

CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

Kansas University Endowment Association
Years Ended June 30, 2020 and 2019
With Report of Independent Auditors

Ernst & Young LLP



Kansas University Endowment Association
Consolidated Financial Statements and Supplementary Information
Years Ended June 30, 2020 and 2019

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Report of Independent Auditors

The Board of Trustees
Kansas University Endowment Association

We have audited the accompanying consolidated financial statements of the Kansas University Endowment Association, which comprise the statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor’s Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Kansas University Endowment Association as of June 30, 2020 and 2019, and the related consolidated statements of activities and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited the Kansas University Endowment Association's 2019 consolidated financial statements, and we expressed an unmodified audit opinion on those consolidated financial statements in our report dated September 18, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary statement of consolidating financial position as of June 30, 2020, is presented for purposes of responding to a state statute for compliance purposes and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects, in relation to the financial statements as a whole.

Ernst + Young LLP

September 18, 2020

Kansas University Endowment Association
Consolidated Statements of Financial Position

	June 30	
	2020	2019
	<i>(In Thousands)</i>	
Assets		
Cash and cash equivalents	\$ 10,020	\$ 8,794
Receivables:		
Receivables from investment activities	479	2,665
Other receivables	8,396	9,077
Student loans receivable, less allowance of \$1,100 and \$1,796 in 2020 and 2019, respectively	23,197	22,075
Contributions pledged, less allowance of \$1,752 and \$2,293 in 2020 and 2019, respectively	86,992	109,664
Real estate loans receivable	6,927	6,692
Total receivables	125,991	150,173
Investments:		
Securities	1,955,245	1,925,171
Trusts held by others	45,589	46,445
Interest in other KU Endowment Entities	3,943	3,853
Real estate	18,700	18,700
Total investments	2,023,477	1,994,169
Property and facilities		
Land	16,828	16,495
Buildings	28,859	25,514
Equipment and furnishings	4,105	3,688
	49,792	45,697
Accumulated depreciation	(17,487)	(16,003)
Net property and facilities	32,305	29,694
Deposits and other assets	5,464	5,815
Total assets	\$ 2,197,257	\$ 2,188,645

	June 30	
	2020	2019
	<i>(In Thousands)</i>	
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 31,959	\$ 25,632
Payables from investment activities	419	580
Trust payable	197	160
Life income gifts payable	22,599	21,221
Agency funds	70,231	69,714
Total liabilities	<u>125,405</u>	<u>117,307</u>
Net assets:		
Without donor restrictions	204,865	200,547
With donor restrictions	1,866,987	1,870,791
Total net assets	<u>2,071,852</u>	<u>2,071,338</u>

Total liabilities and net assets

\$ 2,197,257 \$ 2,188,645

See accompanying notes.

Kansas University Endowment Association

Consolidated Statements of Activities

	Year Ended June 30, 2020			Summarized Financial Information for the Year Ended June 30, 2019
	Without Donor Restrictions	With Donor Restrictions	Total Current Year	
	<i>(In Thousands)</i>			
Revenue, gain (loss), and other support:				
Fundraising:				
Contributions and grants received and pledged	\$ 820	\$ 124,254	\$ 125,074	\$ 198,346
Bequests	3,620	13,009	16,629	25,222
Life income gifts	–	2,313	2,313	151
Change in value of life income gifts	(38)	(825)	(863)	1,248
Change in net interest in other KU Endowment entities	–	90	90	(6)
Total fundraising	4,402	138,841	143,243	224,961
Income (loss) from asset holdings:				
Investment income	8,980	37,307	46,287	45,342
Realized and unrealized gain (loss) on investments and trusts held by others	22,207	(28,083)	(5,876)	50,957
Loan interest income	738	1,123	1,861	3,239
Agricultural and mineral income	1,085	1,016	2,101	1,877
Rental, gain on sale of assets, and other income	772	117	889	1,756
Total income from asset holdings	33,782	11,480	45,262	103,171
Other receipts	436	4,463	4,899	21,356
Net assets released from restrictions:				
Satisfaction of program restrictions	155,245	(155,245)	–	–
Total revenue, gain (loss), and other support	\$ 193,865	\$ (461)	\$ 193,404	\$ 349,488

Kansas University Endowment Association

Consolidated Statements of Activities (continued)

