



*2017 ANNUAL*  
**FINANCIAL REPORT**



July 1, 2016 - June 30, 2017

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## KANSAS BOARD OF REGENTS

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Joe Bain	Shane Bangerter
Ann Brandau-Murguia	Bill Feuerborn
Dennis Mullin	Dave Murfin
Zoe Newton	Daniel Thomas
Helen Van Etten	

## EXECUTIVE OFFICERS

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*Chancellor*

Leisa I. Julian  
*Vice Chancellor / Chief Financial Officer*

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*Executive Vice Chancellor / Provost*

Diane H. Goddard  
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*Executive Vice Chancellor*

David Vranicar  
*Vice Chancellor for Finance/CFO*

Kevin Growney  
*Assistant Director, Facilities Management,  
Medical Center*

### Financial Officers

Katrina Yoakum  
*Comptroller, Lawrence Campus*

Katherine Girgis  
*Director of Accounting and Financial Reporting,  
Medical Center*

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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The following discussion and analysis has been prepared by management to provide an overview of the financial performance of the University of Kansas ("KU") based on currently known facts, decisions, and conditions and is designed to assist readers in understanding the accompanying financial statements and footnotes. KU's financial report includes three financial statements: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. KU's financial statements, related footnote disclosures, and discussion and analysis have been prepared by KU's management in accordance with Government Accounting Standards Board (GASB) principles.

## STATEMENT OF NET POSITION

The Statement of Net Position presents the assets, deferred outflows, liabilities, deferred inflows, and net position of KU at a point in time (at the end of the fiscal year). Its purpose is to present a financial snapshot of KU. The Statement of Net Position includes all assets, deferred outflows, liabilities, and deferred inflows using the accrual basis of accounting. Under the accrual basis of accounting, revenues and assets are recognized when the service is provided by KU and expenses and liabilities are recognized when others provide the service to KU, regardless of when cash is received or paid.

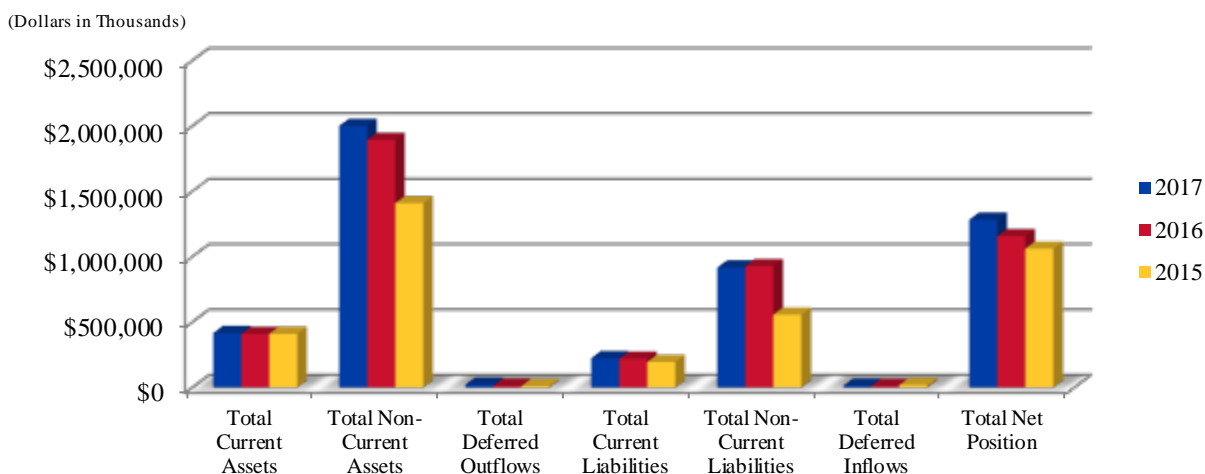
Within the Statement of Net Position, assets and liabilities are further classified as current or non-current. The current classification distinguishes those assets that are highly liquid and available for immediate and unrestricted use by KU, and those liabilities likely to be settled in the next 12 months.

### Condensed Consolidated Statement of Net Position (Dollars in Thousands)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Assets:			
Current assets	\$ 415,991	\$ 409,946	\$ 410,330
Non-current assets	362,847	542,757	221,297
Non-current capital assets, net	<u>1,637,247</u>	1,350,228	<u>1,188,552</u>
Total assets	\$ 2,416,085	\$ 2,302,931	\$ 1,820,179
Deferred outflows	\$ 21,923	\$ 13,545	\$ 10,776
Liabilities:			
Current liabilities	224,309	219,803	195,285
Non-current liabilities	150,740	165,047	136,358
Non-current long-term debt	<u>766,632</u>	762,454	<u>419,353</u>
Total liabilities	\$ 1,141,681	\$ 1,147,304	\$ 750,996
Deferred inflows	\$ 12,914	\$ 12,100	\$ 18,776
Net position	\$ 1,283,413	\$ 1,157,072	\$ 1,061,183

# MANAGEMENT'S DISCUSSION AND ANALYSIS

The composition of current and non-current assets and liabilities, deferred outflows, and net position are displayed below for the fiscal years ended June 30, 2017, 2016, and 2015 (in thousands):



## Assets

At June 30, 2017, total assets were \$2.4 billion, an increase of \$113.2 million (4.9%) compared to 2016. At June 30, 2016, total assets were \$2.3 billion, an increase of \$482.8 million (26.5%) compared to 2015. Current assets are used to support the operations of KU and consist of cash and cash equivalents, short-term investments, and accounts receivable.

In 2017, non-current assets increased \$107.1 million (5.7%) compared to 2016. The primary cause for this increase relates to the continued construction of several buildings and projects listed below in the Capital Asset section. The construction of the capital assets was done through the use of the long-term investments and restricted cash, thereby reducing the balances in these accounts when compared to 2016.

In 2016, non-current assets increased \$483.1 million (34.3%) compared to 2015. Capital assets increased over 2015 primarily as a result of continued construction on the projects listed below in the Capital Asset section. Long-term investments and restricted cash increased primarily from unspent bond proceeds issued for the Central District Development Project noted below in the Capital Asset section.

## Liabilities

At June 30, 2017, total liabilities were \$1.1 billion, a decrease of \$5.6 million (.5%) compared to 2016. At June 30, 2016, total liabilities were \$1.1 billion, an increase of \$396.3 million (52.8%) compared to 2015.

In 2017, current liabilities increased \$4.5 million (2.0%) from increases in (1) payables for construction projects in progress and (2) the portion of long-term debt that will be payable within the next fiscal year; offset by a decrease in (1) accruals for payroll since KU only had one unpaid payroll period under the bi-weekly pay cycle and (2) compensated absences from a timing of when employees used their accrued balances.

Non-current liabilities decreased \$10.1 million (1.1%) principally from (1) the defeasance of \$36.5 million in revenue bonds, which includes \$25.8 million of revenue bonds refunded by the State of Kansas; (2) the principal payments on long-term debt of \$21.1 million; (3) a \$2.2 million decrease in long-term compensated absences as a result of a change in the timing of how employees used their accrued balances; (4) \$5.0 million decrease of KU's proportion of the total Kansas Public Employees Retirement (KPERs) pension liability principally from nonemployer contributions received from the State of Kansas; offset by the issuance of \$67.5 million of new revenue bonds.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

In 2016, current liabilities increased \$24.5 million (12.6%) from increases in (1) payables for construction projects in progress; (2) accruals for payroll because of one additional day of payroll expenses under the bi-weekly pay cycle; (3) increased compensated absences accrual from a result of the timing of when individuals have taken vacation leave; offset by a decrease in unearned revenue primarily because of changes in the recognition of clinical trial and non-clinical trial revenues. Non-current liabilities increased \$371.8 million (66.9%) from (1) the issuance of new capital debt for construction projects offset by payments on existing debt; (2) an increase of KU's proportion of the total KPERS pension liability; offset by a decrease in the other post-retirements employee benefit liability because of the State of Kansas eliminating the subsidy provided to retirees on their health insurance premiums.

## Deferred Outflows and Inflows of Resources

At June 30, 2017, total deferred outflows were \$21.9 million, an increase of \$8.4 million (61.9%) compared to 2016 primarily related to a change in the actuarially determined difference in the actual and projected earnings in the KPERS plan. At June 30, 2016, total deferred outflows were \$13.5 million, an increase of \$2.8 million (25.7%) compared to 2015 primarily from a change in the actuarially determined deferred pension expense.

At June 30, 2017, total deferred inflows were \$12.9 million, an increase of \$.8 million (6.7%) compared to 2016 related to changes in the actuarially determined deferred pension plan. At June 30, 2016, total deferred inflows were \$12.1 million, a decrease of \$6.7 million (35.6%) compared to 2015.

## Net Position

At June 30, 2017, total net position was \$1.3 billion, an increase of \$126.3 million (10.9%) compared to 2016. At June 30, 2016, total net position was \$1.2 billion, an increase of \$95.9 million (9.0%) compared to 2015.

Net position is divided into three categories:

1. **Net investment in capital assets** indicates KU's equity in property, plant, and equipment assets net of accumulated depreciation and outstanding principal balances of debt related to the acquisition, construction or improvement of those assets.
2. **Restricted net position** is further divided into two subcategories, non-expendable and expendable. The corpus of non-expendable restricted resources is available only for investment purposes. Expendable restricted net position is available for expenditure by KU, but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets.
3. **Unrestricted net position** is available to KU for any lawful purpose of the institution.

The following breakout represents the composition of net position (in thousands) as of June 30:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Net investment in capital assets	\$ 947,005	\$ 828,780	\$ 749,550
Restricted for:			
Nonexpendable	62,396	60,450	62,423
Expendable:			
Scholarships, research, instruction and other	45,457	43,568	46,830
Loans	37,899	40,075	32,289
Capital projects	16,171	44,728	51,723
Debt service	9,514	12,081	11,420
Unrestricted	164,971	127,390	106,948
Total net position	<u>\$ 1,283,413</u>	<u>\$ 1,157,072</u>	<u>\$ 1,061,183</u>

At June 30, 2017, the increase in net investment in capital assets continues to reflect KU's continued development and renewal of capital assets in accordance with its long-range capital plan. In addition, during 2017, the State of Kansas refunded \$25.8 million in bonds that were held at the university for which the State was providing some state appropriations to pay. Restricted net position "expendable for capital projects" decreased \$28.6 million as resources were used to construct long-range assets, which generally get categorized to net investment in capital assets upon completion.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

At June 30, 2016, the increase in net investment in capital assets reflects KU's continued development and renewal of its capital assets in accordance with its long-range capital plan. Restricted net position "expendable for scholarships, research, instruction and other" decreased \$3.3 million which can be largely attributed to release of net assets in satisfaction of donor restrictions for the University of Kansas Medical Center Research Institute, Inc. (KUMCRI). Restricted net position "loans" increased \$7.8 million primarily related to the continued increase in student loans held by KU. Restricted net position "expendable for capital projects" decreased \$7.0 million from the use of non-debt related funds for capital projects.

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses, and Changes in Net Position presents the total revenues earned and expenses incurred by KU for operating, non-operating and other related activities during a period of time. Its purpose is to assess KU's operating results.

