94,584,254</u>	<u>878,638,069</u>	<u>973,222,323</u>
Net Assets, End of Year	<u>\$ 136,748,821</u>	<u>\$ 1,106,445,557</u>	<u>\$ 1,243,194,378</u>

Kansas State University Foundation
Consolidated Statement of Activities
Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support			
Contributions	\$ 3,285,514	\$ 105,616,410	\$ 108,901,924
Provision for bad debts	(23,422)	(1,194,688)	(1,218,110)
Net contribution revenue, less provision for bad debts	<u>3,262,092</u>	<u>104,421,722</u>	<u>107,683,814</u>
Investment loss, net	(6,747,810)	(210,774)	(6,958,584)
Net realized and unrealized gains on investments	10,958,780	25,571,628	36,530,408
Other support			
Operational service charges, management fees and other	18,352,831	(35,257)	18,317,574
Receipts for grants, research, supplies, travel and other University departmental activities and funding allotments, etc.	682,206	1,222,930	1,905,136
Actuarial gains (losses) on unitrusts and annuity obligations	39,405	(2,553,478)	(2,514,073)
Net assets released from restrictions and change in donor designation	<u>82,330,807</u>	<u>(82,330,807)</u>	<u>-</u>
Total revenues, gains and other support	<u>108,878,311</u>	<u>46,085,964</u>	<u>154,964,275</u>
Expenses and Support			
Direct University support			
Scholarships and other student awards	17,580,674	-	17,580,674
Academic support	10,996,173	-	10,996,173
Administrative support	49,427,820	-	49,427,820
Capital improvements	7,799,388	-	7,799,388
Subtotal	<u>85,804,055</u>	<u>-</u>	<u>85,804,055</u>
Management and general	9,227,440	-	9,227,440
Fundraising and development	<u>12,735,714</u>	<u>-</u>	<u>12,735,714</u>
Total expenses and support	<u>107,767,209</u>	<u>-</u>	<u>107,767,209</u>
Change in Net Assets	1,111,102	46,085,964	47,197,066
Net Assets, Beginning of Year	<u>93,473,152</u>	<u>832,552,105</u>	<u>926,025,257</u>
Net Assets, End of Year	<u>\$ 94,584,254</u>	<u>\$ 878,638,069</u>	<u>\$ 973,222,323</u>

Kansas State University Foundation
Consolidated Statement of Functional Expenses
Year Ended June 30, 2021

	Scholarships and Other Student Awards	Academic Support	Administrative Support	Capital Improvements	Direct University Support Total	Management and General	Fundraising and Development	Overall Total
Salaries, wages and benefits	\$ -	\$ 7,106,336	\$ 1,547,428	\$ -	\$ 8,653,764	\$ 6,118,495	\$ 9,847,279	\$ 24,619,538
Scholarships, awards and student development	17,533,196	1,593,022	-	-	19,126,218	-	-	19,126,218
Travel, seminars and meetings	-	63,791	127,011	-	190,802	27,655	173,274	391,731
Hospitality, entertainment and events	-	-	506,316	-	506,316	18,580	396,907	921,803
Professional services	-	253,732	750,180	-	1,003,912	679,411	191,243	1,874,566
Research	-	1,751,898	-	-	1,751,898	-	-	1,751,898
Construction and building expenses	-	-	138,132	15,977,628	16,115,760	208,553	425	16,324,738
University support	-	24,269	27,789,722	-	27,813,991	469,711	-	28,283,702
Equipment and supplies	-	2,178,357	533,396	13,203	2,724,956	88,350	118,574	2,931,880
Office expenses	-	19,437	150,739	-	170,176	451,942	380,945	1,003,063
University advancement and other fees	-	2,339	3,642,067	-	3,644,406	150,881	-	3,795,287
Insurance expense	-	-	269,423	-	269,423	122,456	332	392,211
Advertising	-	15,827	50,882	-	66,709	6,649	73,429	146,787
Dues and subscriptions	-	37,873	104,617	-	142,490	45,095	77,872	265,457
Rental expenses	-	202,350	157,811	-	360,161	-	475,743	835,904
Computer systems	-	194,792	575,483	-	770,275	1,405,107	267,910	2,443,292
Depreciation, excluding KSUGCMRF assets	-	-	-	-	-	764,188	-	764,188
Gift in-kind contributions and other miscellaneous	-	752,970	253,731	-	1,006,701	-	33,904	1,040,605
Loan and interest expense	-	66,245	-	8,281	74,526	3,383	-	77,909
	\$ 17,533,196	\$ 14,263,238	\$ 36,596,938	\$ 15,999,112	\$ 84,392,484	\$ 10,560,456	\$ 12,037,837	\$ 106,990,777

Kansas State University Foundation
Consolidated Statement of Functional Expenses
Year Ended June 30, 2020

	Scholarships and Other Student Awards	Academic Support	Administrative Support	Capital Improvements	Direct University Support Total	Management and General	Fundraising and Development	Overall Total
Salaries, wages and benefits	\$ -	\$ 3,690,716	\$ 2,436,143	\$ -	\$ 6,126,859	\$ 5,225,248	\$ 9,864,763	\$ 21,216,870
Scholarships, awards and student development	17,580,674	1,933,267	-	-	19,513,941	-	-	19,513,941
Travel, seminars and meetings	-	494,887	327,146	-	822,033	114,082	768,037	1,704,152
Hospitality, entertainment and events	-	-	1,286,708	-	1,286,708	57,850	686,078	2,030,636
Professional services	-	238,834	833,731	-	1,072,565	431,759	201,639	1,705,963
Research	-	1,250,198	-	-	1,250,198	-	-	1,250,198
Construction and building expenses	-	-	138,893	7,798,059	7,936,952	261,718	-	8,198,670
University support	-	296,266	38,681,532	-	38,977,798	469,711	-	39,447,509
Equipment and supplies	-	2,045,702	460,950	1,329	2,507,981	219,186	144,062	2,871,229
Office expenses	-	43,061	203,148	-	246,209	461,162	403,828	1,111,199
University advancement and other fees	-	5,073	3,471,101	-	3,476,174	179,442	-	3,655,616
Insurance expense	-	-	290,384	-	290,384	100,273	332	390,989
Advertising	-	11,059	59,913	-	70,972	29,156	116,210	216,338
Dues and subscriptions	-	32,904	88,582	-	121,486	34,212	68,632	224,330
Rental expenses	-	183,095	118,514	-	301,609	-	175,855	477,464
Computer systems	-	308,693	208,975	-	517,668	868,680	252,738	1,639,086
Depreciation, excluding KSUGCMRF assets	-	-	-	-	-	757,294	-	757,294
Gift in-kind contributions and other miscellaneous	-	395,378	822,100	-	1,217,478	10,001	53,540	1,281,019
Loan and interest expense	-	67,040	-	-	67,040	7,666	-	74,706
	\$ 17,580,674	\$ 10,996,173	\$ 49,427,820	\$ 7,799,388	\$ 85,804,055	\$ 9,227,440	\$ 12,735,714	\$ 107,767,209

Kansas State University Foundation
Consolidated Statements of Cash Flows
Years Ended June 30, 2021 and 2020