	Year Ended June 30, 2020			Summarized Financial Information for the Year Ended June 30, 2019
	Without Donor Restrictions	With Donor Restrictions	Total Current Year	
Expenses:	<i>(In Thousands)</i>			
University support:				
Student support	\$ 41,929	\$ –	\$ 41,929	\$ 40,907
Faculty support and contractual services	47,432	–	47,432	39,969
Construction, furnishings, equipment, and supplies	20,740	–	20,740	42,657
Program and other educational support	50,634	–	50,634	50,060
Total University support	160,735	–	160,735	173,593
Supporting services:				
Administrative and fundraising support	21,965	–	21,965	22,497
Asset management expense	270	–	270	962
Depreciation	1,182	–	1,182	1,191
Total supporting services	23,417	–	23,417	24,650
Total expenses	184,152	–	184,152	198,243
Excess (deficit) of revenues over expenses	9,713	(461)	9,252	151,245
Net interfund transfers	3,343	(3,343)	–	–
Change in net assets before amortization of unrecognized actuarial adjustments	13,056	(3,804)	9,252	151,245
Amortization of unrecognized actuarial adjustments	(8,738)	–	(8,738)	(5,869)
Change in net assets	4,318	(3,804)	514	145,376
Net assets at beginning of year	200,547	1,870,791	2,071,338	1,925,962
Net assets at end of year	\$ 204,865	\$ 1,866,987	\$ 2,071,852	\$ 2,071,338

See accompanying notes.

Kansas University Endowment Association

Consolidated Statements of Cash Flows

	Year Ended June 30	
	2020	2019
	<i>(In Thousands)</i>	
Operating activities		
Change in net assets	\$ 514	\$ 145,376
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,182	1,191
Net realized and unrealized loss (gain) on investments and trusts held by others	5,876	(50,957)
Contributions restricted for long-term investment	(21,242)	(56,285)
Noncash contributions	(1,476)	(2,126)
Changes in operating assets and liabilities:		
Decrease in student loans receivable, net	(1,122)	(495)
Decrease (increase) in contributions pledged, net	22,672	(3,031)
(Increase) decrease in real estate loans receivable	(235)	795
Increase in accounts payable and accrued expenses	6,327	5,099
(Increase) decrease in net interest of KU Endowment entities	(90)	6
Increase in agency funds	517	2,375
Other	3,994	56
Net cash provided by operating activities	<u>16,917</u>	<u>42,004</u>
Investing activities		
Net expenditures for property and facilities	(4,096)	(1,044)
Net purchases of real estate held for investment	-	502
Net proceeds from sale of investments	273,966	269,131
Purchase of investments	(306,803)	(377,920)
Net cash used in investing activities	<u>(36,933)</u>	<u>(109,331)</u>
Financing activities		
Proceeds from donor-restricted contributions	21,242	56,285
Net cash provided by financing activities	<u>21,242</u>	<u>56,285</u>
Net increase (decrease) in cash and cash equivalents	1,226	(11,042)
Cash and cash equivalent at beginning of year	8,794	19,836
Cash and cash equivalent at end of year	<u>\$ 10,020</u>	<u>\$ 8,794</u>

See accompanying notes.

Kansas University Endowment Association

Notes to Consolidated Financial Statements

June 30, 2020

1. Organization

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

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

2. Summary of Significant Accounting Policies

Basis of Presentation

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

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

Fund Accounting

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

Kansas University Endowment Association

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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

Cash and Cash Equivalents

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

Student Loans Receivable

As of June 30, 2020 and 2019, there was approximately \$3,296,000 and \$2,961,000, respectively, of loans 90 days or more past due. Interest is accrued on loans that are more than 90 days and less than 180 days past due at 5% and on loans 180 days or more past due at 14%, but this interest is fully reserved within the consolidated financial statements. KU Endowment writes off uncollectible loans, both principal and interest, after the external collection agency partners have determined that they are uncollectible.

Pledges, Contributions, Bequests, and Grants

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

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

Kansas University Endowment Association

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Real Estate Loans Receivable

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

Investment Programs

Short-Term Investment Program

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

Long-Term Investment Program

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

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

Kansas University Endowment Association

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Investment Earnings

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

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

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

Property and Facilities

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

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

Kansas University Endowment Association

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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

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

Agency Funds

KU Endowment holds certain endowment and other funds on behalf of the University and other affiliated third parties. Such funds totaled approximately \$70,231,000 and \$69,713,000 at June 30, 2020 and 2019, respectively.