### Condensed Consolidated Statement of Revenues, Expenses, and Change in Net Position (Dollars in Thousands)

	Fiscal Year Ended June 30,		
	2017	2016	2015
Operating revenues	\$ 883,297	\$ 866,248	\$ 825,710
Operating expenses	(1,184,646)	(1,165,799)	(1,171,398)
Total operating gain (loss)	(301,349)	(299,551)	(345,688)
Non-operating revenues	349,637	337,278	344,141
Non-operating expenses	(32,542)	(24,698)	(22,806)
Net non-operating revenues (expenses)	317,095	312,580	321,335
Income (loss) before other revenues, expenses, gains and losses	15,746	13,029	(24,353)
Other revenues, expenses, gains and losses	110,595	82,860	95,405
Increase (decrease) in net position	126,341	95,889	71,052
Net position, beginning of year	1,157,072	1,061,183	1,083,147
Restatement of net position - beginning of year	-	-	(93,016)
Net position, end of year	\$ 1,283,413	\$ 1,157,072	\$ 1,061,183

## Revenues

### Operating Revenues

The following breakout represents the composition of operating revenues (in thousands) for the years ended June 30:

	2017	2016	2015
Tuition and fees	\$ 314,335	\$ 304,318	\$ 289,104
Grants and contracts	251,464	275,416	264,723
Sales and services	119,375	104,672	94,650
Auxiliary enterprises	186,152	180,975	174,147
Other operating revenues	11,971	867	3,086
Total operating revenues	\$ 883,297	\$ 866,248	\$ 825,710

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended June 30, 2017, operating revenues at KU increased \$17.0 million (2.0%) compared to 2016. The increase in overall revenues is primarily a result of:

- Revenue from tuition and fees increased \$10.0 million (3.3%) which is in line with the approved tuition and fee rate increases from 2016 to 2017.
- Sales and services revenues increased \$14.7 million (14.0%) compared to 2016. This increase is attributable to the recognition of a full-year increase in the fees the medical center received for providing medical and support services to the University of Kansas Hospital Authority versus a half-year in 2016.
- Other operating revenues increased \$11.1 million compared to 2016. The increase comes from fluctuations in other revenues associated with the University of Kansas Medical Center (KUMC) and KUCR.
- Grants and contracts decreased \$24.0 million (8.7%) because of a change in 2016 related to the recognition of clinical trial and non-clinical trial revenues, which were previously reported as deferred revenues.

For the year ended June 30, 2016, operating revenues at KU increased by \$40.5 million (4.9%) compared to 2015. The increase in overall operating revenues is primarily a result of:

- Revenue from tuition and fees increased \$15.2 million (5.3%) which is in line with the approved tuition and fee rate increases from 2015 to 2016.
- Grants and contracts (Federal, State and Local, and Non-Governmental) increased by \$10.7 million (4.0%) compared to 2015. This increase is primarily because of changes in the recognition of clinical trial and non-clinical trial revenues, which were previously reported as deferred revenues.
- Sales and services revenues increased \$10.0 million (10.6%) compared to 2015. This increase is attributable to an increase in the fees the medical center received for providing medical and support services to the University of Kansas Hospital Authority.
- Auxiliary enterprises revenue increased \$6.8 million (3.9%) compared to 2015 driven primarily by increases in (1) Athletics operating revenues of \$3.3 million from additional NCAA and conference revenues, and (2) parking revenues of \$2.0 million resulting from increased parking rates.

### *Non-operating Revenues*

The following breakout represents the composition of non-operating revenues (in thousands) for the years ended June 30:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
State appropriations	\$ 240,347	\$ 237,045	\$ 244,734
Local appropriations	11,638	11,306	10,954
Gifts	49,203	59,351	56,306
Investment income	16,006	3,411	885
Non-operating federal grants and contracts	18,068	17,886	18,372
Other non-operating revenues	14,375	8,279	12,890
Total non-operating revenues	<u>\$ 349,637</u>	<u>\$ 337,278</u>	<u>\$ 344,141</u>

For the year ended June 30, 2017, non-operating revenues increased \$12.4 million (3.7%) compared to 2016. The increase in overall non-operating revenues is primarily a result of:

- State appropriations increased \$3.3 million (1.4%) related to increases in compensation and fringe rates compared to 2016.
- Investment income increased \$12.6 million compared to 2016 because of a \$8.2 million change in the unrealized gains and \$4.2 million in interest earned on endowment investments and unspent bond proceeds.
- Gift revenues decreased \$10.6 million (17.9%) primarily related to fluctuations in amounts received from the Kansas University Endowment Association (KU Endowment) during 2017.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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- Other non-operating revenues increased \$6.1 million (73.6%) related to nonemployer benefits received in the KPERS pension plan from the State of Kansas.

For the year ended June 30, 2016, non-operating revenues decreased \$6.9 million (2.0%) compared to 2015. The decrease in overall non-operating revenues is primarily a result of:

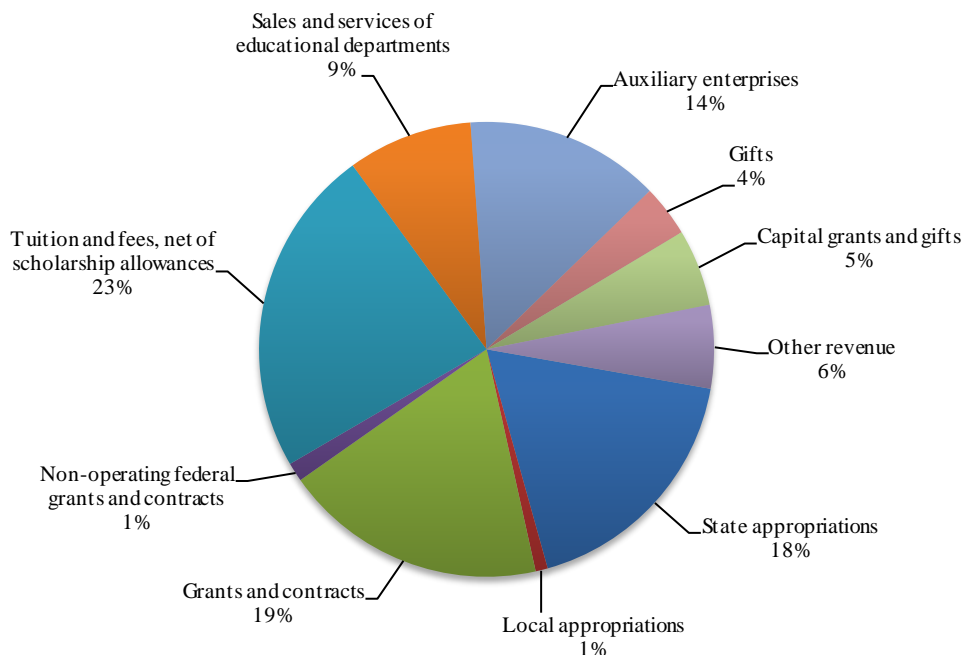
- State appropriations decreased \$7.7 million (3.1%) compared to 2015 because of allotment reductions from the original state appropriation.
- Gift income increased \$3.0 million (5.4%) compared to 2015 primarily from additional monies received from KU Endowment during 2016.
- Investment income increased \$2.5 million (285.6%) compared to 2015 from interest earned on unspent bond proceeds.
- Other non-operating revenues decreased \$4.6 million (35.8%) compared to 2015 primarily because the Athletics corporation was granted \$4 million in a forgiveness of debt from one of their donors/lenders.

Other revenues, expenses, gains and losses include capital appropriations, capital gifts & additions to permanent endowments. These revenues will vary year to year based upon funding received for capital projects and endowment contributions.

For the year ended June 30, 2017, capital appropriations increased \$24.4 million (195%) compared to 2016 as a result of the State of Kansas refunding \$25.8 million of bond issues during the year, offset by a \$1.4 million decrease in other capital appropriations. In addition, capital grants increased \$3.3 million (4.7%) compared to 2016. This can vary year to year based on funding provided for capital projects.

For the year ended June 30, 2016, capital gifts decreased \$9.1 million (11.5%) compared to 2015. The level of capital gifts varies from year to year based upon funding projects for capital projects. These capital gifts were for the continued construction of various capital projects as noted in the “Capital Asset” section below.

The composition of these revenues, including operating and non-operating, for the year ended June 30, 2017 is displayed in the following graph:





# MANAGEMENT'S DISCUSSION AND ANALYSIS

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## Expenses

The following breakout represents the composition of operating expenses (in thousands) for the years ended June 30:

	<u>2017</u>	<u>2016</u>	<u>2014</u>
Instruction	\$ 391,755	\$ 376,435	\$ 381,687
Research	247,073	256,347	253,325
Public service	40,848	48,507	40,918
Academic support	65,050	65,297	68,858
Student services	35,236	33,818	35,066
Institutional support	65,315	58,885	61,707
Operations and maintenance of plant	74,875	71,765	72,222
Depreciation	86,791	84,108	74,804
Scholarships and fellowships	19,636	18,760	17,795
Auxiliary enterprises	155,864	150,751	160,686
Other operating expenses	2,203	1,126	4,330
Total operating expenses	<u>\$ 1,184,646</u>	<u>\$ 1,165,799</u>	<u>\$ 1,171,398</u>

### *Operating Expenses*

For the year ended June 30, 2017, operating expenses were \$1.2 billion, an increase of \$18.9 million (1.6%) compared to 2016. The increase in overall operating expenses are primarily a result of:

- As a result of the changes in the changes to the health insurance program provided to KU's retirees below, operating expenses were higher than 2016 by \$31.7 million.
- Research expenses decreased \$9.3 million (3.6%) compared to 2016 because of a growing trend in competition for grant funds originating in federal and non-federal organizations.
- Public service decreased \$7.7 million (15.8%) from 2016 because of new and additional testing and training services provided by KU to external governmental organization and institutions that did not occur in 2017.
- Auxiliary enterprises expenses increased \$5.1 million (3.4%) compared to 2016. This increase is primarily driven by an increase in Athletics salaries and benefits and scholarships.

For the year ended June 30, 2016, operating expenses were \$1.2 billion, a decrease of \$5.6 million (0.5%) compared to 2015. The decrease in overall operating expenses are primarily a result of:

- The State of Kansas enacted certain changes to the health insurance program provided to KU's retirees. These changes resulted in a reduction of other postemployment benefit (OPEB) expenses of \$31.7 million during 2016. The impact was spread amongst all expense categories based on payroll assigned to each category. The categories primarily impacted by this change were instruction, academic support and institutional support.
- Public service increased \$7.6 million (18.5%) compared to 2015 primarily as result of new and additional testing and training services provided by KU to external governmental organization and institutions, and other public service grant related expenditures which corresponds to an increase in state and local grant revenues.
- Depreciation increased \$9.3 million (12.4%) compared to 2015 primarily as result of various newly constructed buildings being completed. See the "Capital Assets" section below for completed projects.
- Auxiliary enterprises expenses decreased \$9.9 million (6.2%) compared to 2015. This decrease is primarily driven by a decrease in Athletics salaries and benefits. Athletics had a coaching change in 2015 that cause a unique increase in salaries and benefits that was not repeated in 2016.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

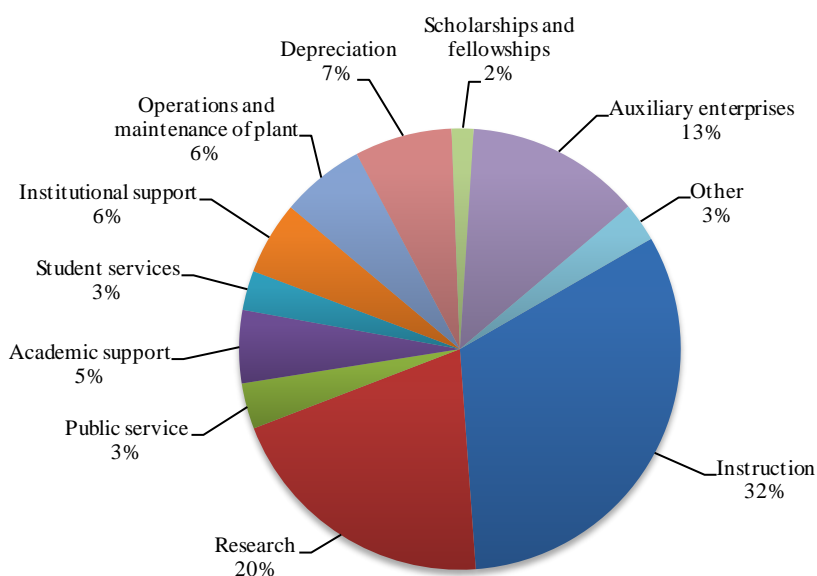
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## *Non-operating Expenses*

For the year ended June 30, 2017, non-operating expenses, which consist of interest expense and other non-operating expenses, increased \$7.8 million (31.8%) compared to 2016. Interest expense increased \$9.3 million (53.1%) as a result of (1) new capital debt being issued; (2) costs associated with the defeasance of debt; and (3) a full-years' interest expense for debt issued in the prior year.

For the year ended June 30, 2016, non-operating expenses, which consist of interest expense and other non-operating expenses, increased \$1.9 million (8.3%) compared to 2015. Interest expense increased \$3.1 million (21.9%) as a result of new capital debt being issued during the current year.