	2021	2020
Operating Activities		
Change in net assets	\$ 269,972,055	\$ 47,197,066
Items not requiring (providing) operating activities cash flows		
Depreciation	1,246,427	1,305,299
Amortization of bond issuance premium and debt issuance costs	78,642	105,761
Net realized and unrealized gains on investments	(245,813,890)	(36,530,408)
Contributions and investment income received restricted for long-term investment and capital projects	(73,567,932)	(28,844,804)
Contributions for term endowment	(2,287,647)	(1,838,437)
Non-cash contributions	(13,513,126)	(13,201,359)
Non-cash transfers to Kansas State University	3,430,253	1,285,603
Net actuarial losses on unitrust and annuity obligations	17,731	2,514,073
Loss on disposal of long-lived assets	19,890	3,990
Gain on extinguishment of debt	(231,857)	-
Changes in		
Pledges receivable	(425,756)	(11,890,787)
Receivables from estates	(24,976,557)	497,902
Loans receivable	5,167	17,390
Other assets and accrued investment income	(347,364)	(416,430)
Accounts payable and accrued liabilities	292,863	(654,883)
Assets held for others	5,147,385	181,145
Net cash used in operating activities	(80,953,716)	(40,268,879)
Investing Activities		
Purchase of investments	(219,164,467)	(148,775,027)
Purchase of real estate	(4,417,032)	(8,937,829)
Proceeds from sale of investments	178,106,104	165,386,289
Expenditures for property and equipment	(901,813)	(516,682)
Proceeds on loans receivable	-	6,000,000
Cash surrender value of life insurance policies	(1,093,123)	(118,713)
Net cash provided by (used in) investing activities	(47,470,331)	13,038,038
Financing Activities		
Proceeds from contributions and investment income restricted for long-term investment and capital projects	73,567,932	28,844,804
Contributions for term endowment	2,287,647	1,838,437
Proceeds from issuance of long-term debt	3,635,681	8,994,800
Principal payments on long-term debt	(1,370,552)	(639,487)
Payments for debt issuance costs	(5,797)	(179,693)
Borrowings under line of credit agreement	534,182	414,820
Repayments under line of credit agreement	(165,327)	(2,040,655)
Proceeds from issuance of annuities and trusts payable	1,611,567	4,868,065
Payments on annuities and trusts payable	(2,438,527)	(2,344,934)
Net cash provided by financing activities	77,656,806	39,756,157
Change in Cash and Cash Equivalents	(50,767,241)	12,525,316
Cash and Cash Equivalents, Beginning of Year	80,278,830	67,753,514
Cash and Cash Equivalents, End of Year	<u>\$ 29,511,589</u>	<u>\$ 80,278,830</u>
Supplemental Disclosures of Cash Flows Information		
Cash paid during the year for interest	\$ 1,631,002	\$ 1,690,343

Kansas State University Foundation
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The purpose of Kansas State University Foundation (the Foundation) is to encourage, receive and hold in trust any real or personal property given for the use of Kansas State University, its faculty and students (the University); and to invest, disburse, manage and control all such gifts in accordance with donor intent and to provide those services to the University which are not or cannot be provided through state appropriations or student fees.

Supporting Organizations and Principles of Consolidation

The Foundation's consolidated financial statements include four supporting organizations, the Kansas State University Golf Course Management and Research Foundation, formed in 1997, the Foundation for Engineering at Kansas State University, Inc., formed in 2009, the Kansas State University Charitable Real Estate Foundation (KSUCREF) and its subsidiaries, formed in 2012, and 1880 Kimball, LLC, formed in 2017. The financial statements of these organizations have been consolidated with the Foundation's financial statements in accordance with accounting principles generally accepted in the United States of America. All significant inter-organizational accounts and transactions are eliminated in the consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2021 and 2020, cash equivalents consisted primarily of uninsured money market mutual funds totaling \$24,603,225 and \$79,262,796, respectively, and certificates of deposit.

At June 30, 2021, the Foundation's cash accounts exceeded federally insured limits by approximately \$4,631,000.

Kansas State University Foundation
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

Investments and Net Investment Return

Investments in marketable equity securities and all debt securities are carried at fair value. Investments in pooled separate accounts, private capital funds and hedge funds are recorded at the estimated net asset value per share, as a practical expedient to fair value, of the investments. Closely held stock is recorded at fair value as determined by a third-party appraiser hired by the company for which the Foundation holds stock. The Foundation has elected to record other investments consisting primarily of real estate at fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments, less external and direct internal investment expenses.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the consolidated statements of activities with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

The Foundation maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated monthly to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investment accounts, as adjusted for additions to or deductions from those accounts.

Receivables

The Foundation reports pledges receivable expected to be collected within one year at net realizable value. Pledges expected to be collected in future years are initially reported at fair value determined using the discounted present value of future contributions. The Foundation provides an allowance for doubtful collections, which is based upon a review of outstanding pledge receivables, historical collection information and existing economic conditions. Pledge receivables are considered past due if they are not received by their payment instrument due date. Delinquent pledges are written off based on individual credit evaluation and specific circumstances of the donor.

Receivables from estates are recorded at the time the Foundation is notified of the death of a donor and the amount receivable from the estate can be reasonably measured.

Loans receivable, including student loans, real estate mortgages and other loans, are recorded at amounts advanced to borrowers less principal repayments received. Uncollectible loans are written off using the direct write-off method. A loan is considered uncollectible when management determines the borrower is failing to meet repayment terms or other reasons. Interest income is recognized as earned.

Kansas State University Foundation
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset.

The Foundation's capitalization policy is to capitalize any fixed asset over \$5,000 at cost.

Long-lived Asset Impairment

The Foundation evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairments were recognized during the years ended June 30, 2021 and 2020.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor or certain grantor restrictions. The governing board has designated, from net assets without donor or certain grantor restrictions, net assets for an operating reserve and board-designated endowment.

Net assets with donor restrictions are subject to donor or certain grantor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other restrictions are perpetual in nature, where the donor or grantor stipulates that resources be maintained in perpetuity.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions resulting in reclassification of net assets with donor restrictions as net assets without donor restrictions are reported when the long-lived assets are placed in service. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as revenue and net assets without donor restrictions.

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation.

Kansas State University Foundation
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

Contributions Establishing Charitable Trusts

The Foundation accepts donor contributions to establish trust agreements in exchange for a named beneficiary to receive a fixed dollar annual return or a specific percentage of the fair value of the trust assets for the beneficiary's lifetime or a specific time period. A portion of the donation is considered to be a charitable contribution and the remaining portion represents a liability equal to the present value of future payments. The liability is revalued annually based on actuarially computed present values.

Income Taxes

The Foundation is generally exempt from federal and state income tax under Section 501(c)(3) of the Internal Revenue Code as a public foundation. The Foundation is subject to income tax on the unrelated business income. The Foundation files tax returns in the U.S. federal jurisdiction.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses present the natural classification detail of expenses by function. Certain costs have been allocated among the program, management and general and fundraising categories based on various methods.

Operational Service Charges and Management Fees

The Foundation provides services to the University, its colleges and other entities affiliated with the University for which the Foundation is reimbursed. Revenue from these services is recognized by the Foundation as they provide such services.

Kansas State University Foundation
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

Other Support Revenue

Other support revenue, excluding actuarial gains (losses) on unitrusts and annuity obligations, is recognized as the Foundation satisfies performance obligations under its contracts. Revenue is reported at the estimated transaction price or amount that reflects the consideration to which the Foundation expects to be entitled in exchange for providing services. The Foundation determines the transaction price based on standard charges for services provided, reduced by implicit and explicit price concessions, if any.

Leases

The Foundation determines if an arrangement is a lease or contains a lease at inception. Leases result in the recognition of right-of-use (ROU) assets and lease liabilities on the consolidated statements of financial position. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The Foundation determines lease classification as operating or finance at the lease commencement date. Finance leases are included in other assets and accrued investment income and long-term debt and lines of credit in the consolidated statements of financial position.

At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives.

Note 2: Investments and Investment Return

Investment management is governed by policies and procedures established by the asset management committee, a committee of the board of directors, in collaboration with staff and consultants. Staff implements the policies through: 1) the selection of investment strategies; 2) the hiring, monitoring and changing of investment managers; and 3) rebalancing the portfolios. Investment results are monitored by the committee quarterly through manager and portfolio performance and due diligence reporting.

Private capital and hedge funds are included in the endowment pool to diversify assets, provide portfolio return enhancement and dampen volatility. Hedge fund managers run proprietary strategies employing securities and instruments such as cash, stocks, partnerships, bonds and derivative instruments including options, futures and swaps in various combinations, sometimes shorting various securities and employing leverage to construct desired risk/return characteristics that are less correlated to the major asset classes.