University Support

Expenses include distributions to support purposes of the University as a whole, as well as specific departments or schools of the University. Certain distributions, such as faculty and staff salary support, are made to the University, while others, such as student awards, are paid directly to the recipients. Total University support was approximately \$160,735,000 and \$173,593,000 during the years ended June 30, 2020 and 2019, respectively.

Fair Value of Financial Instruments

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

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

Kansas University Endowment Association

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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

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

Investments – Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value, with gains and losses included on the accompanying consolidated statements of activities. The fair value is recorded based on prices quoted by securities dealers or brokers, investment bankers, or valuation specialists on the valuation date. Management's estimate of the fair value of investments is included in Note 6.

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

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

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

Kansas University Endowment Association

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

cash payments to the beneficiaries and are discounted at the 2012 Individual Annuity Reserving table rates. Obligations to beneficiaries at June 30, 2020, were approximately \$10,082,000 for gift annuities and approximately \$12,517,000 for charitable remainder trusts. Obligations to beneficiaries at June 30, 2019, were approximately \$8,845,000 for gift annuities and approximately \$12,376,000 for charitable remainder trusts.

Pursuant to charitable gift annuity regulations COMAR 31.09.07.03, KU Endowment maintains adequate reserves for these obligations in unrestricted net assets, which totaled approximately \$204,865,000 and \$200,547,000 at June 30, 2020 and 2019, respectively.

Use of Estimates

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

Concentrations of Credit Risk

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

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

Kansas University Endowment Association

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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

2019 Financial Information

The accompanying consolidated financial statements include certain prior year summarized, comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the organization's consolidated financial statements for the year ended June 30, 2019, from which the summarized information was derived.

New Accounting Pronouncements

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

3. Contributions Receivable

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

	<u>2020</u>	<u>2019</u>
Without donor restrictions	\$ 6,283	\$ 9,511
With donor restrictions	82,461	102,446
	<u>\$ 88,744</u>	<u>\$ 111,957</u>

Kansas University Endowment Association

Notes to Consolidated Financial Statements (continued)

3. Contributions Receivable (continued)

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

	<u>2020</u>	<u>2019</u>
Receivable in less than one year	\$ 34,458	\$ 28,810
Receivable in one to five years	54,634	85,442
Receivable after five years	3,101	3,547
Total undiscounted contributions receivable	<u>92,193</u>	117,799
Less present value discount (weighted-average discount rate of 1.89% and 2.19% in 2020 and 2019, respectively)	<u>(3,449)</u>	<u>(5,842)</u>
	88,744	111,957
Less allowance for doubtful contributions	<u>(1,752)</u>	<u>(2,293)</u>
Contributions receivable, net	<u>\$ 86,992</u>	<u>\$ 109,664</u>

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

Kansas University Endowment Association

Notes to Consolidated Financial Statements (continued)

4. Securities

Securities carried at fair value or amounts that approximate fair value consist of the following (in thousands):

	June 30	
	2020	2019
Money market and short-term investments	\$ 87,536	\$ 98,415
Marketable domestic equity	10,047	13,790
U.S. treasury obligations	1,115	1,058
Exchange-traded funds	62,754	36,507
Open-ended mutual funds	236,395	269,597
Closed-ended mutual funds	35,008	39,767
Collateralized mortgage obligations	86,868	78,734
Common trust funds – equities	296,792	368,025
Common trust funds – fixed income	119,043	74,936
Real estate	1,294	1,203
Royalties and mineral interests	194	158
Hedge funds	445,609	441,332
Private investments	466,081	388,309
Other LLCs and LLPs	106,509	113,340
	\$ 1,955,245	\$ 1,925,171

5. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accounting Standards Codification 820, *Fair Value Measurement*, issued by the FASB, establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). In determining fair value, KU Endowment uses various methods, including the market, income, and cost approaches. Based on these approaches, KU Endowment utilizes certain assumptions that market participants would use in pricing the assets, including assumptions about risk and the risks inherent in the inputs to

Kansas University Endowment Association

Notes to Consolidated Financial Statements (continued)

5. Fair Value Measurements (continued)

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

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

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

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

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

Kansas University Endowment Association

Notes to Consolidated Financial Statements (continued)

5. Fair Value Measurements (continued)

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

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

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

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

Kansas University Endowment Association

Notes to Consolidated Financial Statements (continued)