The composition of total expenses, including operating and non-operating, for the year ended June 30, 2017 is displayed in the following graph:



## STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides information about KU's financial results by reporting the major sources and uses of cash during the fiscal year. The statement assists in evaluating KU's ability to generate future net cash flows to meet its obligations as they become due and aids in analysis of the need for external financing. The statement is divided into four sections based on major activity: operating, non-capital financing, capital and related financing, and investing. A fifth section reconciles the operating income or loss on the Statement of Revenues, Expenses, and Changes in Net Position to the net cash used in operations.

### *Operating Activities*

Cash inflows from operating activities consist primarily of student fees, operating grants and contracts, sales and services, and auxiliary enterprises. Cash outflows from operating activities consist of payments to employees, payments to suppliers, and payments to students for scholarships and fellowships.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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## *Non-capital Financing Activities*

Cash inflows from non-capital financing activities consist primarily of state and local appropriations, private non-capital gifts used to fund operations, and federal Pell grants. Because KU acts as an intermediary for the U.S. Department of Education, the direct student loans are shown at the gross amount received from the government and the gross amount paid to the student.

## *Capital and Related Financing Activities*

Cash flows from capital and related financing activities reflect the decisions made relative to KU's capital and financing plans. Cash inflows consist primarily of proceeds from the issuance of debt, capital appropriations received from the state, and private gifts used to fund capital purchases. Cash outflows consist primarily of payments made to purchase capital assets, and principal and interest payments on capital debt and leases.

## *Investing Activities*

Cash flows from investing activities include the effects of shifts between cash and cash equivalents and longer-term investments, and any interest earnings from those longer-term investments.

The following breakout represents the composition of changes in cash and cash equivalents (in thousands) for the years ended June 30:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Net cash provided by (used in):			
Operating activities	\$ (235,738)	\$ (254,093)	\$ (261,611)
Noncapital financing activities	324,845	324,305	332,627
Capital and related financing activities	(269,706)	238,204	(115,468)
Investing activities	<u>196,923</u>	<u>(320,225)</u>	<u>(1,084)</u>
Net increase (decrease) in cash and cash equivalents	16,324	(11,809)	(45,536)
Beginning cash and cash equivalents	<u>279,381</u>	<u>291,190</u>	<u>336,726</u>
Ending cash and cash equivalents	<u>\$ 295,705</u>	<u>\$ 279,381</u>	<u>\$ 291,190</u>

## **Extraordinary Items**

KU did not have any special and/or extraordinary items in 2017, 2016, or 2015.

## **Endowment Expenses Paid On Behalf of University**

The KU Endowment, an independent, not-for-profit organization whose primary mission is to raise funds for KU, provides direct and indirect support to KU that is not entirely reflected in KU's Statement of Revenues, Expenses, and Changes in Net Position. Expense items paid on behalf of KU by KU Endowment include expenses such as scholarships and fellowships, salaries, construction, equipment, library acquisitions, works of art, and travel. Total University support provided by KU Endowment for Lawrence and Medical Center campuses equaled approximately \$181.2 million, \$164.8 million, and \$178.8 million for the years ended June 30, 2017, 2016 and 2015, respectively.

The following support items totaling \$58.9 million are reflected in KU's statements for 2017:

- **Capital Projects.** KU Endowment sponsored many capital projects throughout the year at a cost of \$38.0 million, a decrease of \$29.8 million in 2017. The primary capital projects that benefited from KU Endowment's fundraising efforts included continued funding on a new facility for the Earth Energy and Environment Center (\$29.4 million), and various other building upgrades and remodeling, as well as various equipment purchases and contributions.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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- **Salaries and other operating expenses.** KU Endowment reimbursed KU approximately \$20.8 million, a decrease of \$23.4 million in 2017, for various faculty and staff salaries, including KU's distinguished professors, and other operating expenses. The salary expense is reflected in KU's statements as it represents a more accurate reflection of KU's operating expenses. KU Endowment's reimbursement is reflected as a gift to KU within non-operating revenues.

## CAPITAL ASSETS

KU made significant investments in capital during the 2017 fiscal year. Detailed information regarding capital asset additions, retirements, and depreciation is available in Note 9 to the financial statements.

The following is a brief summary of the construction projects that were completed during the current fiscal year:

- KU replaced the electrical distribution system in Haworth Hall. This project replaced an outdated switchgear, medium voltage transformer and feeders, and the electrical distribution system. The total cost of the project was \$4.1 million and was funded by university funds.
- The Film and Media Studies program was housed in a facility off-campus that no longer met departmental needs. Space became available in Summerfield Hall because the construction of the School of Business Capitol Federal Hall, which provided space for Film and Media Studies to relocate to the main campus, share educational resources, and provide improved access for faculty and students. The project included construction of a sound stage with a cyclorama and light grid, a control room, green rooms, dressing rooms, support spaces for equipment and shop, and associated offices and labs for various professors and other educational support. The total cost of the project was \$3.5 million and was funded with private gifts and university resources.
- Summerfield Hall HVAC & Electrical Improvements design started in 2014 and installed new heating-ventilating-and-air-conditioning and electrical equipment. The total cost of the project was \$5.4 million and was funded with university resources and private gifts.
- The Spencer Museum of Art (SMA) was built in 1977 and has received very little improvements over the last 36 years. The renovation of SMA included improvements to the visitor experience, including circulation, better access to the collection/exhibits and updated finishes, and the reconstruction of the entry to the building. The total cost of the project was \$7.2 million and was funded with private gifts.
- Student Housing completed the renovation of Miller Hall which included the replacement of building mechanical systems and steam heating; air conditioning/cooling air handlers; potable water; building electrical systems which also includes lighting and fire alarm systems. Replacement of building plumbing systems, renovation of bathroom and shower areas; and upgrades to finishes, partitions, sinks, countertops and toilet fixtures were included. The renovation also included the kitchen and related equipment, cabinets and counters and improvements in the dining and recreation areas. The total cost of the project was \$1.6 million and was funded with university housing revenues.
- Student Housing undertook an extensive renovation of Watkins Hall which included the replacement of building mechanical systems and steam heating; air conditioning/cooling air handlers; new potable water distribution; building electrical systems which also includes lighting and fire alarm systems. Renovation of bathroom and shower areas, replacement of plumbing, and upgrades to finishes, partitions, sinks, countertops and toilet fixtures were included. The project also included improvements to the kitchen and related equipment, cabinets and counters and improvements in the dining and recreation areas. The total cost of the project was \$1.6 million and was funded with university housing revenues.
- The construction of Parking Garage No. 5 at KUMC was completed and is located on the block north of 38th between Cambridge and Eaton. The estimated capacity is 2,132 spaces and serves both employees and patients/visitors. The garage accommodates the expanding parking needs of KUMC and KU Hospital, primarily because of the loss of the parking lot where the new Health Education Building is located. The total cost of the building was \$39.5 million and was funded from a variety of sources including parking funds and university revenue bonds that are supported by parking revenues.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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- KU identified several immediate needs related to its science facilities, student housing, student meeting and study space, parking, utilities and infrastructure. To address these needs, KU completed the following Central District components during 2017:
  - The 600 space four story parking garage to accommodate the public, business and industry during visits on campus. Construction was completed in February 2017 with a total cost of \$11.1 million.
  - A new Central Utility Plant required to support the new facilities as well as repairs and renovations to the existing North District Utility Plant. Construction was completed in June 2017 with a total cost of \$16.4 million.
  - The dining facility is a 20,000 square foot facility adjacent to the residence hall complex. Construction was completed in June 2017 with a total cost of \$8.6 million.
  - Certain parking lot infrastructure components to help accommodate visits to campus. Construction on these projects was completed in June 2017 with a cost of \$0.9 million, additional costs will continue to be incurred as additional parking infrastructure projects are completed, as noted below.

KU also had several construction projects that were under construction or in design phases at the end of the fiscal year:

- As the first component of the KU-Lawrence Science Facility Master Plan, the construction of the Earth Energy and Environment Center, comprising of Ritchie Hall and Slawson Hall, will add approximately 130,000 square footage and will provide a mix of spaces including a state-of-the-art instructional space with 200 seats promoting collaborative learning. Other instructional spaces include Analytical Project lab, a GIS/Remote Sensing lab, and a Visualization lab suitable for 3-D images. Research space includes a Pressure/Volume/Testing lab, Experimental Environmental Bio-geo-chemistry lab and Environmental/Paleo labs for analytical equipment suitable to assess a variety of geo-chemistry based samples. The project is budgeted for \$82.0 million and will be funded by private gifts and revenue bonds. Construction is estimated to be completed fall 2017.
- Grace Pearson Hall is a three-story brick building which opened in fall 1955 and now houses 48 men in four-person suites. Student Housing is undertaking an extensive renovation with the work anticipated to include replacement of building mechanical systems and steam heating; air conditioning/cooling air handlers; potable water; building electrical systems which also includes lighting and fire alarm systems. Replacement of building plumbing systems, renovation of bathroom and shower areas; and upgrades to finishes are included. The renovation also includes the kitchen and related equipment, cabinets and counters, and upgrades to the dining and recreation areas. Stair and corridor improvements include ceiling and carpet replacement and painting throughout. The project is budgeted for \$1.8 million and will be funded with university housing resources. Construction is estimated to be completed in fall 2017.
- Watkins Memorial Health Center began the installation of its new heating-ventilating-and-air-conditioning (HVAC) and electrical equipment. The project is budgeted for \$4.3 million and will be funded with university resources. Construction is estimated to be completed fall 2018.
- Construction has begun on the Health Education Building. The building is located at the northeast corner of 39th and Rainbow on the Medical Center campus. The multidisciplinary health education facility will consolidate facilities for the Schools of Medicine, Nursing, and Health Professions programs that are currently spread throughout campus in various buildings. This new building will serve as the primary teaching facility for those programs and is intended to address critical healthcare worker shortages in Kansas. The estimated cost of the new building is \$82.0 million with \$1 million from the Educational Building fund, \$25 million from State backed bonds, \$34 million from private gifts and the remainder from university revenue bonds. The building was put into service in July 2017.
- KU identified a need to perform infrastructure repairs to Cambridge Garage, which was built in the early 1980's. The repairs include significant concrete replacement in addition to improved lighting and replacement of rusted electrical conduit. The concrete repairs are the most significant of items, with expectations that the 3" to 5" concrete topping for each of the 5 levels will be removed and replaced. The estimated total cost of the project is \$8.4 million and the source of funding will be from parking funds. Construction is estimated to be completed in 2020.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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- KU identified several immediate needs related to its science facilities, student housing, student meeting and study space, parking, utilities and infrastructure. To address these needs, KU has begun a \$350 million redevelopment of its Central District. The Central District project utilizes a public-private partnership (P3) model that allows KU to undertake a large amount of construction at one time in a cost-effective manner without any additional state funding. The project will be completed in phases with the final component to be completed in summer 2018. The project includes the following elements:
  - A new four level 285,000 square foot Integrated Sciences Building (ISB) is under construction and will provide instructional and research laboratories. The ISB will also contain meeting rooms, offices, and administration space for faculty, graduate students, and post-doctoral researchers. The ISB is budgeted at \$138 million and construction is estimated to be completed in summer 2018.
  - An additional residence hall and apartments to help accommodate KU's growing enrollment. The residence hall will be primarily geared toward undergraduate students. Apartments will accommodate growing demand for on-campus housing among upper division and graduate students. The budget for the residence hall, apartments and dining facility (already completed) is \$118.4 million. Construction of the residence hall is estimated to be completed in summer 2017, and the construction of the apartments is estimated to be completed in summer 2018.
  - A new 26,500 square foot student union to replace the Burge Union. The union will support the needs of the students, faculty, and staff. It will include food service and a conference space that will expand KU's capability to host conferences and events on campus, student service offices, and study space. The budget is \$10.5 million and construction is estimated to be completed in spring 2018.
  - A 1,400 space parking lot to provide additional spaces for an already oversold parking system and to accommodate the public, business and industry during visits on campus. The budget for the parking garage (already completed) and the parking lot is \$20.5 million. The construction of the surface parking is estimated to be completed in winter 2018.
  - Finally, the cost of the site development, utilities, soft costs and fees are estimated at \$46.7 million which will be shared among the Project components. The work will be completed in phases with the final work to be completed in summer 2018.
- A district chilled water (CHW) plant is needed to provide a reliable, energy efficient source of chilled water to serve multiple buildings in the north district. The configuration of chiller equipment in the CHW will provide redundant capacity by appropriately sizing chiller installations to provide primary and back-up capacity for a significant portion of the peak load cooling for multiple buildings. The staged installation of two chillers initially with the future addition of a third chiller and associated cooling towers provides for future additional capacity suitable to convert Anschutz Library and Hoch Auditorium cooling to central plant chilled water when additional chiller and cooling tower equipment is added. The CHW schematic plans includes a building to house the chiller equipment and an enclosure for cooling towers necessary for the operation of the plant. The project scope also includes direct buried piping for chilled water distribution. The project is budgeted for \$10.1 million and will be funded with state capital appropriation and university resources. Construction is estimated to be completed 2020.
- The Simons Bioscience Lab facility completed in 1996 was originally designed to support an expansion of lab, office and support space to be used primarily for the School of Pharmacy's Department of Pharmaceutical Chemistry. Program changes related to replacement of retiring distinguished faculty and new opportunities with an expanded program focusing on world health and vaccine development are occurring. A minimum of 17,500 additional gross square feet in a multi-story addition to support at least four research groups is proposed. The need to reconfigure the lab support spaces, loading and access to central utility services on the west end of the existing building is also included. The project is budgeted for \$14.0 million and will be funded with private gifts and university resources. Construction is estimated to be completed in 2017.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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- Dyche Hall original construction was complete in 1903 as a museum and collection facility and today this facility supports outreach, research and instructional programs for the Biodiversity Institute. This project addresses a series of detailed investigations and studies of the deteriorated condition of the exterior envelope and mechanical systems that are contributing to a poor quality of interior environment. The work will include a partial exterior and roof restoration for areas of the original construction of the facility which is one of the architecturally significant buildings on the Lawrence campus listed on the National Register. Interior work primarily focused on the seventh floor will address temperature and moisture migration through exterior walls and will also upgrade the building HVAC systems to provide better temperature and humidity control, ventilation and exhaust systems and overall ability to manage lab and collection environments. The project is budgeted for \$3.7 million and will be funded with state funds and private gifts. Construction is estimated to be completed in 2018.