Kansas State University Foundation
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

The Foundation's investments include debt and equity securities for liquidity, donated assets and real estate, as well as a managed portfolio of long-term investments. The Foundation's investments at June 30, 2021 and 2020, were as follows:

	2021		
	Pooled Fund Endowment Pool	Other Investments	Total Investments
Marketable equity securities	\$ 123,014,625	\$ 44,558,928	\$ 167,573,553
Pooled separate funds			
Equity securities	200,178,095	-	200,178,095
Fixed income	99,487,864	-	99,487,864
U.S. Government and agency obligations	-	58,362	58,362
Corporate bonds and other fixed income securities	-	1,232,464	1,232,464
Private capital			
Real estate investments	54,366,272	-	54,366,272
Venture capital	143,593,954	183,685	143,777,639
Domestic private equity	80,887,364	-	80,887,364
International private equity	16,677,843	-	16,677,843
Private capital distressed debt	5,014,631	-	5,014,631
Natural resources	21,211,178	-	21,211,178
Fixed income	5,697,548	-	5,697,548
Hedge funds			
Absolute return	61,124,303	38,166,547	99,290,850
Long/short equity	66,840,314	-	66,840,314
Closely held common stock	-	120,351,460	120,351,460
Real estate held for investment	-	70,355,390	70,355,390
Other securities and investments	-	15,992	15,992
	<u>\$ 878,093,991</u>	<u>\$ 274,922,828</u>	<u>\$ 1,153,016,819</u>

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	2020		
	Pooled Fund Endowment Pool	Other Investments	Total Investments
Marketable equity securities	\$ 91,976,505	\$ 48,555,955	\$ 140,532,460
Pooled separate funds			
Equity securities	114,534,356	-	114,534,356
Fixed income	65,621,994	-	65,621,994
U.S. Government and agency obligations	-	1,224,577	1,224,577
Corporate bonds and other fixed income securities	-	57,881	57,881
Private capital			
Real estate investments	46,468,295	-	46,468,295
Venture capital	84,844,191	188,765	85,032,956
Domestic private equity	47,159,597	-	47,159,597
International private equity	12,521,064	-	12,521,064
Private capital distressed debt	3,411,451	-	3,411,451
Natural resources	18,369,868	-	18,369,868
Fixed income	23,510,005	-	23,510,005
Hedge funds			
Absolute return	49,564,430	34,636	49,599,066
Long/short equity	51,344,621	-	51,344,621
Closely held common stock	-	119,302,259	119,302,259
Real estate held for investment	-	69,823,845	69,823,845
Other securities and investments	-	15,996	15,996
	<u>\$ 609,326,377</u>	<u>\$ 239,203,914</u>	<u>\$ 848,530,291</u>

The Foundation's endowment pool strives to achieve long term capital appreciation and consistent income by utilizing a "total return investment strategy." Distributions from the endowment pool are calculated annually using a 12 quarter unit value average multiplied by the distribution rate set by the Board of Directors. This action creates a distribution smoothing and is consistent with the board of directors' long-term strategic plans and attempts to treat all generations equitably and protect future purchasing power. Distribution rates for the years ended June 30, 2021 and 2020 were 4.4 percent and 4.5 percent respectively.

Investment managers' fees totaled approximately \$12,714,000 and \$6,299,000 for the years ended June 30, 2021 and 2020, respectively.

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Alternative Investments

The fair value of alternative investments that have been estimated using the net asset value per share as a practical expedient consist of the following at June 30, 2021 and 2020:

	June 30, 2021			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Pooled separate funds (A)				
Equity securities	\$ 200,178,095	\$ -	Monthly	5-45 days
Fixed income securities	99,487,864	-	Monthly	5-45 days
Private capital (B)				
Real estate investments	54,366,272	13,704,990	None	None
Venture capital	143,777,639	22,998,465	None	None
Domestic private equity	80,887,364	35,252,473	None	None
International private equity	16,677,843	23,677,562	None	None
Private capital distressed debt - Illiquid	5,014,631	8,666,000	None	None
Natural resources	21,211,178	5,183,331	None	None
Fixed income	5,697,548	3,325,000	None	None
Hedge funds			None to	
Absolute return (C)	99,290,850	900,000	Annually None to	3-90 days
Long/short equity (D)	66,840,314	-	Annually	60 days
	June 30, 2020			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Pooled separate funds (A)				
Equity securities	\$ 114,534,356	\$ -	Monthly	5-45 days
Fixed income securities	65,621,994	-	Monthly	5-45 days
Private capital (B)				
Real estate investments	46,468,295	3,574,058	None	None
Venture capital	85,032,956	22,902,465	None	None
Domestic private equity	47,159,597	36,243,211	None	None
International private equity	12,521,064	5,402,523	None	None
Private capital distressed debt - Illiquid	3,411,451	5,216,000	None	None
Natural resources	18,369,868	6,257,193	None	None
Fixed income	23,510,005	4,450,000	None	None
Hedge funds			Monthly to	
Absolute return (C)	49,599,066	-	Annually Monthly to	45 days
Long/short equity (D)	51,344,621	-	Annually	30-90 days

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- (A) This category includes investments in pooled separate accounts which hold exchange-traded equity securities and fixed income securities. While the underlying securities in these accounts are primarily highly liquid, exchange-traded securities, the nature of this type of account generally only allows for monthly liquidity at a month end net asset value.
- (B) This category includes investments in private equity and venture capital that invest primarily in domestic and international private companies. Private capital funds are structured as closed-end, commitment-based investment funds where a specified amount of capital is committed upon inception of the fund which is then drawn down over a period of three to five years, and distributions are received through the liquidation of underlying assets of the fund. The typical term of these investments is 12-15 years. Such funds generally do not provide redemption options for investors.
- (C) This category includes investments in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The funds' composite portfolio includes investments in U.S. common stocks, global real estate projects and arbitrage investments. Certain funds may have the ability to impose a suspension or postponement of redemptions until further notice (a "Gate"). In addition, certain funds may delay payment of a portion of redemption proceeds (a "Holdback") until the annual audited financial statements are distributed.
- (D) This category includes investments in hedge funds that take both long and short positions, primarily in U.S. common stocks. Management of the funds has the ability to shift investments among differing investment strategies. Certain funds may have the ability to impose a suspension or postponement of redemptions until further notice (a "Gate"). In addition, certain funds may delay payment of a portion of redemption proceeds (a "Holdback") until the annual audited financial statements are distributed.

In addition to the funding commitments identified above, the Foundation was not committed to invest in any additional, new alternative investments as of June 30, 2021.

Note 3: Disclosures About Fair Value of Assets and Liabilities

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. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

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Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following tables present the fair value measurements of assets recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2021 and 2020:

	2021				
	Fair Value	Fair Value Measurements			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV ^(A)
Cash and Cash Equivalents					
Money market mutual funds	\$ 24,603,225	\$ 24,603,225	\$ -	\$ -	\$ -
Investments					
Marketable equity securities	167,573,553	167,573,553	-	-	-
Pooled separate funds					
Equity securities					
measured at net asset value (A)	200,178,095	-	-	-	200,178,095
Fixed income					
measured at net asset value (A)	99,487,864	-	-	-	99,487,864
U.S. Government and agency obligations	58,362	-	58,362	-	-
Corporate bonds and other fixed income securities	1,232,464	-	1,232,464	-	-
Private capital					
Real estate investments					
measured at net asset value (A)	54,366,272	-	-	-	54,366,272
Venture capital					
measured at net asset value (A)	143,777,639	-	-	-	143,777,639
Domestic private equity					
measured at net asset value (A)	80,887,364	-	-	-	80,887,364
International private equity					
measured at net asset value (A)	16,677,843	-	-	-	16,677,843
Private capital distressed debt					
measured at net asset value (A)	5,014,631	-	-	-	5,014,631
Natural resources					
measured at net asset value (A)	21,211,178	-	-	-	21,211,178
Fixed income					
measured at net asset value (A)	5,697,548	-	-	-	5,697,548
Hedge funds					
Absolute return					
measured at net asset value (A)	99,290,850	-	-	-	99,290,850
Long/short equity					
measured at net asset value (A)	66,840,314	-	-	-	66,840,314
Closely held common stock	120,351,460	-	-	120,351,460	-
Real estate held for investment	70,355,390	-	-	70,355,390	-
Other securities and investments measured at net asset value (A)	15,992	-	-	-	15,992
	<u>\$ 1,177,620,044</u>	<u>\$ 192,176,778</u>	<u>\$ 1,290,826</u>	<u>\$ 190,706,850</u>	<u>\$ 793,445,590</u>

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	2020				
	Fair Value	Fair Value Measurements			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV ^(A)
Cash and Cash Equivalents					
Money market mutual funds	\$ 79,262,796	\$ 79,262,796	\$ -	\$ -	\$ -
Investments					
Marketable equity securities	140,532,460	140,532,460	-	-	-
Pooled separate funds					
Equity securities					
measured at net asset value (A)	114,534,356	-	-	-	114,534,356
Fixed income					
measured at net asset value (A)	65,621,994	-	-	-	65,621,994
U.S. Government and agency obligations	1,224,577	-	1,224,577	-	-
Corporate bonds and other fixed income securities	57,881	-	57,881	-	-
Private capital					
Real estate investments					
measured at net asset value (A)	46,468,295	-	-	-	46,468,295
Venture capital					
measured at net asset value (A)	85,032,956	-	-	-	85,032,956
Domestic private equity					
measured at net asset value (A)	47,159,597	-	-	-	47,159,597
International private equity					
measured at net asset value (A)	12,521,064	-	-	-	12,521,064
Private capital distressed debt					
measured at net asset value (A)	3,411,451	-	-	-	3,411,451
Natural resources					
measured at net asset value (A)	18,369,868	-	-	-	18,369,868
Fixed income					
measured at net asset value (A)	23,510,005	-	-	-	23,510,005
Hedge funds					
Absolute return					
measured at net asset value (A)	49,599,066	-	-	-	49,599,066
Long/short equity					
measured at net asset value (A)	51,344,621	-	-	-	51,344,621
Closely held common stock	119,302,259	-	-	119,302,259	-
Real estate held for investment	69,823,845	-	-	69,823,845	-
Other securities and investments measured at net asset value (A)	15,996	-	-	-	15,996
	<u>\$ 927,793,087</u>	<u>\$ 219,795,256</u>	<u>\$ 1,282,458</u>	<u>\$ 189,126,104</u>	<u>\$ 517,589,269</u>

(A) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statements of financial position.