5. Fair Value Measurements (continued)

The fair value of financial assets measured at fair value on a recurring basis was determined using the following inputs at June 30, 2019 (in thousands):

	Fair Value Measurements at Reporting Date Using			
	June 30, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Long-term investments:				
Money markets and short-term investments	\$ 98,415	\$ 98,415	\$ —	\$ —
Marketable domestic equity securities	13,790	13,790	—	—
U.S. treasury obligations	1,058	—	1,058	—
Open-ended mutual funds	269,597	269,597	—	—
Closed-ended mutual funds	39,767	39,767	—	—
Exchange-traded funds	36,507	36,507	—	—
CMOs	78,734	—	78,734	—
Real estate	1,203	—	—	1,203
Royalties and mineral rights	158	—	—	158
	539,229	458,076	79,792	1,361
Trusts held by others	41,171	32,609	2,803	5,759
Interest in other KU Endowment entities	3,137	3,094	43	—
	\$ 583,537	\$ 493,779	\$ 82,638	\$ 7,120

Changes in Level 3 fair value measurements were as follows for the year ended June 30, 2019 (in thousands):

Fair value beginning balance	\$ 7,587
Realized and unrealized gain on trusts held by others	(464)
Realized and unrealized loss on real estate, royalties and mineral rights	(3)
Fair value ending balance	\$ 7,120

Kansas University Endowment Association

Notes to Consolidated Financial Statements (continued)

5. Fair Value Measurements (continued)

The fair values of the securities included in Level 1 were determined through quoted market prices. The fair values of Level 2 securities were determined through evaluated bid prices based on recent trading activity and other relevant information, including market interest rate curves, referenced credit spreads, and estimated prepayment rates, where applicable, which are used for valuation purposes and are provided by third-party pricing services where quoted market values are not available. Level 2 investments include corporate fixed income, government bonds, American depository receipts, CMOs, and commingled common trust funds. Due to the volatility of the capital markets, there is a reasonable possibility of significant changes in fair value and additional gains (losses) in the near term subsequent to June 30, 2020.

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

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

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

Kansas University Endowment Association

Notes to Consolidated Financial Statements (continued)

5. Fair Value Measurements (continued)

	Fair Value June 30, 2019	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Common trust funds – equities	\$ 372,519	\$ –	Daily, monthly, quarterly	1–45 days
Common trust funds – fixed income	75,731	–	Daily, monthly	1–10 days
Hedge funds	441,576	26,000	Monthly, quarterly, semiannually, annually	2–90 days
Private investments	388,525	263,425	N/A	N/A
Other LLCs and LLPs	113,581	–	Monthly, quarterly	1–90 days
Total	\$ 1,391,932	\$ 289,425		

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

Hedge funds, private investments (private equity, venture capital, and private real assets), and investments in other LLCs and LLPs are also accounted for at fair value using the NAV as the practical expedient. The primary objectives for these investment types are to improve diversification and reduce volatility. These investments have various liquidity schedules, which are monitored on a continuous basis. Redemption frequency of hedge funds and other LLCs and LLPs can be subject to rolling lockups. Of the hedge funds and other LLCs and LLPs listed above, for the year ended June 30, 2020, approximately 83% is available for redemption within 12 months and 16% is available for redemption within 3 years. The remaining 1% is deemed to be illiquid due to special investments of the manager. For the year ended June 30, 2019, approximately 83% is available for redemption within 12 months and 15% is available for redemption within 3 years. The remaining 2% is deemed to be illiquid due to special investments of the manager. Private investments cannot be redeemed with the investees, but instead KU Endowment will receive distributions through the liquidation of the underlying assets of the investees.

Kansas University Endowment Association

Notes to Consolidated Financial Statements (continued)

6. Benefit Plans

Pension Plan

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

The benefit obligation is the present value of benefits for all retired and vested terminated participants, plus a present value of benefits for active participants, based on service rendered prior to June 30, 2020, and projected future pay levels at expected retirement ages. The Plan's funded status and the amounts recognized on KU Endowment's consolidated statements of financial position are as follows (in thousands):