### DEBT ADMINISTRATION

At June 30, 2017, KU and its affiliated corporations had \$785.2 million in revenue bond debt outstanding, and \$12.9 million in capital leases and notes payable. In fiscal year 2017, KU issued one revenue bond to provide \$59.5 million for new construction and \$10.9 million for bond defeasance. The composition of the bond sold was:

- \$21.0 million to finance the Health Education Building at the Medical Center
- \$25.0 million to finance the Earth, Energy and Environment Center
- \$13.5 million to finance the Corbin Hall renovations
- \$10.9 million to defease the 2006B and 2007E series revenue bonds

In addition, the State of Kansas issued bonds for which the proceeds were used to refund \$25.8 million of the 2007M and 2008L series revenue bonds. This amount is included in the capital appropriations line of the Statement of Revenues, Expenses and Changes in Net Position.

At June 30, 2016, KU and its affiliated corporations had \$777.0 million in revenue bond debt outstanding, and \$15.0 million in capital leases and notes payable. In fiscal year 2016, KU had two bonds sales to provide \$372.3 million for new construction. The composition of the bond sales are:

- \$45.3 million to finance a parking facility at the Medical Center.
- \$326.9 million to finance the Central District Development for KU Campus Development Corporation.

KU and its affiliated corporations paid \$63.4 million, \$52.6 million, and \$42.2 million in principal and interest payments related to all outstanding capital debt and capital leases in 2017, 2016, and 2015, respectively.

As of January 6, 2017 Moody's Investor Service reaffirmed KU's overall rating of Aa2, but with a negative outlook. On December 3, 2016, Standard and Poor's also reaffirmed KU's rating of AA-, but with a stable outlook. More detailed information about KU's revenue bonds is available in Notes 11 and 12 to the financial statements.

### ECONOMIC OUTLOOK

The 2017 Legislature adopted a biennial budget for fiscal years 2018 and 2019. Fiscal year 2018 state appropriations are currently budgeted to be \$237.0 million or about 1.4% less than fiscal year 2017. The reduction is primarily attributable to 2017 state appropriations which included the cost of an additional pay period in fiscal year 2017, but is offset by slight increase in appropriations fiscal 2018 to re-establish amounts reduced in prior fiscal years.

In October 2017, the State of Kansas Supreme Court struck down the formula for providing K-12 funding to local school districts. The State of Kansas legislature needs to revisit the calculation to provide more funding to satisfy the court's ruling. This additional funding may have an impact KU's state appropriations, but any effect to the state appropriations is currently not known.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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For fiscal year 2018, the Kansas Board of Regents approved an increase in standard tuition rates of 2.5% for undergraduate resident, graduate resident, undergraduate nonresident, and graduate nonresident tuition. First-time freshmen are provided the option to choose the tuition compact rate (which would remain in place for four years) or the standard tuition rate (which is subject to increases each year). For first-time, degree seeking freshmen opting into the fiscal year 2018-2021 compact rate which provides a fixed rate of tuition for four years, the tuition will be 5.0% higher than the previous year's rate. Since making the tuition compact rate optional in fall 2015, participation rates have been declining from 18.3% in fall 2015 to 10.9% in fall 2016 to 5.7% in fall 2017. The additional revenue from the tuition increases will be used to cover Lawrence and Edwards campuses required cost increases, enhance the educational experience of students, retain staff, and, at the Medical Center, additional revenue will be used to acquire additional student communication software and substantially increase its clinical teaching capabilities by acquiring simulated clinical procedures hardware and software.

In May 2017, the Kansas Board of Regents announced the appointment of a new chancellor for KU, Dr. Douglas A. Girod. Chancellor Girod previously was the Executive Vice Chancellor for the Medical Center campus and will be working with various individuals on Lawrence, Edwards and Medical Center campuses to develop a new strategic plan for KU as a whole. In addition, as a result of this change, Dr. Robert Simari has been named as the interim Executive Vice Chancellor for KUMC. This new strategic plan will continue to enhance KU's ability to achieve its mission, and ensure KU is ranked among the top tier public international research universities.

During the fall 2017 semester 28,447 students enrolled at KU, which was an increase of 46 students from fall 2016. KU continues to focus on increasing undergraduate enrollment (including international students), increasing student retention, and increasing graduation rates for undergraduates. In regard to the management of tuition funds, assessments and collections of tuition are monitored on an ongoing basis to ensure that the current year budget reflects a realistic estimate of tuition revenue.

Additionally, KU continues to focus on a variety of federal, state and privately sponsored research opportunities. Similar to other research institutions heavily reliant upon federal funding, KU is anticipating a continued decrease in direct and indirect federal research expenses in fiscal year 2018 and beyond. As a result, KU is looking to other direct and indirect grant sources, including state and private grants, to offset the decrease in the federal grant funding. A significant highlight is the construction of a National Security Laboratory in the Bioscience & Technology Business Center (BTBC) which will enable KU scientists to conduct research for the Department of Defense and other U.S. government agencies. The BTBC is a unique consortium created in 2006 by the City of Lawrence, Douglas County, University of Kansas, and the Lawrence Chamber of Commerce to support the bioscience and technology industries in northeastern Kansas. The lab is scheduled for completion in the spring of 2018.

KU is not aware of any additional facts, decisions, or conditions that are expected to have significant effect on the financial position or results of operations during this fiscal year beyond those unknown variations having a global effect on virtually all types of business operations.

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*Financial  
Statements*

THE UNIVERSITY OF KANSAS  
STATEMENT OF NET POSITION  
AS OF JUNE 30, 2017 AND 2016

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	<u>2017</u>	<u>2016</u>
<b><u>ASSETS</u></b>		
Current assets:		
Cash and cash equivalents	\$ 225,159,353	\$ 210,032,885
Restricted cash and cash equivalents	7,180,610	7,510,554
Investments	76,683,570	76,813,271
Accounts receivable, net	76,323,527	82,142,587
Pledges receivable, net	15,394,931	16,025,790
Loans to students, net	3,220,652	3,603,345
Inventories	6,819,640	7,081,929
Other assets	5,208,964	6,735,588
Total current assets	<u>415,991,247</u>	<u>409,945,949</u>
Non-current assets:		
Restricted cash and cash equivalents	63,365,135	61,837,224
Accounts receivable, net	982,172	740,592
Pledges receivable, net	3,612,390	3,340,228
Endowment investments	84,452,010	78,967,595
Other investments	177,907,082	363,962,017
Loans to students, net	32,193,278	33,464,121
Other assets	334,464	445,759
Capital assets, net	<u>1,637,246,526</u>	<u>1,350,227,831</u>
Total non-current assets	<u>2,000,093,057</u>	<u>1,892,985,367</u>
Total assets	<u>2,416,084,304</u>	<u>2,302,931,316</u>
<b><u>DEFERRED OUTFLOWS</u></b>		
Unamortized loss on bond refunding	4,923,549	5,365,605
Deferred pension expense	16,999,737	8,179,870
Total deferred outflows	<u>21,923,286</u>	<u>13,545,475</u>

THE UNIVERSITY OF KANSAS  
STATEMENT OF NET POSITION  
AS OF JUNE 30, 2017 AND 2016

(CONTINUED)

	<u>2017</u>	<u>2016</u>
<b><u>LIABILITIES</u></b>		
Current liabilities:		
Accounts payable and accrued expenses	103,993,776	103,922,762
Unearned revenue	36,940,838	38,937,555
Assets held in custody for others	9,676,565	8,206,605
Accrued compensated absences – current portion	33,053,295	35,124,618
Capital leases payable - current portion	1,997,171	2,709,440
Notes payable – current portion	297,878	2,302,350
Revenue bonds payable - current portion	29,162,004	24,534,581
Other liabilities	9,187,513	4,065,273
Total current liabilities	<u>224,309,040</u>	<u>219,803,184</u>
Non-current liabilities:		
Accrued compensated absences	5,747,586	7,932,767
Accrued other post-employment benefits	-	562,077
Accrued pension liability	79,504,833	84,528,551
Capital leases payable	10,467,977	9,630,794
Notes payable	109,678	377,215
Revenue bonds payable	756,054,439	752,446,443
Other long-term liabilities	65,487,514	72,023,600
Total non-current liabilities	<u>917,372,027</u>	<u>927,501,447</u>
Total liabilities	<u>1,141,681,067</u>	<u>1,147,304,631</u>
<b><u>DEFERRED INFLOWS</u></b>		
Deferred pension expense	<u>12,913,516</u>	<u>12,100,403</u>
<b><u>NET POSITION</u></b>		
Net investment in capital assets	947,005,063	828,779,659
Restricted for:		
Nonexpendable	62,395,581	60,450,182
Expendable:		
Scholarships, research, instruction and other	45,457,698	43,568,376
Loans	37,898,589	40,074,564
Capital projects	16,171,327	44,727,801
Debt service	9,513,835	12,081,475
Unrestricted	164,970,914	127,389,700
Total net position	<u>\$ 1,283,413,007</u>	<u>\$ 1,157,071,757</u>

*See accompanying notes to financial statements.*

KANSAS UNIVERSITY ENDOWMENT ASSOCIATION  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS OF JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
	<i>(In Thousands)</i>	
<b>Assets</b>		
Cash and cash equivalents	\$ 8,531	\$ 11,789
Receivables:		
Receivables from investing activities	904	18,955
Other receivables	1,395	2,658
Student loans receivable, less allowance of \$1,542 and \$1,574 in 2016 and 2015, respectively	21,929	22,077
Contributions pledged, less allowance of \$1,727 and \$1,785 in 2016 and 2015, respectively	60,751	87,687
Real estate loans receivable	<u>7,984</u>	<u>10,715</u>
Total receivables	92,963	142,092
Investments:		
Securities	1,690,139	1,550,288
Trust held by others	44,210	42,078
Interest in other KU Endowment entities	3,439	3,516
Real estate	<u>13,221</u>	<u>13,489</u>
Total investments	1,751,009	1,609,371
Property and facilities:		
Land	13,753	13,901
Buildings	26,160	26,183
Equipment and furnishings	<u>3,096</u>	<u>2,852</u>
	43,009	42,936
Less accumulated depreciation	<u>13,753</u>	<u>12,296</u>
Net property and facilities	29,256	30,640
Deposits and other assets	<u>6,555</u>	<u>5,952</u>
Total assets	<u>\$ 1,888,314</u>	<u>\$ 1,799,844</u>