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Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2021. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. See the table below for inputs and valuation techniques used for Level 3 securities.

Level 3 Valuation Process

Fair value determinations for Level 3 measurements of securities, closely held stock and real estate investments are the responsibility of management. Management obtains fair value estimates from the investment managers or fair value specialist on a monthly, quarterly or annual basis. For real estate investments, management obtains fair value estimates from both internal and external valuation sources, including county tax appraisals and historic comparable sales information. Management challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States.

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Level 3 Reconciliation

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying consolidated statements of financial position using significant unobservable (Level 3) inputs:

	Asset (Closely Held Common Stock)	Asset (Real Estate Held for Investment)	Total
Balance, July 1, 2019	\$ 100,818,549	\$ 65,864,184	\$ 166,682,733
Total realized and unrealized gains (losses) included in change in net assets	19,883,710	(2,194,478)	17,689,232
Purchases/donations	-	8,937,829	8,937,829
Sales/redemptions	<u>(1,400,000)</u>	<u>(2,783,690)</u>	<u>(4,183,690)</u>
Balance, June 30, 2020	119,302,259	69,823,845	189,126,104
Total realized and unrealized gains included in change in net assets	2,249,561	491,747	2,741,308
Purchases/donations	-	4,417,032	4,417,032
Sales/redemptions	<u>(1,200,360)</u>	<u>(4,377,234)</u>	<u>(5,577,594)</u>
Balance, June 30, 2021	<u>\$ 120,351,460</u>	<u>\$ 70,355,390</u>	<u>\$ 190,706,850</u>

Realized and unrealized gains and losses for items reflected in the table above are included in change in net assets in the consolidated statements of activities as follows:

	2021	2020
Total realized gains	\$ 2,978,215	\$ 1,792,445
Change in unrealized gains (losses) relating to assets still held at the statement of financial position date	(236,907)	15,896,787

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Unobservable (Level 3) Inputs

The following tables present quantitative information about unobservable inputs used in recurring Level 3 fair value measurements.

<u>June 30, 2021</u>	Fair Value	Valuation Technique	Unobservable Inputs
Closely held common stock	\$ 120,351,460	Capitalization of Cash Flow	Risk free rate - 1.5% WACC - 12.0% Long-term growth - 1.2%
		Market approach	
		Guideline Company Method	Lack of marketability discount - 32%
		Private Transaction Method	Minority interest discount - 20.1%
Real estate held for investment	70,355,390	Sales Comparison	Property sales of like properties Comparative advantages and deficiencies
		Property tax appraisals	Values determined by local county Appraisal reports from third-party provider
<u>June 30, 2020</u>	Fair Value	Valuation Technique	Unobservable Inputs
Closely held common stock	\$ 119,302,259	Capitalization of Cash Flow	Risk free rate - 2.3% WACC - 12.7% Long-term growth - 1.8%
		Market approach	
		Guideline Company Method	Lack of marketability discount - 32%
		Private Transaction Method	Minority interest discount - 20.1%
Real estate held for investment	69,823,845	Sales Comparison	Property sales of like properties Comparative advantages and deficiencies
		Property tax appraisals	Values determined by local county

Uncertainty of Fair Value Measurements

The following is a description of the uncertainty of the fair value measurement at the reporting date from the use of significant unobservable inputs, if those inputs reasonably could have been different at the reporting date, the interrelationships among the unobservable inputs used in the recurring fair value measurement and how those inputs might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement.

Closely Held Common Stock

The significant unobservable inputs used in the fair value measurement of the Foundation's investment in closely held common stock are the discount rates used in the income & market valuation methodologies. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement at the reporting date.

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Real Estate

The significant unobservable inputs used in the fair value measurement of the Foundation's real estate investments are the comparable sales and third-party appraisals. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement at the reporting date.

Note 4: Endowment

The Foundation's endowment consists of approximately 4,000 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (board-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

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

1. Duration and preservation of the fund
2. Purposes of the Foundation and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Foundation
7. Investment policies of the Foundation

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The composition of net assets by type of endowment fund, excluding associated liabilities under split-interest agreements, at June 30, 2021 and 2020, was as follows:

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds			
Board designated	\$ 49,671,596	\$ -	\$ 49,671,596
Board policy to address underwater endowments	39,191,564	-	39,191,564
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	497,663,787	497,663,787
Accumulated investment gains	-	155,960,976	155,960,976
Term endowments	-	98,916,923	98,916,923
	<u>\$ 88,863,160</u>	<u>\$ 752,541,686</u>	<u>\$ 841,404,846</u>
	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds			
Board designated	\$ 32,010,678	\$ -	\$ 32,010,678
Board policy to address underwater endowments	39,247,592	-	39,247,592
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	459,058,236	459,058,236
Accumulated investment gains	-	14,879,211	14,879,211
Term endowments	-	75,104,277	75,104,277
	<u>\$ 71,258,270</u>	<u>\$ 549,041,724</u>	<u>\$ 620,299,994</u>

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Changes in endowment net assets for the years ended June 30, 2021 and 2020, were:

	2021		Total
	Without Donor Restrictions	With Donor Restrictions	
Endowment net assets - Beginning of year	\$ 71,258,270	\$ 549,041,724	\$ 620,299,994
Investment return, net	16,623,291	190,560,600	207,183,891
Contributions and collections on pledges and estates	1,671,425	35,586,734	37,258,159
Appropriation of endowment assets for expenditure and change in donor designation	<u>(689,826)</u>	<u>(22,647,372)</u>	<u>(23,337,198)</u>
Endowment net assets - End of year	<u>\$ 88,863,160</u>	<u>\$ 752,541,686</u>	<u>\$ 841,404,846</u>
	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - Beginning of year	\$ 66,526,038	\$ 554,483,494	\$ 621,009,532
Investment return, net	4,212,183	7,375,449	11,587,632
Contributions and collections on pledges and estates	532,571	22,791,069	23,323,640
Appropriation of endowment assets for expenditure and change in donor designation	<u>(12,522)</u>	<u>(35,608,288)</u>	<u>(35,620,810)</u>
Endowment net assets - End of year	<u>\$ 71,258,270</u>	<u>\$ 549,041,724</u>	<u>\$ 620,299,994</u>

Underwater Endowments

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Foundation is required to retain as a fund of perpetual duration pursuant to donor stipulation or UPMIFA. There are no underwater investments at June 30, 2021. At June 30, 2020, funds with original gift values of \$114,669,225, fair values of \$111,547,463 and deficiencies of \$3,121,762, were reported in net assets with donor restrictions. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after investment of new restricted contributions and continued appropriation for certain purposes that was deemed prudent by the governing body.

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The Foundation's policy regarding distributions on underwater funds will not allow distributions on funds more than 15 percent underwater.

For funds that are underwater 0 - 7.5 percent, the full distribution as a participating account will be made; for funds 7.51 percent to 15 percent, it will be a 50 percent distribution of the amount of a participating account.

Investment and Spending Policies

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the Foundation must hold in perpetuity or for donor-specified periods, as well as those of board-designated endowment funds, charitable gift annuity's, endowed charitable gifts of real estate and endowed unitrust held by the Foundation.

To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Foundation targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints. For the fiscal years ended June 30, 2021 and 2020, the total return of the Endowment Pool was 35.67 percent and 2.60 percent, respectively.