	2020	2019
Change in benefit obligation		
Benefit obligation at beginning of year:	\$ 48,903	\$ 40,812
Service cost	1,777	1,504
Interest cost	1,733	1,697
Actuarial loss	7,153	5,667
Benefits and expenses paid	(1,708)	(777)
Benefit obligation at end of year	57,858	48,903
Change in plan assets		
Fair value of plan assets at beginning of year:	34,930	31,912
Actual return on plan assets	(47)	1,639
Employer contribution	2,855	2,156
Benefits and expenses paid	(1,708)	(777)
Fair value of plan assets at end of year	36,030	34,930
Unfunded status included in accounts payable and accrued expenses on the consolidated statement of financial position	\$ (21,828)	\$ (13,973)

Kansas University Endowment Association

Notes to Consolidated Financial Statements (continued)

6. Benefit Plans (continued)

Federal legislation requires KU Endowment to fund the value of accrued benefits for the pension plan over time, based on the average discount rate derived from high-quality corporate bonds. The intent of the legislation is to measure the Plan's liability based on benefits earned to date by plan participants. For the Plan years ended June 30, 2020 and 2019, the percentage of the value of accrued benefits then funded in the Plan was 110.6% and 119.1%, respectively, as certified by KU Endowment's independent actuarial consultant. The Plan's accumulated benefit obligation was approximately \$51,120,000 and \$43,396,000 on June 30, 2020, and 2019, respectively.

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

	2020	2019
Unrecognized actuarial losses	\$ 23,017	\$ 14,279

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

	2020	2019
Unrecognized actuarial loss (gain)	\$ 9,677	\$ 6,302
Amortization of actuarial loss	(939)	(433)
	\$ 8,738	\$ 5,869

The amount of unrecognized actuarial losses expected to be recognized through the net periodic pension cost during the year ending June 30, 2021, is \$1,723,000.

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

	2020	2019
Service cost	\$ 1,777	\$ 1,504
Interest cost	1,733	1,697
Expected return on plan assets	(2,478)	(2,274)
Recognized net actuarial loss	939	433
Net periodic pension cost	\$ 1,971	\$ 1,360

Kansas University Endowment Association

Notes to Consolidated Financial Statements (continued)

6. Benefit Plans (continued)

KU Endowment's funding policy is to make at least the minimum annual contributions required by ERISA. The expected total contributions during the year ending June 30, 2021, will be approximately \$1,643,000.

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

	June 30	
	2020	2019
Equity securities	70%	71%
Debt and other securities	30	29
	100%	100%

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

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

Kansas University Endowment Association

Notes to Consolidated Financial Statements (continued)

6. Benefit Plans (continued)

The fair value of pension plan assets was determined using the following inputs at June 30, 2019 (in thousands):

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money markets and short-term investments	\$ 247	\$ 247	\$ —	\$ —
Domestic equity funds	15,324	15,324	—	—
International equity funds	9,468	9,468	—	—
Domestic fixed-income funds	8,156	8,156	—	—
Foreign fixed-income funds	1,735	1,735	—	—
	<u>\$ 34,930</u>	<u>\$ 34,930</u>	<u>\$ —</u>	<u>\$ —</u>

The actuarial valuation of the Plan used a 7.0% long-term return assumption for the years ended June 30, 2020 and 2019. These amounts are consistent with the return expectations for a diversified, equity-oriented portfolio of publicly traded stocks and bonds over long periods of time. KU Endowment's review of long-term risk and return assumptions supports this target allocation.

Kansas University Endowment Association

Notes to Consolidated Financial Statements (continued)

6. Benefit Plans (continued)

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

	2020	2019
Benefit obligations:		
Weighted average discount rate	2.84%	3.59%
Rate of compensation increase	2.5%–6.5%	2.5%–6.5%
Benefit costs:		
Weighted average discount rate	3.59%	4.21%
Expected return on plan assets	7.00	7.00
Rate of compensation increase	3.74	3.74

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

Fiscal Year	Future Expected Benefit Payments
2021	\$ 1,376
2022	1,407
2023	1,615
2024	1,680
2025	1,787
2026–2030	11,249

Defined Contribution Plan

KU Endowment also has a 401(k) Plan, which is a defined contribution plan that covers substantially all employees meeting the eligibility requirements set forth under the 401(k) Plan. KU Endowment contributes an amount based on a percentage of the amount contributed to the 401(k) Plan by eligible employees. KU Endowment recorded expenses of \$561,000 and \$558,000 related to the 401(k) Plan during fiscal years 2020 and 2019, respectively, which are included in administrative and fundraising support on the accompanying consolidated statements of activities.