KANSAS UNIVERSITY ENDOWMENT ASSOCIATION  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS OF JUNE 30, 2017 AND 2016

(CONTINUED)

	<u>2017</u>	<u>2016</u>
	<i>(In Thousands)</i>	
<b>Liabilities and net assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 19,772	\$ 22,970
Payables from investment activities	730	430
Trust payable	83	76
Life income gifts payable	23,778	23,179
Agency funds	<u>66,573</u>	<u>65,768</u>
Total liabilities	<b>110,936</b>	112,423
Net assets:		
Unrestricted	181,854	165,266
Temporarily Restricted	1,142,792	1,082,707
Permanently Restricted	<u>452,732</u>	<u>439,448</u>
Total net assets	<b>1,777,378</b>	1,687,421
Total liabilities and net assets	<u><b>\$ 1,888,314</b></u>	<u>\$ 1,799,844</u>

THE UNIVERSITY OF KANSAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b><u>OPERATING REVENUES</u></b>		
Tuition and fees (net of scholarship allowances of \$33,068,220 in 2017 and \$31,196,298 in 2016)	\$ 314,335,203	\$ 304,317,762
Federal grants and contracts	150,322,497	149,404,143
State and local grants and contracts	45,569,990	47,094,151
Nongovernmental grants and contracts	55,571,690	78,917,523
Sales and services of educational departments	66,291,142	63,181,734
Sales and services of medical and administrative activities	53,083,616	41,490,519
Auxiliary enterprises:		
Housing	27,405,840	25,675,296
Athletics	92,046,075	90,457,105
Parking and transit	16,274,965	15,254,794
Student unions	37,587,689	36,280,352
University health services	10,404,034	9,776,554
Other auxiliary enterprises	2,433,780	3,531,297
Other operating revenues	11,970,445	867,279
Total operating revenues	<u>883,296,966</u>	<u>866,248,509</u>
<b><u>OPERATING EXPENSES</u></b>		
Instruction	391,754,992	376,435,591
Research	247,072,961	256,347,460
Public service	40,848,421	48,507,472
Academic support	65,049,670	65,296,701
Student services	35,235,629	33,817,723
Institutional support	65,314,920	58,885,484
Operations and maintenance of plant	74,875,296	71,765,052
Depreciation	86,790,577	84,107,598
Scholarships and fellowships	19,636,472	18,760,038
Auxiliary enterprises:		
Housing	15,984,137	17,291,820
Athletics	88,343,725	81,009,039
Parking and transit	7,517,183	6,056,855
Student unions	32,972,416	33,447,506
University health services	8,123,626	8,022,860
Other auxiliary enterprises	2,922,616	4,922,695
Other operating expenses	2,203,080	1,125,587
Total operating expenses	<u>1,184,645,721</u>	<u>1,165,799,481</u>
Total operating income (loss)	<u>(301,348,755)</u>	<u>(299,550,972)</u>

THE UNIVERSITY OF KANSAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

(CONTINUED)

	<u>2017</u>	<u>2016</u>
<b><u>NON-OPERATING REVENUES (EXPENSES)</u></b>		
State appropriations	240,346,756	237,044,872
Local appropriations	11,637,600	11,306,000
Gifts	49,202,947	59,351,062
Investment income	16,006,459	3,411,376
Federal grants and contracts	18,068,316	17,885,744
Other non-operating revenues	14,375,078	8,278,455
Interest expense	(26,766,044)	(17,487,066)
Other non-operating expenses	(5,775,834)	(7,210,797)
Net non-operating revenues (expenses)	<u>317,095,278</u>	<u>312,579,646</u>
Income (loss) before other revenues, expenses, gains or losses	15,746,523	13,028,674
<b><u>OTHER REVENUES, EXPENSES, GAINS AND LOSSES</u></b>		
Capital appropriations	36,965,371	12,539,597
Capital grants and gifts	73,399,573	70,094,397
Additions to permanent endowments	229,783	226,277
Total other revenues, expenses, gains or losses	<u>110,594,727</u>	<u>82,860,271</u>
Increase (decrease) in net position	126,341,250	95,888,945
<b><u>NET POSITION</u></b>		
Net position - beginning of year	<u>1,157,071,757</u>	1,061,182,812
Net position - end of year	<u>\$ 1,283,413,007</u>	<u>\$ 1,157,071,757</u>

*See accompanying notes to financial statements.*



KANSAS UNIVERSITY ENDOWMENT ASSOCIATION  
CONSOLIDATED STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	Year Ended June 30, 2017				Summarized Financial Information for the Year Ended June 30, 2016
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
	<i>(In Thousands)</i>				
Revenues, gains (losses), and other support:					
Fundraising:					
Contributions and grants received and pledged	\$ 89	\$ 103,898	\$ 3,692	\$ 107,679	\$ 124,990
Bequests	839	8,512	5,703	15,054	19,603
Life income gifts	-	1,062	32	1,094	422
Change in value of life income gifts	(66)	283	194	411	(3,247)
Change in net interest in KU Endowment entities	-	(77)	-	(77)	(266)
Total fundraising	862	113,678	9,621	124,161	141,502
Income (loss) from asset holdings:					
Investment income	4,325	14,007	-	18,332	21,277
Realized and unrealized gain (loss) on investments and trusts held by others	32,622	111,771	2,060	146,453	(27,666)
Loan interest income	744	1,023	-	1,767	1,590
Agricultural and mineral income	876	681	-	1,557	1,484
Rental, gain on sale of assets, and other income	(1,526)	354	-	(1,172)	1,515
Total income (loss) from asset holdings	37,041	127,836	2,060	166,937	(1,800)
Other receipts	358	3,780	-	4,138	2,579
Net assets released from restrictions:					
Satisfaction of program restrictions	181,369	(181,369)	-	-	-
Total revenues, gains and other support	219,630	63,925	11,681	295,236	142,281

KANSAS UNIVERSITY ENDOWMENT ASSOCIATION  
CONSOLIDATED STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

(CONTINUED)

	Year Ended June 30, 2017			Total	Summarized Financial Information for the Year Ended June 30, 2016
	Unrestricted	Temporarily Restricted	Permanently Restricted		
	<i>(In Thousands)</i>				
Expenses:					
University support:					
Student support	\$ 33,587	\$ -	\$ -	\$ 33,587	\$ 33,622
Faculty support and contractual services	38,622	-	-	38,622	33,988
Construction, furnishings, equipment and supplies	62,556	-	-	62,556	61,521
Program and other educational support	50,561	-	-	50,561	40,488
Total University support	185,326	-	-	185,326	169,619
Supporting services:					
Administrative and fundraising support	21,578	-	-	21,578	21,117
Asset management expense	685	-	-	685	943
Depreciation	1,205	-	-	1,205	1,260
Total supporting services	23,468	-	-	23,468	23,320
Total expenses	208,794	-	-	208,794	192,939
Excess (deficit) of revenues over expenses	10,836	63,925	11,681	86,442	(50,658)
Net interfund transfers	2,237	(3,840)	1,603	-	-
Change in net assets before amortization of pension adjustments	13,073	60,085	13,284	86,442	(50,658)
Amortization of unrecognized actuarial adjustments	3,515	-	-	3,515	(5,279)
Change in net assets	16,588	60,085	13,284	89,957	(55,937)
Net assets at beginning of year	165,266	1,082,707	439,448	1,687,421	1,743,358
Net assets at end of year	\$ 181,854	\$ 1,142,792	\$ 452,732	\$ 1,777,378	\$ 1,687,421

See accompanying notes

THE UNIVERSITY OF KANSAS  
STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
Tuition and fees	\$ 313,398,651	\$ 303,510,073
Sales and services of educational activities	66,411,183	63,228,264
Sales and services of medical and administrative activities	53,083,616	41,490,519
Auxiliary enterprises:		
Housing	11,330,902	8,118,987
Athletics	1,226,573	12,121,234
Parking and transit	12,724,619	12,283,569
Student unions	4,630,032	3,236,458
University health services	2,284,023	2,020,435
Other auxiliary enterprises	1,585,851	1,501,000
Grants and contracts	258,065,476	254,657,943
Payments to suppliers	(171,210,027)	(200,791,855)
Payments to utilities	(23,363,331)	(22,606,874)
Compensation and benefits	(753,060,136)	(713,433,024)
Payments for scholarships and fellowships	(13,007,113)	(16,648,358)
Loans issued to students and employees	(9,890,996)	(13,529,594)
Collection of loans to students	4,703,446	4,953,532
Other receipts	5,349,327	5,794,698
Net cash used in operating activities	<u>(235,737,904)</u>	<u>(254,092,993)</u>
<b><u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u></b>		
State appropriations	240,346,756	237,044,872
Local appropriations	11,850,790	11,511,801
Gifts	49,526,905	61,282,661
Federal education loan receipts	159,592,621	150,414,799
Federal education loan disbursements	(156,806,866)	(152,866,898)
Non-operating grants and contracts	18,048,961	17,857,794
Other	2,285,879	(940,080)
Net cash provided by non-capital financing activities	<u>324,845,046</u>	<u>324,304,949</u>
<b><u>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</u></b>		
Proceeds from revenue bond defeasance	9,605,328	-
Proceeds from capital debt	61,446,316	432,984,917
Capital appropriations	11,002,286	13,693,686
Capital grants and gifts	25,011,693	4,144,576
Purchases of capital assets	(307,136,836)	(174,988,386)
Proceeds from sale of capital assets	1,833,258	2,922,499
Principal paid by revenue bond defeasance	(10,740,000)	-
Principal paid on capital debt and leases	(29,289,895)	(34,539,268)
Interest paid on capital debt and leases	(34,121,208)	(18,047,656)
Other	2,683,335	12,033,907
Net cash provided by (used in) capital financing activities	<u>(269,705,723)</u>	<u>238,204,275</u>

THE UNIVERSITY OF KANSAS  
STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

(CONTINUED)

	<u>2017</u>	<u>2016</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Proceeds from sales and maturities of investments	342,484,396	133,682,819
Interest on investments	10,919,563	5,535,881
Purchase of investments	<u>(156,480,943)</u>	<u>(459,444,590)</u>
Net cash provided by (used in) investing activities	<u>196,923,016</u>	<u>(320,225,890)</u>
Net increase (decrease) in cash	16,324,435	(11,809,659)
Cash - beginning of the year	<u>279,380,663</u>	<u>291,190,322</u>
Cash - end of year	<u>\$ 295,705,098</u>	<u>\$ 279,380,663</u>
<b><u>RECONCILIATION OF NET OPERATING REVENUES (EXPENSES)</u></b>		
<b><u>TO NET CASH USED BY OPERATING ACTIVITIES:</u></b>		
Operating loss	\$ (301,348,755)	\$ (299,550,972)
Adjustments to reconcile operating loss to net cash provided/(used) by operating activities:		
Non-cash expense	(4,498,745)	851,345
Depreciation expense	86,790,577	84,107,598
Changes in assets and liabilities:		
Accounts receivables, net	3,122,385	(3,510,759)
Pledges receivable, net	683,396	(442,233)
Loans to students, net	1,653,536	(6,337,834)
Inventories	262,289	269,608
Prepaid expenses and other assets	475,196	(2,657,074)
Other assets	108,378	25,670
Accounts payable and accrued liabilities	(16,683,920)	15,899,016
Deferred revenue	(1,996,717)	(13,888,243)
Accrued compensated absences	(4,256,504)	5,014,460
Accrued other post-employment benefits	(4,456,617)	(31,660,923)
Accrued pension liability	3,740,193	(2,425,615)
Deposits held for by others	<u>667,404</u>	<u>212,963</u>
Net cash provided used in operating activities:	<u>\$ (235,737,904)</u>	<u>\$ (254,092,993)</u>
Non-cash Investing, Capital and Financing Activities:		
Gifts-in-kind	\$ 48,387,880	\$ 65,949,821
Net change in unrealized gains and losses	9,500,135	(4,423,832)
Purchases of capital assets in accounts payable and accrued expenses	34,499,013	6,383,564

*See accompanying notes to financial statements*

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2017 and 2016

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB). These financial statements have not been audited.