The Foundation's board of directors determines the Endowment Pool's percentage distribution of total return to the participating funds. The distributions approved by the board of directors are:

1. A distribution to purpose, annually using 12 quarter unit value average multiplied by the distribution rate set by the Board of Directors. This action creates a distribution smoothing and is consistent with the board of directors' long-term strategic plan to protect future purchasing power.
2. Distribution rates for the years ended June 30, 2021 and 2020 were 4.4 percent and 4.5 percent, respectively.
3. The balance of the total return remains in the participating funds.

Term endowed accounts are invested in the same manner as endowed accounts and share the same endowment pool operating costs. They differ from endowed accounts in that quasi-endowment distributions may utilize the donor's gift and earnings/investment growth to make the distribution to purpose and the distribution rate is specific to the donor memo of understanding.

A donor to a term endowment account may choose from three distribution options:

1. Fixed dollar option pays distributions in multiples of \$500; or
2. Fixed percentage option pays distributions of 4, 5, 6 or 8 percent of market value annually; or
3. Situational option pays distributions of 50 or 100 percent of tuition and fees for the number of hours taken by an average full-time student.

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Term endowed accounts are to be established at a financial amount expected to last for 10 years or more.

Note 5: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2021 and 2020, comprise the following:

	2021	2020
Cash and cash equivalents	\$ 12,030,253	\$ 8,530,118
Accounts receivable	1,620,163	883,808
Appropriations from endowments	818,881	617,576
	\$ 14,469,297	\$ 10,031,502

The Foundation receives significant contributions restricted by donors and considers contributions restricted for programs which are ongoing, major and central to its annual operations to be available to meet cash needs for general expenditures. For the years ended June 30, 2021 and 2020, restricted contributions of \$880,628 and \$671,280, respectively, were included in financial assets available to meet cash needs for general expenditures within one year.

The Foundation's endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

At June 30, 2021 and 2020 the board-designated endowments of approximately \$18,163,000 and \$13,396,000, respectively, which are utilized for general operations are subject to an annual spending rate as described in *Note 4*. Although the Foundation does not intend to spend from this board-designated endowment (other than amounts appropriated for general expenditure as part of the board's annual budget approval and appropriation), these amounts could be made available if necessary.

The Foundation manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The Foundation bases financial reserves targets on projected deficiencies in income streams due to market downturns or delays in payments. In addition to available financial assets, the Foundation operates with a balanced budget and anticipates collecting sufficient revenue to cover all general expenditures. The Foundation has a line of credit agreement with a third party lender available for general corporate purposes. Under the terms of the line of credit agreement, the Foundation can borrow a maximum of \$10 million. There were no borrowing against the line at June 30, 2021 and 2020, respectively (see *Note 17*). During the years ended June 30, 2021 and 2020, the level of liquidity and reserves was managed within the policy requirements.

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Note 6: Asset Holdings

The Foundation has a general policy of investing assets to maximize rates of return, consistent with sound and safe business principles. The Foundation also holds certain assets for the benefit of Kansas State University which do not provide a market rate of return on funds invested. Some examples of these investments and other direct benefits provided to the University include:

University Real Estate Fund – Certain real estate holdings vital to the mission of the University were purchased and are held for current and potential University use.

Smith Scholarship House – The Foundation has provided the building rent-free in order to maintain the House in operation for the benefit of the students.

Holiday Inn (formerly Ramada Inn) – The hotel and service station located adjacent to the University were built on land acquired by the Foundation to meet the needs of public lodging and service facilities close to the University.

Faculty and Accommodation Loans – The Foundation provides faculty loans at favorable interest rates to University faculty and staff to enable them to conduct business travel pending reimbursement from the University. Noninterest-bearing accommodation loans are available to faculty and staff when their salary payment cannot be processed by the University by payday.

Total real estate held for investment for the benefit of Kansas State University at June 30, 2021 and 2020 was \$70,355,390 and \$69,823,845, respectively (see *Note 2*).

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Note 7: Pledges Receivable

Pledges receivable consisted of the following at June 30, 2021 and 2020:

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Due in less than one year	\$ -	\$ 25,607,003	\$ 25,607,003
Due in one to five years	-	59,117,697	59,117,697
Due thereafter	-	9,212,862	9,212,862
	<u>-</u>	<u>93,937,562</u>	<u>93,937,562</u>
Less			
Allowance for uncollectible contributions	-	1,465,399	1,465,399
Unamortized discount	-	9,236,347	9,236,347
	<u>-</u>	<u>10,701,746</u>	<u>10,701,746</u>
	<u>\$ -</u>	<u>\$ 83,235,816</u>	<u>\$ 83,235,816</u>
	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Due in less than one year	\$ 75,260	\$ 23,225,219	\$ 23,300,479
Due in one to five years	90,521	56,536,538	56,627,059
Due thereafter	2,500	14,996,283	14,998,783
	<u>168,281</u>	<u>94,758,040</u>	<u>94,926,321</u>
Less			
Allowance for uncollectible contributions	14,278	2,115,276	2,129,554
Unamortized discount	10,243	9,976,464	9,986,707
	<u>24,521</u>	<u>12,091,740</u>	<u>12,116,261</u>
	<u>\$ 143,760</u>	<u>\$ 82,666,300</u>	<u>\$ 82,810,060</u>

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Discount rate used on pledges receivable was 3.25 percent at June 30, 2021 and 2020.

Approximately 29 percent and 28 percent of pledges receivable were due from two donors at June 30, 2021 and 2020, respectively.

Approximately \$47,905,727 and \$51,794,114 of pledges receivable were due from related parties such as members of the board of directors and trustees, employees of the Foundation and University affiliated organizations and colleges, as of June 30, 2021 and 2020, respectively.

Note 8: Property and Equipment

Property and equipment at June 30, 2021 and 2020, consisted of:

	<u>2021</u>	<u>2020</u>
Buildings and improvements	\$ 14,049,869	\$ 13,907,379
Furniture and equipment	2,980,634	2,888,076
Land	415,996	415,996
Other	98,029	131,787
	<u>17,544,528</u>	<u>17,343,238</u>
Less accumulated depreciation and amortization	<u>(3,789,866)</u>	<u>(3,137,979)</u>
	<u>\$ 13,754,662</u>	<u>\$ 14,205,259</u>

Golf Course assets are reported net of accumulated depreciation on the Foundation's consolidated financial statements. Property and equipment for the Golf Course consist of:

	<u>2021</u>	<u>2020</u>
Land and land improvements	\$ 3,834,604	\$ 3,818,120
Buildings and improvements	5,511,698	5,470,635
Other	2,736,726	2,272,096
	<u>12,083,028</u>	<u>11,560,851</u>
Less accumulated depreciation and amortization	<u>(5,091,450)</u>	<u>(4,655,366)</u>
	<u>\$ 6,991,578</u>	<u>\$ 6,905,485</u>

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Note 9: Net Assets

Net Assets With Donor Restrictions

Net assets with donor restrictions at June 30, 2021 and 2020 are restricted for the following purposes or periods:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specific purpose		
Excellence and programs	\$ 186,724,798	\$ 181,397,558
Student enhancement	32,249,192	31,085,218
Facility enhancement	8,973,877	18,222,242
Faculty enhancement	11,349,236	10,285,737
Promises to give and other receivables restricted by donors for		
Excellence and programs	17,985,666	16,222,308
Student enhancement	2,962,741	2,010,542
Facility enhancement	41,521,665	42,722,679
Faculty enhancement	1,000,016	718,352
	<u>302,767,191</u>	<u>302,664,636</u>
Subject to the passage of time		
Charitable trusts and gift annuities	<u>1,523,605</u>	<u>664,078</u>
Real estate held for use	<u>10,348,529</u>	<u>10,354,836</u>
	<u>314,639,325</u>	<u>313,683,550</u>

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	2021	2020
Endowments		
Subject to appropriation and expenditure when a specific event occurs		
Excellence and programs	\$ 43,800,205	\$ 31,140,620
Student enhancement	42,907,838	33,847,347
Facility enhancement	4,247,622	3,049,210
Faculty enhancement	3,742,416	2,850,949
	94,698,081	70,888,126
Promises to give and other receivables subject expenditure when a specific event occurs	1,864,899	961,022
Real estate held for specific event or appropriation	3,293,690	3,161,770
Trust assets to be held subject to appropriation when realized	629,502	483,265
	100,486,172	75,494,183
Subject to NFP endowment spending policy and appropriation		
Excellence and programs	130,662,766	91,928,192
Student enhancement	346,546,910	247,138,924
Facility enhancement	6,683,652	4,990,188
Faculty enhancement	115,628,168	86,428,199
Underwater endowments	-	(3,121,762)
	599,521,496	427,363,741
Promises to give and other receivables to be held in perpetuity	52,855,010	28,691,268
Real estate to be held in perpetuity	19,491,119	18,780,669
Trust assets to be held in perpetuity	19,452,435	14,624,658
Total net assets with donor restrictions	\$ 1,106,445,557	\$ 878,638,069