Kansas University Endowment Association

Notes to Consolidated Financial Statements (continued)

7. Donor Restrictions Satisfied

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

	2020	2019
Program restrictions:		
University support:		
Student support	\$ 39,644	\$ 38,551
Faculty support and contractual services	46,397	39,119
Construction, furnishings, equipment, and supplies	20,669	42,461
Program and other educational support	48,535	47,290
	\$ 155,245	\$ 167,421

8. Net Assets With Donor Restrictions

Restricted net assets available at June 30 are restricted for the following purposes (in thousands):

	2020	2019
Subject to expenditure for specified purpose:		
Scholarships, fellowships, and awards	\$ 35,472	\$ 34,195
Construction	159,882	164,624
Equipment	3,232	2,119
Research	27,099	26,482
Salaries and services	50,956	50,632
Other University support	51,266	16,549
Subject to passage of time	2,911	3,850
Endowments, subject to spending policy and appropriation:		
Scholarships, fellowships, and awards	581,693	597,806
Construction	7,036	7,027
Equipment	6,185	7,679
Research	67,699	70,678
Salaries and services	308,499	326,177
Other University support	502,467	498,049
Unrealized planned gifts for multiple purposes	62,590	64,924
	\$ 1,866,987	\$ 1,870,791

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

Kansas University Endowment Association

Notes to Consolidated Financial Statements (continued)

9. Endowment

KU Endowment's endowment consists of approximately 3,715 individual fund accounts established for a variety of purposes to benefit the University. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

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

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

Kansas University Endowment Association

Notes to Consolidated Financial Statements (continued)

9. Endowment (continued)

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

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

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

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

Kansas University Endowment Association

Notes to Consolidated Financial Statements (continued)

9. Endowment (continued)

At June 30, 2019, KU Endowment's net assets composition by type of fund consisted of the following (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ 6,602	\$ 1,264,441	\$ 1,271,043
Board-designated endowment funds	156,690	211,894	368,584
Total funds	<u>\$ 163,292</u>	<u>\$ 1,476,335</u>	<u>\$ 1,639,627</u>

For the year ended June 30, 2019, the changes in the endowment net assets are as follows (in thousands):

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 158,339	\$ 1,406,606	\$ 1,564,945
Investment return:			
Investment income	3,259	33,990	37,249
Net appreciation	2,278	25,900	28,178
Total investment return	<u>5,537</u>	<u>59,890</u>	<u>65,427</u>
Contributions	708	63,957	64,665
Appropriation of endowment assets for expenditure	(497)	(47,176)	(47,673)
Other changes:			
Other receipts	847	1,827	2,674
Interfund transfer within KU Endowment fund accounts, including wholly expendable accounts	<u>(1,642)</u>	<u>(8,769)</u>	<u>(10,411)</u>
Endowment net assets, end of year	<u>\$ 163,292</u>	<u>\$ 1,476,335</u>	<u>\$ 1,639,627</u>

Kansas University Endowment Association

Notes to Consolidated Financial Statements (continued)

9. Endowment (continued)

Underwater Endowment Funds

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor contributed, which is defined by KU Endowment as the amount required under UPMIFA to be retained as a fund of perpetual duration. In the absence of donor stipulations or law to the contrary, decreases in the value of assets of a donor-restricted endowment fund to an amount below the historical gift value shall reduce donor-restricted net assets. Accordingly, the aggregate of these deficiencies shall reduce donor-restricted net assets to the extent there is net appreciation on related funds with donor-imposed restrictions. As of June 30, 2020 and 2019, respectively, deficiencies of this nature exist in 112 and 24 donor-restricted endowment funds, which together have an original gift value of approximately \$65,794,000 and \$9,917,000, a current fair value of \$63,918,000 and \$9,775,000, resulting in a deficiency of \$1,875,000 and \$142,000. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment funds and continued appropriation for certain programs, which was deemed prudent by the Board of Trustees.