**Organization.** The University of Kansas (“KU”) is a comprehensive institution providing undergraduate, graduate, and professional education in a variety of academic programs. KU is a Public Doctoral/Research University - Extensive and is accredited by the Higher Learning Commission. KU is governed by the Kansas Board of Regents and is an agency of the State of Kansas. As an agency of the State of Kansas, KU is included in the audited financial report of the State of Kansas.

KU conducts education, research, public service, and related activities at: the main campus in Lawrence, Kansas, the Edwards Campus in Overland Park, Kansas, and the Medical Center campuses in Kansas City, Kansas, Salina, Kansas, and Wichita, Kansas.

For fall 2016, the Lawrence and Edwards’s campuses had an undergraduate enrollment of 18,734 and a graduate/first professional enrollment of 6,158. The Medical Center had an undergraduate enrollment of 509 and a graduate/first professional (including medical residents, fellows and trainees) enrollment of 3,000. Enrollment at all campuses was 28,401 students.

**Financial Reporting Entity.** As required by accounting principles generally accepted in the United States of America, these financial statements present the consolidated financial position and financial activities of all of KU’s campuses and the following blended component units for which KU is financially accountable: Kansas Athletics, Inc. (Athletics), the University of Kansas Center for Research, Inc. (KUCR), KU Campus Development Corporation (KUCDC), the University of Kansas Memorial Corporation (KU Unions), the University of Kansas Medical Center Research Institute Inc. (KUMCRI), the Student Union Corporation of the University of Kansas Medical Center, and Kansas University Health Partners, Inc.

The Kansas University Endowment Association (KU Endowment) is considered a component unit of KU according to the criteria in GASB Statement No. 61, and is discretely presented in KU’s financial statements. KU Endowment, an independent nonprofit organization, serves as the official fundraising and fund-management foundation for KU. KU Endowment partners with donors in providing philanthropic support to build a greater university. KU Endowment follows generally accepted accounting principles under the Financial Accounting Standards Board (FASB) and utilizes the full accrual basis of account. Additional details regarding KU Endowment are available in Note 22.

The financial activity and balances of Studio 804, Inc., the Kansas University Alumni Association, Hilltop Development Center, Inc., the KU Medical School Alumni Association, Kansas University Physicians, Inc. and the University of Kansas Hospital Authority are not included in the financial statements of KU as they are legally separate entities and do not meet the requirements of GASB Statement No. 61 to be included.

In preparing the financial statements, all significant transactions and balances between campuses and blended component units have been eliminated to avoid overstatement of 1) revenues and expenses on the Statement of Revenues, Expenses, and Changes in Net Position, and 2) balances on the Statement of Net Position.

**Basis of Accounting.** For financial reporting purposes, KU is considered a special-purpose government engaged only in business-type activities. Accordingly, KU’s financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

**Use of Estimates.** In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amount of assets and liabilities, the 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.

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2017 and 2016

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**Cash Equivalents.** For purposes of the Statement of Cash Flows, KU considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. At certain times, some of KU's component units maintain cash balances in excess of FDIC limits. KU has two letters of credit one for \$30 million that expires in July 2018 and one for \$10 million that expires in November 2018 to provide additional security for amounts over the FDIC limit. Management has evaluated the financial stability of these financial institutions and feels the risk to the component units is minimal.

Restricted cash and cash equivalents pertain to amounts restricted for payment of principal and interest on KU's bonds and any unspent bond proceeds for which the bonds were issued.

**Investments.** KU accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* as amended by GASB 72, *Fair Value Measurement and Application*. Changes in unrealized gains (losses) on the carrying value of investments are reported as a component of investment income in the Statement of Revenues, Expenses, and Changes in Net Position.

**Fair Values.** Fair values of fixed maturities are based on quoted market prices in active markets when available. Fair values of fixed maturities that are not actively traded are estimated using valuation methods that vary by asset class. Fair values for all securities are reviewed for reasonableness by considering overall market conditions and values for similar securities. See Note 4 for more information on KU's fair value policies.

**Accounts Receivable.** Accounts receivable consists of tuition and fees charged to students and auxiliary enterprise services provided to students, faculty, and staff. Accounts receivable also include amounts due from the Federal government, state and local governments, or private sources in connection with reimbursement of allowable expenditures made pursuant to KU's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

**Inventories.** Inventories are carried at cost.

**Capital Assets.** Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. For equipment, KU's capitalization policy includes all items with a unit cost \$5,000 or more, and an estimated useful life greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized if the related project cost exceeds \$100,000. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, 25 years for land improvements, 8 years for non-IT equipment, 5 years for vehicles, and 3 years for IT equipment. Depreciation for buildings and infrastructure is computed using a componentized building and infrastructure depreciation study. The estimated useful lives used by the blended component units for equipment, building improvements and buildings, range from 3 to 40 years, which vary slightly from KU's policy. The financial impact of the variation is considered to be immaterial to the financial statements as a whole.

**Unearned Revenues.** Unearned revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Unearned revenues also include summer school tuition not earned during the current year and amounts received from grant and contract sponsors that have not yet been earned.

**Compensated Absences.** Employee unused vacation pay is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated absences in the Statement of Net Position, and as an expense in the Statement of Revenues, Expenses, and Changes in Net Position.

**Assets Held In Custody for Others.** Deposits held in custody for others consist primarily of student organizations' money administered by KU, and assets loaned to KU for use in performing work on certain grants and contracts. In addition, KUCR holds administrative and fiduciary responsibilities over certain financial assets for the State of Kansas' Alternative Funding Program and Telework Program which is administered by a separate community based organization (see Note 21)

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2017 and 2016

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**Non-current Liabilities.** Non-current liabilities include principal amounts and issuance premiums of notes and revenue bonds payable; capital lease obligations with contractual maturities greater than one year; and estimated amounts for accrued compensated absences, accrued other postemployment benefits and accrued pension obligations that will not be paid within the next fiscal year.

**Pensions.** In accordance with the provisions of GASB 68, *Accounting and Financial Reporting for Pensions*, KU has reported its proportional share of the entire Kansas Public Employees Retirement System (KPERS) pension liability. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of KPERS and additions to/deductions from KPERS' fiduciary net position have been determined on the same basis as they are reported by KPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Deferred Inflows/Outflows.** In accordance with GASB Statement No. 63, deferred outflows and deferred inflows result from the consumption or acquisition of net position in one period that is applicable to future periods. These items are reported separately from assets and liabilities.

**Net Position.** KU's net position is classified as follows:

*Net investment in capital assets:* This represents KU's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of "net investment in capital assets."

*Restricted net position – non-expendable:* Restricted non-expendable net position consists of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

*Restricted net position – expendable:* Restricted expendable net position include resources for which KU is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

*Unrestricted net position:* Unrestricted net position represents resources derived from student tuition and fees, state appropriations, and sales and services of educational departments. These resources are used for transactions relating to the educational and general operations of KU, and may be used at the discretion of KU to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty, and staff.

**Tax Status.** As a state institution of higher education, the income of KU is generally exempt from federal and state income taxes under Section 115(a) of the Internal Revenue Code; however, income generated from activities unrelated to KU's exempt purpose is subject to income taxes under Internal Revenue Code Section 511(a)(2)(B).

**Classification of Revenues.** KU has classified its revenues as either operating or non-operating revenues according to the following criteria:

*Operating revenues:* Operating revenues include activities that have the characteristics of exchange transactions, such as: 1) student tuition and fees, net of scholarship discounts and allowances, 2) sales and services of auxiliary enterprises, 3) most federal, state, and local grants and contracts, and 4) interest on institutional student loans.

*Non-operating revenues:* Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, such as state appropriations and investment income.

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2017 and 2016

**Scholarship Discounts and Allowances.** Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by KU, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state, or non-governmental programs, are recorded as either operating or non-operating revenues in KU's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, KU has recorded a scholarship discount and allowance.

**Contributions.** Unconditional promises to give cash and other assets are accrued at estimated fair value at the date each promise is received.

**Reclassifications.** Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 financial statement presentation.

### NOTE 2 – DEPOSITS

#### SUMMARY OF CARRYING VALUES

The carrying values of deposits and investments shown below are included in the Statement of Net Position as of June 30:

	<u>2017</u>	<u>2016</u>
Carrying value:		
Deposits	\$ 284,035,843	\$ 268,464,048
Investments	350,711,917	530,659,498
	<u>\$ 634,747,760</u>	<u>\$ 799,123,546</u>

The amounts above are included in the following line items of the Statement of Net Position:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 225,159,353	\$ 210,032,885
Restricted cash and cash equivalents	7,180,610	7,510,554
Investments	76,683,570	76,813,271
Restricted cash and cash equivalents (non-current)	63,365,135	61,837,224
Endowment investments (non-current)	84,452,010	78,967,595
Other investments (non-current)	177,907,082	363,962,017
	<u>\$ 634,747,760</u>	<u>\$ 799,123,546</u>

KU carried the following deposits as of June 30:

<u>Deposit Type</u>	<u>2017</u>	<u>2016</u>
Cash deposits with State Treasury	\$ 208,598,957	\$ 170,507,946
Cash deposits with financial institutions	74,959,046	97,395,968
Certificates of deposit	477,840	560,134
	<u>\$ 284,035,843</u>	<u>\$ 268,464,048</u>



# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2017 and 2016

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The deposits reflected above were held by the following entities as of June 30:

	<u>2017</u>	<u>2016</u>
KU Lawrence and Edwards Campuses	\$ 145,746,772	\$ 107,649,954
Kansas Athletics, Inc.	8,042,438	9,527,994
KU Campus Development Corporation	22,519,463	19,942,584
KU Center for Research, Inc.	21,814,308	19,713,510
KU Memorial Corporation*	654,768	(177,090)
KU Medical Center	77,068,933	104,621,212
KU Medical Center Research Institute	7,431,259	6,261,345
Student Union Corporation of KUMC	567,232	636,388
Kansas University Health Partners, Inc.	190,670	288,151
	<u>\$ 284,035,843</u>	<u>\$ 268,464,048</u>

\* - The KU Memorial Corporation utilizes an overnight repurchase agreement for its bank deposits to maximize investment return. At June 30, 2017 and 2016, the overnight repurchase agreement amounted to \$3,477,446 and \$3,578,189, respectively, and its carrying value is included in investments above. The repurchase agreement balance is included in "cash and cash equivalents" on the Statement of Net Position at year-end.

State law requires KU (Lawrence Campus, Edwards Campus, and the Medical Center campuses - in Kansas City, Salina and Wichita) to deposit the majority of its cash balances with the State Treasurer, who holds and invests the funds. The exceptions to this law are any funds maintained in KU's imprest fund, organizational safekeeping, revenue bond project and reserve funds, and any funds held by external entities on behalf of KU.

Cash balances maintained by the State Treasurer are pooled and are held in a general checking account and other special purpose bank accounts. The available cash balances beyond immediate need are pooled for short-term investment purposes by the Pooled Money Investment Board (PMIB) and are reported at fair value, based on quoted market prices.