Kansas State University Foundation
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Net Assets Without Donor Restrictions

Net assets without donor restrictions at June 30, 2021 and 2020 have been designated for the following purposes:

	<u>2021</u>	<u>2020</u>
Undesignated	\$ 28,099,554	\$ 5,793,151
Designated by the Board for operating reserve	10,151,996	7,189,720
Designated by the Board for endowment	74,975,335	56,199,740
Investment in real property, property and equipment, net	<u>23,521,936</u>	<u>25,401,643</u>
	<u>\$ 136,748,821</u>	<u>\$ 94,584,254</u>

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors:

	<u>2021</u>	<u>2020</u>
Expiration of time restrictions	<u>\$ 2,970,249</u>	<u>\$ 3,445,809</u>
Satisfaction or purpose restrictions		
Scholarships and other student awards	5,329,783	5,046,722
University support - Academic	7,960,013	5,713,386
University support - Administrative	30,716,089	43,773,498
University support - Capital Improvements	14,577,311	7,736,511
Other support	<u>1,143</u>	<u>170,399</u>
	<u>58,584,339</u>	<u>62,440,516</u>
Restricted-purpose spending-rate distributions and appropriations		
Scholarships and other student awards	10,764,675	10,888,108
University support - Academic	5,030,210	4,008,831
University support - Administrative	1,908,259	1,489,000
University support - Capital Improvements	<u>544,598</u>	<u>58,543</u>
	<u>18,247,742</u>	<u>16,444,482</u>
	<u>\$ 79,802,330</u>	<u>\$ 82,330,807</u>

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Note 10: Unitrust and Annuity Liabilities

Gift Annuities

The Foundation has been the recipient of gift annuities which require future payments to the donor or their named beneficiaries. Beneficiary annuity rates typically follow the guidelines recommended by the American Council on Gift Annuities and range from 4.0 percent to 11.5 percent. The assets received from donors are recorded at fair value. The Foundation has recorded a liability at June 30, 2021 and 2020, totaling \$9,202,394 and \$9,220,713, respectively, which represents the present value of the future annuity obligations. The liability has been determined using a discount rate of 1.2 and 0.6 percent in 2021 and 2020, respectively.

Charitable Remainder Trust

The Foundation administers various charitable remainder trusts. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime or a specific time period). At the end of the trust's term, the remaining assets are available for the Foundation's use. The portion of the trust attributable to the future interest of the Foundation is recorded in the consolidated statements of activities as contributions with donor restrictions as designated by the donor, in the period the trust is established. Assets held in charitable remainder trusts are recorded at fair value of approximately \$45,400,000 and \$36,700,000 as of June 30, 2021 and 2020, respectively, and are included in investments in the Foundation's statements of financial position. On an annual basis, the Foundation revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments is calculated using a discount rate of 1.2 percent and 0.6 percent in 2021 and 2020, respectively, as well as applicable mortality tables, and amounted to \$15,496,671 and \$13,277,077 at June 30, 2021 and 2020, respectively.

Note 11: Employee Benefit Plan

The Foundation's board of directors has established the Kansas State University Foundation Defined Contribution Retirement Plan (the Plan). The Plan provides for a mandatory employer matching contribution of 10.0 percent for the years ended June 30, 2021 and 2020. Employees are fully vested when plan contributions are made. Employer contributions paid by the Foundation were \$1,139,027 and \$1,069,870 for the years ended June 30, 2021 and 2020, respectively.

The Plan requires mandatory employee participation at time of hire with a minimum contribution of 5.5 percent.

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Note 12: Consolidation of Supporting Organization – KSUGCMRF

The Kansas State University Golf Course Management and Research Foundation (KSUGCMRF) is a supporting organization of the Foundation formed to build, own and operate a golf course. This not-for-profit corporation was formed in 1997 based on a request from the University to provide a golf course to further the University’s mission. The corporation was granted tax-exempt status by the Internal Revenue Service. Although consolidated for financial reporting purposes, KSUGCMRF is a separate corporation, and its assets and liabilities are separate from those of the Foundation. The Foundation is not liable for and has not guaranteed the debts or obligations of KSUGCMRF. A summary of financial information for KSUGCMRF at and for the years ended June 30, 2021 and 2020, is as follows:

	2021	2020
Assets		
Cash	\$ 999,776	\$ 503,259
Real estate and other depreciable assets (net of depreciation)	6,991,578	6,905,485
Pledges receivable, net	1,493,392	1,552,866
Other assets	269,816	241,001
Total assets	<u>9,754,562</u>	<u>9,202,611</u>
Liabilities		
Accrued liabilities	240,824	261,922
Long-term debt	770,222	601,823
Total net assets	<u>\$ 8,743,516</u>	<u>\$ 8,338,866</u>
Revenue, gains and other support	\$ 1,560,676	\$ 1,053,134
Expenses and support	<u>(1,156,026)</u>	<u>(1,229,140)</u>
Change in Net Assets	404,650	(176,006)
Net Assets, Beginning of Year	<u>8,338,866</u>	<u>8,514,872</u>
Net Assets, End of Year	<u>\$ 8,743,516</u>	<u>\$ 8,338,866</u>

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Note 13: Consolidation of Supporting Organization – FEKSU

The Foundation for Engineering at Kansas State University, Inc. (FEKSU) is a supporting organization formed for charitable and educational purposes exclusively to support the Kansas State University Foundation benefiting the College of Engineering at Kansas State University. This not-for-profit corporation was formed in 2009 based on a request from donors with the objective of providing resources to attract and retain faculty and students through scholarships and enhanced college resources. The corporation has applied for and received tax-exempt status with the Internal Revenue Service. A summary of financial information for FEKSU at June 30, 2021 and 2020, is as follows:

	<u>2021</u>	<u>2020</u>
Assets		
Cash	\$ 1,267	\$ 1,293
Closely held stock (at fair value)	<u>120,351,460</u>	<u>119,302,259</u>
Total net assets	<u>\$ 120,352,727</u>	<u>\$ 119,303,552</u>
Revenue, gains and other support	\$ 2,249,610	\$ 19,883,978
Expenses and support	<u>(1,200,435)</u>	<u>(1,400,450)</u>
Change in Net Assets	1,049,175	18,483,528
Net Assets, Beginning of Year	<u>119,303,552</u>	<u>100,820,024</u>
Net Assets, End of Year	<u>\$ 120,352,727</u>	<u>\$ 119,303,552</u>

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Note 14: Consolidation of Supporting Organization – KSUCREF

The Kansas State University Charitable Real Estate Foundation (KSUCREF) is a supporting organization formed to hold and manage real estate properties held for investment. The corporation applied for and received tax-exempt status with the Internal Revenue Service. A summary of financial information for KSUCREF at and for the years ended June 30, 2021 and 2020, is as follows:

	2021	2020
Assets		
Cash	\$ 2,814,718	\$ 660,709
Investments	31,379,350	30,154,185
Lease receivable	425,175	582,100
Note receivable	10,374,000	10,374,000
Other assets	6,751	29,511
	<hr/>	<hr/>
Total assets	44,999,994	41,800,505
Liabilities		
Accrued liabilities	1,992,040	2,535,698
Long-term debt	10,786,720	9,083,747
Line of credit	410,485	570,455
	<hr/>	<hr/>
Total net assets	<u>\$ 31,810,749</u>	<u>\$ 29,610,605</u>
Revenue, gains and other support	\$ 4,334,348	\$ 3,072,181
Expenses and support	<u>(2,134,204)</u>	<u>(8,289,096)</u>
	<hr/>	<hr/>
Change in Net Assets	2,200,144	(5,216,915)
	<hr/>	<hr/>
Net Assets, Beginning of Year	29,610,605	34,827,520
	<hr/>	<hr/>
Net Assets, End of Year	<u>\$ 31,810,749</u>	<u>\$ 29,610,605</u>

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Note 15: Consolidation of Supporting Organization – 1880 Kimball

1880 Kimball, LLC (1880 Kimball) is a supporting organization and qualified active low-income community business (QALICB) formed to hold real estate investments and debt as part of the new market tax credit financing entered into during 2018 (see *Note 16*). A summary of financial information for 1880 Kimball at and for the years ended June 30, 2021 and 2020, is as follows:

	2021	2020
Assets		
Cash	\$ 420,676	\$ 335,240
Investments	13,550,000	13,550,000
Other assets	<u>305,886</u>	<u>304,827</u>
Total assets	14,276,562	14,190,067
Liabilities		
Accrued liabilities	82,022	64,290
Long-term debt	<u>15,635,061</u>	<u>15,576,851</u>
Total net assets	<u>\$ (1,440,521)</u>	<u>\$ (1,451,074)</u>
Revenue, gains and other support	\$ 1,230,544	\$ (499,510)
Expenses and support	<u>(1,219,991)</u>	<u>(1,329,449)</u>
Change in Net Assets	10,553	(1,828,959)
Net Assets, Beginning of Year	<u>(1,451,074)</u>	<u>377,885</u>
Net Assets, End of Year	<u>\$ (1,440,521)</u>	<u>\$ (1,451,074)</u>

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Note 16: New Market Tax Credit Financing

During 2018, the Foundation and its newly formed subsidiary 1880 Kimball, LLC began participation in a New Market Tax Credit (NMTC) program. NMTC programs were established as part of the *Community Renewal Tax Relief Act* of 2000. The goal of the NMTC programs is to spur revitalization efforts of low-income and impoverished communities across the United States and its Territories by providing tax credit incentives to investors in certain community development entities. The tax credit for investors equals 39 percent of the investment, and investors receive the tax credit over a seven year period. A community development entity (CDE) is required to participate and has the primary mission of providing the financing for revitalization project in low-income communities.

NMTC financing allows entities such as the Foundation to receive low-interest loans or investment capital from CDEs, primarily financial institutions, which will allow their investors to receive tax credits. As a result of participation in the NMTC program, the Foundation obtained \$14,650,000 of financing for the construction and outfitting of a new office building that was completed and placed in operations in 2019.

The Foundation's NMTC program was formed based on the following series of transactions:

- USBCDC Investment Fund 199, LLC (Fund 199) was formed in March 2017 with \$5.031 million of equity in the form of NMTCs infused by U.S. Bancorp Community Development Corporation (USBCDC).
- KSUCREF obtained a \$9.097 million loan from a bank (see *Note 17*). The Foundation also provided \$1.3 million in cash to KSUCREF. \$10.374 million in net proceeds were in turn loaned to Fund 199 by KSUCREF, which is recorded as a note receivable in the consolidated statements of financial position.
- The Foundation formed a wholly owned subsidiary, 1880 Kimball, LLC, which was the qualified active low-income community business (QALICB) established to hold the land and building development project.
- Fund 199 invested \$15.0 million in its 99.99 percent owned qualified low-income community investment subsidiaries (sub-CDEs) for purposes of making a qualified low-income community investment loan (QLICI) to QALICB.
- Two Community Development Entities owned the remaining 0.01 percent of sub-CDE and committed to providing financing to QALICB in the form of loans totaling \$14.65 million (the "CDE loans") in exchange for the tax credits.

1880 Kimball also obtained a direct loan with a bank to provide additional construction lending, if necessary. As of June 30, 2021 and 2020, the balance drawn on the construction note was \$404,336 and \$419,258, respectively.

The Foundation has entered into lease arrangements with third party entities to occupy the building. The rental payments received by 1880 Kimball will be used to fund the debt service payments.

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Note 17: Long-term Debt

	<u>2021</u>	<u>2020</u>
Kansas State Revenue Bonds (A)	\$ 16,081,473	\$ 16,481,448
KSUGCMRF Notes Payable, Various Financiers (B)	770,222	601,823
Capital Equipment Leases, Various Financiers (C)	181,010	296,155
Lines of Credit, Various Financiers (D)	1,744,307	570,455
KSUCREF Note Payable, Intrust Bank (E)	8,827,596	9,096,742
1880 Kimball Notes Payable, Various Financiers (F)	14,650,000	14,650,000
Other Notes Payable, Various Financiers (G)	<u>5,347,790</u>	<u>3,515,438</u>
	47,602,398	45,212,061
Less unamortized debt issuance costs	<u>(685,643)</u>	<u>(770,278)</u>
	<u>\$ 46,916,755</u>	<u>\$ 44,441,783</u>

The Foundation undertakes real estate transactions that further the mission of Kansas State University. At no time do any of these transactions utilize donor gifts to meet debt or operating obligations.

(A) On September 12, 2013, the Foundation acquired financing, via Series 2013D Revenue Bonds, totaling \$9,035,000. The bonds were issued to fund construction of the new Department of Agriculture headquarters on Foundation owned property in the Kansas State University Research Park. The Foundation's obligation to make payments under the loan agreement is limited to the lease amounts received from the Department of Agriculture pursuant to an Assignment of Leases and Rents between the Foundation and the Bond Trustee. Lease payments are subject and dependent upon appropriations being made by the Kansas Legislature for such purpose. Coupon rates range from 2 percent to 5 percent with scheduled semi-annual payments beginning April 1, 2014 through October 1, 2033. Unamortized debt issuance costs were \$185,275 and \$199,527 at June 30, 2021 and 2020, respectively.

On August 1, 2019, the Foundation acquired financing, via Series 2019A Revenue Bonds, totaling \$8,765,000. The bonds were issued to fund construction of the new Department of Agriculture Laboratory on Foundation owned property in the Kansas State University Research Park. The Foundation's obligation to make payments under the loan agreement is limited to the lease amounts received from the Department of Agriculture pursuant to an Assignment of Leases and Rents between the Foundation and the Bond Trustee. Coupon rates range from 2.0 percent to 3.0 percent with scheduled annual payments beginning October 1, 2021 through October 1, 2049. Unamortized debt issuance costs were \$255,296 and \$264,099 at June 30, 2021 and 2020, respectively.

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- (B) On March 27, 2020, the United States government enacted the *Coronavirus Aid, Relief and Economic Security Act* (“CARES Act”). On April 11, 2020, KSUGCMRF obtained two promissory notes totaling \$231,857 pursuant to the Paycheck Protection Program (PPP) (“2020 Notes”). On March 2, 2021, KSUGCMRF received a second round of PPP loans in the amount of \$280,681 (“2021 Notes”). The PPP loan was established by the CARES Act and the Foundation elected to account for the funding as long-term debt in accordance with ASC Topic 470, *Debt*. On January 14, 2021, the Foundation received a Notice of Paycheck Protection Program Forgiveness Payment from the Small Business Administration for the 2020 Notes. As a result, the Foundation recognized a gain in the consolidated financial statements in the amount of \$231,857 and is included in revenue, gains and other support in the consolidated statements of activities. The Foundation has applied for forgiveness for the 2021 Notes.

PPP loans are subject to audit and acceptance by the U.S. Department of Treasury, Small Business Administration, or lender; as a result of such audit, adjustments could be required to any gain recognized.

On March 27, 2020, the Foundation obtained an additional line of credit. The line of credit had a balance drawn of \$120,857 at June 30, 2021. Interest varies with the *Wall Street Journal Prime Rate* plus 0.5 percent.

On March 12, 2021, KSUGCMRF obtained a note payable with maturity date of March 12, 2022 with an interest rate of 3.5 percent. There was \$368,684 outstanding on the note at June 30, 2021.

- (C) Capital equipment leases relating to various computer hardware and vehicles, issued by several financiers. Lease expiring September 2022 with required quarterly payments of \$9,825 at an imputed rate of 4.79 percent. Lease expired May 2021 with required monthly payments of \$600 at an imputed rate of 4.50 percent. Lease expiring February 2024 with required quarterly payments of \$14,810 at an imputed rate of 6.14 percent. Lease expiring April 2023 with monthly payments of \$744 at an imputed interest rate of 3.12 percent.
- (D) The Foundation has a \$3,000,000 revolving bank line of credit expiring in March 2024. There was \$414,307 and \$570,455 borrowed against the line at June 30, 2021 and 2020, respectively. The line is collateralized by certain real property assets of the Foundation. Interest varies with the one-month LIBOR rate, plus 1.75 percent.

The Foundation also has a \$10,000,000 revolving bank line of credit expiring in September 2023. There were no borrowings against the line at June 30, 2021 and 2020. The line is collateralized by certain real property assets of the Foundation. The interest rate is variable based on the one-month LIBOR rate, plus 1.15 percent.

The Foundation has a \$3,185,000 revolving bank line of credit expiring in March 2025. There was \$1,330,000 borrowed against the line at June 30, 2021. Interest varies with the one-month LIBOR rate, plus 1.45 percent. Unamortized debt issuance costs were \$3,822 and \$0 at June 30, 2021 and 2020, respectively.