Return Objectives and Risk Parameters

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

Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objectives, KU Endowment relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends, net of fees). KU Endowment targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

Kansas University Endowment Association

Notes to Consolidated Financial Statements (continued)

9. Endowment (continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

10. Liquidity

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

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

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

Kansas University Endowment Association

Notes to Consolidated Financial Statements (continued)

10. Liquidity (continued)

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

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

	June 30	
	2020	2019
Financial assets:		
Cash and cash equivalents	\$ 10,020	\$ 8,794
Receivables	19,508	23,793
Investments	173,076	158,431
Real estate and mineral interests	29,607	29,912
Other assets	684	113
Total financial assets	232,895	221,043
Less amounts not available in one year:		
Cash designated for specific University uses	4,495	4,639
Receivables	14,779	18,393
Investments	46,231	39,082
Real estate and mineral interests	29,607	29,912
Other assets	684	113
Total financial assets not available in one year	95,796	92,139
Total financial assets available within one year	\$ 137,099	\$ 128,904

Kansas University Endowment Association

Notes to Consolidated Financial Statements (continued)

11. Functional Expenses

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

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

	Year Ended June 30, 2020			Total	Summarized Financial Information for the Year Ended June 30, 2019
	University	University Controlled Affiliates	University Noncontrolled Affiliates		
Expenses					
University support:					
Student support	\$ 32,475	\$ 9,087	\$ 367	\$ 41,929	\$ 40,907
Faculty support and contractual services	45,029	223	2,180	47,432	39,969
Construction, furnishings, equipment, and supplies	8,607	4,460	7,673	20,740	42,657
Program and other educational support	24,512	21,225	4,897	50,634	50,060
Total University support	<u>110,623</u>	<u>34,995</u>	<u>15,117</u>	<u>160,735</u>	173,593
Supporting services:					
Administrative and fundraising support	—	—	21,965	21,965	22,497
Asset management expense	141	399	(270)	270	962
Depreciation	21	1	1,160	1,182	1,191
Total supporting services	<u>162</u>	<u>400</u>	<u>22,855</u>	<u>23,417</u>	24,650
Total expenses	<u>\$ 110,785</u>	<u>\$ 35,395</u>	<u>\$ 37,972</u>	<u>\$ 184,152</u>	\$ 198,243

Kansas University Endowment Association

Notes to Consolidated Financial Statements (continued)

12. Subsequent Events

KU Endowment evaluated events and transactions occurring subsequent to June 30, 2020, through September 18, 2020, the date of issuance of the accompanying consolidated financial statements. During this period, there were no subsequent events requiring recognition or disclosure in the consolidated financial statements.

Supplementary Information

Kansas University Endowment Association
 Consolidating Statement of Financial Position

June 30, 2020

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

	Kansas University Endowment Association	Combined Real Estate LLCs	Consolidated
Assets			
Cash and cash equivalents	\$ 10,020	\$ —	\$ 10,020
Receivables:			
Receivables from investment activities	479	—	479
Other receivables	8,394	2	8,396
Due from (to) affiliates	3,435	(3,435)	—
Student loans receivable, less allowance of \$1,100	23,197	—	23,197
Contributions pledged, less allowance of \$1,752	86,992	—	86,992
Real estate loans receivable	6,927	—	6,927
Total receivables	129,424	(3,433)	125,991
Investments:			
Securities	1,955,245	—	1,955,245
Trusts held by others	45,589	—	45,589
Interest in other KU Endowment entities	3,943	—	3,943
Real estate	18,700	—	18,700
Total investments	2,023,477	—	2,023,477
Property and facilities:			
Land	10,892	5,936	16,828
Buildings	21,743	7,116	28,859
Equipment and furnishings	4,105	—	4,105
	36,740	13,052	49,792
Less accumulated depreciation	(15,272)	(2,215)	(17,487)
Net property and facilities	21,468	10,837	32,305
Deposits and other assets	5,464	—	5,464
Total assets	\$ 2,189,853	\$ 7,404	\$ 2,197,257

Kansas University Endowment Association

Consolidating Statement of Financial Position (continued)

	Kansas University Endowment Association	Combined Real Estate LLCs	Consolidated
Liabilities and net assets			
Liabilities:			
Accounts payable and accrued expenses	\$ 28,990	\$ 2,969	\$ 31,959
Payables from investment activities	419	–	419
Trust payable	197	–	197
Life income gift payable	22,599	–	22,599
Agency funds	70,231	–	70,231
Total liabilities	122,436	2,969	125,405
Net assets:			
Without donor restrictions	203,110	1,755	204,865
With donor restrictions	1,864,307	2,680	1,866,987
Total net assets	2,067,417	4,435	2,071,852
Total liabilities and net assets	\$ 2,189,853	\$ 7,404	\$ 2,197,257

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