### NOTE 3 - INVESTMENTS

KU carried the following investments as of June 30:

<u>Investment Type</u>	<u>2017</u> <u>Fair Value</u>	<u>2016</u> <u>Fair Value</u>
US Treasury obligations	\$ 7,171,389	\$ 57,715,891
US Agency obligations	55,607,113	118,388,197
Municipal bonds	2,599,541	3,395,000
Corporate bonds	32,462,251	56,569,466
Foreign bonds	69,077	70,498
Collateralized mortgage obligations	38,217,994	27,945,223
Domestic stock	5,125,334	4,115,478
Foreign stock	525,005	463,279
Mutual funds	52,261,691	48,082,904
Limited liability companies	765,208	645,840
Repurchase agreements	3,477,446	3,578,189
Guaranteed investment contracts	1,419,477	1,419,477
Other	49,288,322	110,469,497
External investment pools		
KUEA Short-term Investment Program	39,722,591	39,985,926
KUEA Long-term Investment Program	61,999,478	57,814,633
	<u>\$ 350,711,917</u>	<u>\$ 530,659,498</u>

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2017 and 2016

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The investments reflected above were held by the following entities as of June 30:

	<u>2017</u>	<u>2016</u>
KU Lawrence and Edwards Campuses	\$ <b>62,431,874</b>	\$ 58,347,642
Kansas Athletics, Inc.	<b>52,183,096</b>	51,958,316
KU Campus Development Corporation	<b>121,009,009</b>	314,877,345
KU Center for Research, Inc.	<b>49,460,157</b>	45,853,547
KU Memorial Corporation	<b>3,580,373</b>	3,654,078
KU Medical Center	<b>5,406,708</b>	5,082,618
KU Medical Center Research Institute	<b>56,640,700</b>	50,885,952
	<u><b>\$ 350,711,917</b></u>	<u>\$ 530,659,498</u>

### INVESTMENT POLICY

State statutes govern KU's investment policies. For investments related to KU's Kansas Development Finance Authority (KDFA) revenue bonds, state statutes authorize cash balances to be invested as permitted by bond documents and bond covenants. Allowable investments include:

- U.S. Government obligations
- Obligations of government-sponsored agencies
- Federal funds, unsecured certificates of deposit, time deposits, and banker's acceptances
- Deposits – fully insured by FDIC
- Certain State or municipal debt obligations
- Certain pre-refunded municipal obligations
- Commercial paper
- Investments in money market funds
- Repurchase agreements
- Stripped securities
- Investments in the Municipal Investment Pool Fund
- Investment agreements
- Guaranteed investment contracts

State statutes also govern the investment policies of the PMIB. The primary objectives are to attain safety, liquidity, and yield. Allowable investments for State pooled moneys not held in Kansas financial institutions are as follows:

- Direct obligations of, or obligations that are insured as to principal and interest by, the U.S. Government or any direct agency thereof, with maturities up to four years
- Repurchase agreements with Kansas banks or with primary government securities dealers
- Loans as mandated by the Kansas Legislature limited to not more than the lesser of 10 percent or \$140 million of total investments
- Certain Kansas agency and IMPACT Act projects and bonds
- Linked deposit loans for agricultural production not to exceed \$60 million
- Loans to Local Taxing Districts (K.S.A. 79-2005) not to exceed \$50 million
- High grade commercial paper
- High grade corporate bonds

The Finance Committee of the KU Endowment Board of Trustees oversees investments in the KU Endowment's investment programs. The Finance Committee develops guidelines and procedures for investment programs, in accordance with the policies established by the Executive Committee.

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2017 and 2016

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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 intended to produce results that match or exceed the respective benchmark while also seeking to control investment risk. The primary long-term financial objective of the portfolio managed by KU Endowment is to preserve the real value (purchasing power) of the principal (the gift value) and of its spending distributions, while providing a relatively stable source of funding for participants. Since the KU Endowment Long-term Investment Program's 1988 inception, KU Endowment has met its objective though actual returns in any given year may vary from this amount.

The KU Endowment Short-term Investment Program is designed for short-term, highly liquid investing needs. KU Endowment invests 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.

The KU Endowment Long-term Investment Program is designed for investing endowed funds and other types of funds with similar long-term objectives. These funds are collectively invested in a diversified long-term portfolio that is professionally managed by firms chosen by KU Endowment for their expertise in specialized portfolio management. Funds participating in the long-term investment portfolio receive regular distributions that are available for immediate spending in accordance with KU Endowment's established spending policy. Except as specified by the donor, KU Endowment has adopted a constant growth spending policy. The target spending rate is 5.5% of the market value of participating funds, less a 0.9% administrative fee charged by KU Endowment. To avoid potential under-distributions or unsustainable over-distributions in any given year, the policy is subject to a 4.5% "floor" and a 6.5% "cap" of the trailing four quarter average market value. Every month, participating funds receive a distribution. The spending amount is recalculated annually based on values ending September 30<sup>th</sup> of the year preceding each spending year and is effective for one year beginning February 1 and ending the following January 31. 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 its endowment assets held in perpetuity, as well as to provide additional growth new gifts.

The Executive Committee, as well as the Finance and Audit Committee of KUCR, oversees KUCR investments. Per KUCR investment policy, eligible investments include money market funds, FDIC insured bank accounts, U.S. Treasury obligations (Bills, Notes, Bonds), U.S. Government Agency obligations, corporate obligations, mutual funds, exchange traded funds, domestic and international stocks, and fully collateralized repurchase agreements. Asset allocation targets are reviewed semi-annually by the Finance and Audit Committee and the Executive Committee.

Athletics does not have a formal investment policy. The majority of the Athletics investments are held at KU Endowment in the Short-term Investment Program and Long-term Investment Program.

KUCDC does not have a formal investment policy. Certain unspent project and interest funds are invested in eligible securities as defined in the bond indenture such as U.S. Treasury obligations (Bills, Notes, Bonds), U.S. Government Agency obligations, and corporate obligations with a rating of BBB or higher.

KU Unions does not have a formal investment policy. Operational reserves are invested in short-term certificates of deposit or government securities as directed by the Executive Board.

The Board of Directors and Finance Committee KUMCRI oversee the KUMCRI's investment policy. Per KUMCRI investment policy, investments are actively managed by either individual investment management firms with direct ownership of the financial investments held by the KUMCRI or within a mutual fund. Financial advisors are selected by the Finance Committee and approved by the Board of Directors. Approved financial advisors make quarterly presentations to the Finance Committee, and overall performance is reviewed annually. KUMCRI investment policy also sets investment quality standards for specific investments (e.g. U.S. Treasury or Agency obligations, corporate obligations rated 'A-/A3' or better and no more than 10% of portfolio in international equities or emerging markets).

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2017 and 2016

### INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. KU does not have a formal investment policy that leverages investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates. KU anticipates holding fixed income securities until maturity, thus limiting KU's interest rate risk exposure.

For revenue bond investments managed by K DFA, because of the tax-exempt status of the bonds, it is generally the practice of K DFA and KU management to match reserve fund interest rates to the arbitrage yield on the bonds, and the term of the investments to the maturity of the bonds. For invested loan funds, K DFA generally invests to maximize the interest rate and sets a term of investment based on estimated expenditures, which is generally 3 to 5 years.

KUCDC does not have a formal investment policy that leverages investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates. KUCDC has structured the investment portfolio so investments mature in time sufficient to cover estimated capital expenditures. KUCDC anticipates holding fixed income securities until maturity, thus limiting KUCDC's interest rate risk exposure.

KU had the following investments and maturities at June 30, 2017:

Investment Type	Fair Value	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Investments with Maturity Date:					
US Treasury obligations	\$ 7,171,389	\$ 6,844,212	\$ 79,048	\$ 173,830	\$ 74,299
US Agency obligations	55,607,113	50,851,873	4,562,407	-	192,833
Municipal bonds	2,599,541	60,000	830,000	1,709,541	-
Corporate bonds	32,462,251	30,755,189	1,148,314	488,094	70,654
Foreign bonds	69,077	20,169	32,911	15,997	-
Collateralized mortgage obligations	38,217,994	20,808	773,344	4,334,322	33,089,520
Repurchase agreements	3,477,446	3,477,446	-	-	-
Guaranteed investment contracts	1,419,477	-	-	-	1,419,477
Other	43,611,897	32,052,490	11,310,549	248,858	-
External investment pools					
KUEA Short-term Investment Program	39,722,591	39,722,591	-	-	-
	224,358,776	163,804,778	18,736,573	6,970,642	34,846,783
Investments not subject to maturity dates:					
Domestic stock	5,125,334				
Foreign Stock	525,005				
Mutual funds	52,261,691				
Limited liability companies	765,208				
Other	5,676,425				
External investment pools					
KUEA Long-term Investment Program*	61,999,478				
	126,353,141				
	<u>\$ 350,711,917</u>				

\* KU Endowment's Long-term investment program is invested in approximately 80% equities and other investments which do not have a maturity date.

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2017 and 2016

KU had the following investments and maturities at June 30, 2016:

Investment Type	Fair Value	Investment Maturities (in years)			
		Less than 1	1-5	6-10	More than 10
Investments with Maturity Date:					
US Treasury obligations	\$ 57,715,891	\$ 38,010,426	\$ 19,441,110	\$ 176,954	\$ 87,401
US Agency obligations	118,388,197	22,495,282	95,634,971	-	257,944
Municipal bonds	3,395,000	100,000	1,905,000	1,390,000	-
Corporate bonds	56,569,466	23,106,549	32,399,929	989,620	73,368
Foreign bonds	70,498	-	37,409	33,089	-
Collateralized mortgage obligations	27,945,223	23,906	1,247,257	3,976,708	22,697,352
Repurchase agreements	3,578,189	3,578,189	-	-	-
Guaranteed investment contracts	1,419,477	-	-	-	1,419,477
Other	103,966,374	93,095,819	10,616,564	253,991	-
External investment pools					
KUEA Short-term Investment Program	39,985,926	39,985,926	-	-	-
	413,034,241	220,396,097	161,282,240	6,820,362	24,535,542
Investments not subject to maturity dates:					
Domestic stock	4,115,478				
Foreign Stock	463,279				
Mutual funds	48,082,904				
Limited liability companies	645,840				
Other	6,503,123				
External investment pools					
KUEA Long-term Investment Program*	57,814,633				
	117,625,257				
	\$ 530,659,498				

\* KU Endowment's Long-term investment program is invested in approximately 80% equities and other investments which do not have a maturity date.

### CREDIT RISK

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations. KU holds investments that may have credit risk since the underlying securities may include securities other than those that take the form of U.S. Treasuries or obligations explicitly guaranteed by the U.S. government. Certain investments have an underlying collateral agreement.

As of June 30, 2017, KU held the following investments as rated by Standard and Poor's and/or Moody's:

S&P Credit Rating	Moody's Credit Rating	Fair Value	% of Total
AAA	Aaa	\$ 152,409	0.0%
AA+/AA/AA-	Aa1/Aa2/Aa3	59,262,593	16.9%
A+/A/A-	A1/A2/A3	53,456,347	15.2%
BBB+/BBB/BBB-	Baa1/Baa2/Baa3	19,469,529	5.6%
BB+/BB/BB-	Ba1/Ba2/Ba3	38,660	0.0%
B+/B/B-	B1/B2/B3	74,705	0.0%
Not Rated		218,257,674	62.2%
		\$ 350,711,917	100.0%

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2017 and 2016

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As of June 30, 2016, KU held the following investments as rated by Standard and Poor's and/or Moody's:

<u>S&amp;P Credit Rating</u>	<u>Moody's Credit Rating</u>	<u>Fair Value</u>	<u>% of Total</u>
AAA	Aaa	\$ 6,129,307	1.2%
AA+/AA/AA-	Aa1/Aa2/Aa3	184,145,445	34.7%
A+/A/A-	A1/A2/A3	108,321,422	20.4%
BBB+/BBB/BBB-	Baa1/Baa2/Baa3	29,335,948	5.5%
BB+/BB/BB-	Ba1/Ba2/Ba3	117,148	0.0%
Not Rated		202,610,228	38.2%
		<u>\$ 530,659,498</u>	<u>100.0%</u>

The investments in the "Not Rated" category include investments in KU Endowment's Short-term and Long-term Investment Programs (external investment pools are not required to be rated), mutual funds, guaranteed investment contracts and repurchase agreements.

### CUSTODIAL CREDIT RISK

The custodial credit risk for investments is the risk that, in the event of the failure of the counter party, KU will not be able to recover the value of the investments that are in the possession of an outside party. Custodial credit risk should not be confused with market risk, which is the risk that the market value of a security may decline. KU's investment securities are exposed to custodial credit risk if the securities are uninsured and unregistered and held by the counterparty, or by its trust department or agent but not in KU's name.

The investment policies of KU and its component units do not formally address custodial credit risk. Nonetheless, KU's custodial credit risk is estimated to be minimal because of several factors. First, investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risk because their existence are not evidenced by securities that exist in physical or book entry form. As noted above, the majority of KU's investments are invested within KU Endowment's Short-term and Long-term Investment Programs. Second, management has evaluated the stability of the financial institutions through which other investments are made. Generally the financial institutions are members of the Depository Trust Company (DTC), the world's largest depository and a member of the Federal Reserve System. DTC holds and provides asset servicing for securities deposited with the DTC by DTC participants. DTC facilitates settlement of transactions through electronic book-entry transfers and pledges between the DTC participants' accounts. This eliminates the need for physical movement of securities certificates. Additionally the financial institutions hold the assets in custody or trust so that they would not be available to the institution's creditors because they are excluded from the assets of the custodian.