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- (E) Due in July 2024; monthly interest-only payments beginning August 2017 through July 2020; monthly repayments of \$55,605 beginning in August 2020 through maturity with remaining principal and interest due upon maturity. Interest rate is set at a fixed rate of 4.10 percent. Loan is secured by certain assets and property of KSUCREF, as defined. Issued as part of the new market tax credit agreement (see *Note 16*). Unamortized debt issuance costs were \$9,747 and \$12,995 at June 30, 2021 and 2020, respectively.
- (F) Due in July 2052 from two lenders (CBKC Sub-CDE and NCIF Sub-CDE) through four promissory notes (CBKC Note A in the amount of \$6,948,500, CBKC Note B in the amount of \$2,851,500, NCIF Note A in the amount of \$3,425,500 and NCIF Note B in the amount of \$1,424,500). Periodic payments on the notes are as follows:

- Monthly interest-only payments beginning in September 2017 through September 2024;
- In July 2024, an aggregate principal payment of \$9,431,892 (CBKC Note A - \$6,092,993, CBKC Note B - \$285,150, NCIF Note A - \$3,003,749, NCIF Note B - \$50,000) plus interest is due;
- Beginning in October 2024, aggregate quarterly principal and interest payments of \$55,513 (CBKC Note A - \$9,101, CBKC Note B - \$27,302, NCIF Note A - \$4,487, NCIF Note B - \$14,623) through June 2033;
- Beginning in September 2033, quarterly payments of principal and interest to fully amortize the principal amount of the loans through the maturity date.

Interest rate is set at a fixed rate of 2.89 percent. Loans are secured by mortgages and improvements on property constructed with loan proceeds. Issued as part of the new market tax credit agreement (see *Note 16*). Unamortized debt issuance costs were \$219,052 and \$292,407 at June 30, 2021 and 2020, respectively.

- (G) Due in November 2020; quarterly principal and interest payments of \$35,664 beginning in January 2018 through October 2020 with a balloon payment of all unpaid principal and interest due on maturity. Interest is set at a fixed rate of 2.65 percent. The credit agreement is collateralized by certain real property assets of the Foundation. This note was amended in December 2020 with payments beginning in December 2020 through November 2027. Interest is set at a fixed rate of 2.55 percent. Unamortized debt issuance costs were \$0 and \$1,250 at June 30, 2021 and 2020, respectively. Borrowings on this note were \$2,163,668 and \$2,296,180 as of June 30, 2021 and 2020, respectively.

The credit agreement, among other provisions, contains a financial covenant, which includes that the Foundation maintain a liquidity coverage ratio of 1.10 to 1.00 as defined in the credit agreement. Management of the Foundation has provided this calculation to the bank certifying their compliance with this covenant as of June 30, 2021.

The Foundation also has available credit through a construction loan agreement with a bank with a maximum commitment of \$1,219,258 that matures in July 2024. Interest is variable at the five-year treasury bond rate plus 2.20 percent. As part of the credit agreement, the Foundation is required to maintain certain financial covenants, including a minimum

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liquidity ratio of 1.10 to 1.00 and minimum debt service coverage ratio of 1.15 to 1.00. Borrowings on this note were \$404,336 and \$419,258 at June 30, 2021 and 2020, respectively.

Due in August 2031; annual repayments of \$160,000 beginning in October 2026. Note is interest free. The note contains certain provisions that allow forgiveness on up to \$400,000 of the note balance upon achievement and maintenance of certain employment requirements, as defined in the agreement. Borrowings on this note were \$800,000 at both June 30, 2021 and 2020.

Due in November 2027; monthly repayments of \$10,500 beginning in December 2020. Interest is fixed at 2.63 percent. Borrowing on this note was \$1,979,786 at June 30, 2021. Unamortized debt issuance costs were \$12,451 and \$0 at June 30, 2021 and 2020, respectively.

Aggregate annual maturities of long-term debt at June 30, 2021, are:

2022	\$ 2,030,487
2023	1,282,075
2024	1,709,126
2025	23,808,077
2026	2,306,101
Thereafter	<u>16,466,532</u>
	<u>\$ 47,602,398</u>

Total interest expense on long-term debt amounted to \$1,627,618 and \$1,690,343 during 2021 and 2020, respectively.

Note 18: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Litigation

Management is not aware of any significant outstanding litigation. The Foundation is subject to claims and lawsuits that arise primarily in the ordinary course of its activities. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, change in net assets and cash flows of the Foundation.

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Contributions

Approximately 14 percent of all contributions were received from one donor in 2021.
Approximately 15 percent of all contributions were received to benefit one fund in 2021.

Investments

The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying consolidated statements of financial position.

At June 30, 2021 and 2020, the closely held stock by the Foundation for Engineering at Kansas State University, Inc. approximates 9 percent and 11 percent of total assets, respectively.

Allowance for Doubtful Collections on Pledges Receivable

Management estimates an allowance for doubtful collections on pledges receivable based on historical trends, individual donor circumstances and current economic conditions. Actual future collections on pledges could result in material future losses.

Note 19: Other Support Revenue

Performance obligations are determined based on the nature of the services provided by the Foundation in accordance with the contract. Performance obligations accounted for within other support revenue include revenues earned for fundraising and administrative services, investment management services and other revenues. Revenue for performance obligations satisfied over time is recognized ratably over the period based on time elapsed. The Foundation believes this method provides a faithful depiction of the transfer of services over the term of the performance obligations satisfied as a point in time is generally recognized when services are provided at a single point in time and the Foundation does not believe it is required to provide additional services related to that sale.

Performance Obligations and Transaction Price Allocated to Remaining Performance Obligations

Because all of its performance obligations relate to contracts with a duration of less than one year, the Foundation has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to fundraising and administrative services and investment management services. The performance obligation for these contracts are generally satisfied at the end of the contract period.

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Significant Judgments

The Foundation determines the transaction price based on standard charges for services provided. The Foundation has minimal exposure to discounts, allowances, price concessions or other components of variable transaction price.

Disaggregation of Revenue

The composition of revenue based on services provided and timing of revenue recognition for the years ended June 30, 2021 and 2020, are as follows:

	<u>2021</u>	<u>2020</u>
Pooled endowment fund fee income	\$ 9,517,786	\$ 9,262,057
Sole source revenue	4,597,256	3,574,384
University advancement fee income	3,093,545	2,798,868
Other	<u>2,376,883</u>	<u>2,682,265</u>
Operational service charges, management fees and other	<u>\$ 19,585,470</u>	<u>\$ 18,317,574</u>
Service lines		
Departmental deposits	\$ 1,368,926	\$ 1,309,406
Other	<u>1,096,691</u>	<u>595,730</u>
University departmental activities and funding allotments, etc.	<u>\$ 2,465,617</u>	<u>\$ 1,905,136</u>
Timing of revenue and recognition		
Services transferred over time	\$ 19,585,470	\$ 18,317,574
Sales at point in time	<u>2,465,617</u>	<u>1,905,136</u>
Total	<u>\$ 22,051,087</u>	<u>\$ 20,222,710</u>

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Note 20: Conditional Promises

Conditional promises are not recognized in the consolidated financial statements due to the unknown occurrence of a specified future and uncertain event. Donors have notified the Foundation of conditional promises approximating \$651,000,000 and \$569,000,000 at June 30, 2021 and 2020, in the form of bequests and life insurance policies, respectively. Future amounts received may vary significantly as the potential donor has no obligation to retain the Foundation as the beneficiary. Additionally, the timing of any receipts on conditional promises is unknown. As a result, the Foundation has not applied a discount rate to these amounts.

Note 21: Related Party Transactions

The purpose of the Foundation is to aid, foster and promote the development and welfare of Kansas State University (“University”) in Manhattan, Kansas, and the education and welfare of its students, faculty and alumni, and to acquire property of all kinds for purposes stated above. The Foundation is dependent upon the existence of the University.

The Foundation previously entered into several direct financing and sales-type leases with the University for certain real properties which were purchased by the Foundation on behalf of the University, which the University then entered into five year leases with a transfer of ownership clause at the completion of the lease. There was \$425,175 and \$582,100 in lease receivables recorded in other assets and accrued investment income for the years ended June 30, 2021 and 2020, respectively.

Note 22: Subsequent Events

Subsequent events were evaluated through September 23, 2021, which is the date the consolidated financial statements were available to be issued.