The KUMCRI has made minimal investments directly in limited partnerships, which would have some custodial risk. The balance of these investments as of June 30, 2017 and 2016 was \$765,208 and \$645,840, respectively.

### CONCENTRATION OF CREDIT RISK

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer that exceeds 5 percent or more of its total investments. Investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. KU does not have a formal policy regarding the concentration of credit risk. However, management has evaluated the financial stability of the financial institutions involved and believes the credit risk is minimal.

Of KU's total investments of \$350,711,917 and \$530,659,498 as of June 30, 2017 and 2016, respectively; KU Endowment administers \$101,722,069 and \$97,800,559 respectively.

KU investments also include \$5,657,901 and \$5,223,440 of investments administered by U.S. Trust Bank of America Private Wealth Management as of June 30, 2017 and 2016, respectively, and \$16,794,631 and \$16,065,620 of investments administered by Frost Wealth Advisors as of June 30, 2017 and 2016, respectively. These investments consist of three accounts: 1) the Gertrude S. Pearson Trust, 2) the Elizabeth M. Watkins Trust for Watkins and Miller Scholarship Halls, and 3) the Elizabeth M. Watkins Trust for Watkins Hospital.

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2017 and 2016

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The Gertrude S. Pearson Trust had a reported market value of \$16,794,631 and \$16,065,620 at June 30, 2017 and 2016, respectively.

The Elizabeth M. Watkins Trust for Watkins and Miller Scholarship Halls had a reported market value of \$3,656,235 and \$3,377,944 at June 30, 2017 and 2016, respectively.

The Elizabeth M. Watkins Trust for Watkins Hospital had a reported market value of \$2,001,666 and \$1,845,496 at June 30, 2017 and 2016, respectively.

In addition, the following investments exceed 5 percent of KU's investment portfolio as of June 30:

Counterparty:	2017 Fair Value	2016 Fair Value
FHLMC	\$ 21,955,882	\$ 65,288,064
FHLB	-	31,207,910
	\$ 21,955,882	\$ 96,495,974

The remaining investments consist of \$204,581,434 and \$315,073,885 invested in a combination of short-term and long-term investments, primarily U.S. Agency obligations and corporate obligations which no individual issuer exceeded 5 percent of the total investment portfolio.

### NOTE 4 – FAIR VALUE

Fair value is based on an exit price, which 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. As not all financial instruments are actively traded, various valuation methods may be used to estimate fair value. These methods rely on observable market data and where observable market data is not available, the best information available. Significant judgment may be required to interpret the data and select the assumptions used in the valuation estimates, particularly when observable market data is not available.

In the discussion that follows, KU has ranked financial instruments by the level of judgment used in the determination of the fair values presented above. The levels are defined as follows:

*Level 1* – Input included quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

*Level 2* – Inputs include significant other 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.

*Level 3* – Inputs include significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, a financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. KU's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument. From time to time there may be movements between levels as inputs become more or less observable, which may depend on several factors including the activity of the market for the specific security, the activity of the market for similar securities, the level of risk spreads and the source from which KU obtains the information. Transfers in or out of any level are measured as of the end of the period.

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2017 and 2016

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The following methods and assumptions were used in estimating the fair value of KU's financial instruments:

### *Fixed maturities:*

Level 1 fixed maturities consist of U.S. Treasury issues that are actively traded, allowing KU to use current market prices as an estimate of their fair value.

Level 2 fixed maturities consist of United States Government agencies, corporate bonds, commercial paper, and other investments, such as bank notes and certificates of deposits. When quoted prices of identical assets in active markets are not available, KU's first priority is to obtain prices from the trustee or third party pricing vendors. KU has regular interaction with the trustees to understand their pricing methodologies and to confirm they are utilizing observable market information. The methodologies may vary by asset class and include inputs such as estimated cash flows, benchmark yields, reported trades, credit quality, industry events and economic events.

### *Equity securities and mutual funds*

Level 1 equity securities consist of various exchange traded equity securities which market prices are used as an estimate for fair value.

### *Repurchase agreements*

Level 1 repurchase agreements consist of cash and cash equivalents which are swept into an overnight investment account investing in a Goldman Sachs Financial Square Prime Obligation Fund, which is a money market fund.

### *Other investments*

Level 1 other investments consist of cash and cash equivalents that are held in short-term money market funds for which market prices are used as an estimate for fair value.

Level 2 other investments consists of commercial paper, bank notes and certificates of deposits.

Level 3 other investments consists of mineral and natural resource investments for which fair value is based on the income recognized over a given period of time.



# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2017 and 2016

As of June 30, 2017, KU had the following investments by fair value hierarchy levels:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Fixed Maturity Securities:				
US treasury obligations	\$ 7,171,389	\$ 7,171,389	\$ -	\$ -
US agency obligations	55,607,113	-	55,607,113	-
Municipal bond	2,599,541	-	2,599,541	-
Corporate bonds	32,462,251	-	32,462,251	-
Foreign bonds	69,077	-	69,077	-
Collateralized mortgage obligations	38,217,994	-	38,217,994	-
Total fixed maturity securities	<u>136,127,365</u>	<u>7,171,389</u>	<u>128,955,976</u>	<u>-</u>
Equity Securities:				
Consumer discretionary	1,096,077	1,096,077	-	-
Energy	236,201	236,201	-	-
Financials	946,831	946,831	-	-
Healthcare	859,959	859,959	-	-
Industrials	929,799	929,799	-	-
Information technology	1,210,729	1,210,729	-	-
Materials	128,062	128,062	-	-
Telecommunications services	146,035	146,035	-	-
Other	96,646	96,646	-	-
Total equity securities	<u>5,650,339</u>	<u>5,650,339</u>	<u>-</u>	<u>-</u>
Repurchase agreements	3,477,446	3,477,446	-	-
Guaranteed investment contracts	1,419,477	-	1,419,477	-
Mutual funds	52,261,691	52,261,691	-	-
Other	49,288,322	3,844,275	43,611,897	1,832,150
External investment pools:				
KUEA Short-term Investment Program	39,722,591	-	39,722,591	-
KUEA Long-term Investment Program	61,999,478	-	61,999,478	-
Total investments by fair value level	<u>\$ 349,946,709</u>	<u>\$ 72,405,140</u>	<u>\$ 275,709,419</u>	<u>\$ 1,832,150</u>

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2017 and 2016

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As of June 30, 2016, KU had the following investments by fair value hierarchy levels:

	<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>Fixed Maturity Securities:</b>				
US treasury obligations	\$ 57,715,891	\$ 57,715,891	\$ -	\$ -
US agency obligations	118,388,197	-	118,388,197	-
Municipal bond	3,395,000	-	3,395,000	-
Corporate bonds	56,569,466	-	56,569,466	-
Foreign bonds	70,498	-	70,498	-
Collateralized mortgage obligations	27,945,223	-	27,945,223	-
Total fixed maturity securities	<u>264,084,275</u>	<u>57,715,891</u>	<u>206,368,384</u>	<u>-</u>
<b>Equity Securities:</b>				
Consumer discretionary	1,012,737	1,012,737	-	-
Energy	206,167	206,167	-	-
Financials	698,674	698,674	-	-
Healthcare	791,408	791,408	-	-
Industrials	794,215	794,215	-	-
Information technology	946,136	946,136	-	-
Telecommunications services	129,420	129,420	-	-
Total equity securities	<u>4,578,757</u>	<u>4,578,757</u>	<u>-</u>	<u>-</u>
Repurchase agreements	3,578,189	3,578,189	-	-
Guaranteed investment contracts	1,419,477	-	1,419,477	-
Mutual funds	48,082,904	48,082,904	-	-
Other	110,469,497	5,066,892	103,966,374	1,436,231
<b>External investment pools:</b>				
KUEA Short-term Investment Program	39,985,926	-	39,985,926	-
KUEA Long-term Investment Program	57,814,633	-	57,814,633	-
Total investments by fair value level	<u>\$ 530,013,658</u>	<u>\$ 119,022,633</u>	<u>\$ 409,554,794</u>	<u>\$ 1,436,231</u>

Investments include interest in limited partnerships that have no readily determinable fair value, and thus are recorded using the cost method of accounting and evaluated and adjusted for impairment on an annual basis. No impairment losses were recognized during the years ended June 30, 2017 or 2016. At June 30, 2017 and 2016, limited partnership investments totaled \$765,208 and \$645,840, respectively.

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2017 and 2016

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### NOTE 5 – ACCOUNTS RECEIVABLE

Accounts receivable net of estimated uncollectible amounts, consisted of the following at June 30:

	<u>2017</u>	<u>2016</u>
Tuition and Fees	\$ 19,783,865	\$ 12,609,318
Auxiliary	11,353,931	11,596,193
Grants and Contracts	39,340,735	46,647,485
Other	<u>11,183,653</u>	<u>15,285,228</u>
	<b>81,662,184</b>	<b>86,138,224</b>
Less:		
Allowance for uncollectible amounts	<u>(4,356,485)</u>	<u>(3,255,045)</u>
	<u><b>\$ 77,305,699</b></u>	<u><b>\$ 82,883,179</b></u>

### NOTE 6 – PLEDGES RECEIVABLE

Pledges receivable consist of the following unconditional promises to give:

	<u>2017</u>	<u>2016</u>
Due in less than one year	\$ 16,128,914	\$ 16,745,517
Due in one to five years	3,674,262	3,388,825
Due in greater than five years	<u>49,000</u>	<u>77,000</u>
	<b>19,852,176</b>	<b>20,211,342</b>
Less		
Unamortized discount	110,872	125,597
Allowance for uncollectible amounts	<u>733,983</u>	<u>719,727</u>
	<u><b>\$ 19,007,321</b></u>	<u><b>\$ 19,366,018</b></u>

Pledges receivable are recorded on the accompanying statements of financial position as follows:

	<u>2017</u>	<u>2016</u>
Pledges receivable - current	\$ 15,394,931	\$ 16,025,790
Pledges receivable - non-current	<u>3,612,390</u>	<u>3,340,228</u>
	<u><b>\$ 19,007,321</b></u>	<u><b>\$ 19,366,018</b></u>

### NOTE 7 – INVENTORIES

Inventories consisted of the following at June 30:

	<u>2017</u>	<u>2016</u>
Bookstore	\$ 3,166,515	\$ 2,642,451
Food service	197,217	292,893
Physical plant	2,301,335	2,586,293
Professional and scientific supplies	462,446	833,077
Other	<u>692,127</u>	<u>727,215</u>
	<u><b>\$ 6,819,640</b></u>	<u><b>\$ 7,081,929</b></u>

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2017 and 2016

### NOTE 8 – LOANS TO STUDENTS

Student loans made through the Federal Perkins Loan Program comprise substantially all of the loans to students at June 30, 2017 and 2016. The Program provides for cancellation of a loan at rates of 10% to 30% per year up to a maximum of 100% if the participant complies with certain provisions. The federal government reimburses KU for a portion of amounts cancelled under these provisions. As KU determines that Perkins loans are uncollectible and not eligible for reimbursement by the federal government, the loans are written off and assigned to the U.S. Department of Education.

KU has provided an allowance for uncollectible loans, which, in management's opinion, is sufficient to absorb loans that will ultimately be written off. At June 30, 2017 and 2016, the allowance for uncollectible loans was estimated to be \$138,591 and \$118,370 respectively.

### NOTE 9 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
<u>Non-depreciable capital assets</u>				
Land	\$ 33,465,691	\$ 544,003	\$ -	\$ 34,009,694
Land improvements	6,628,108	782,656	-	7,410,764
Construction in progress	137,597,679	353,392,291	(91,138,652)	399,851,318
Software	6,327,173	1,549,140	(2,712,555)	5,163,758
Works of Art	21,583,253	1,775,410	-	23,358,663
Total non-depreciable capital assets	<u>205,601,904</u>	<u>358,043,500</u>	<u>(93,851,207)</u>	<u>469,794,197</u>
<u>Depreciable capital assets</u>				
Buildings	1,681,037,152	81,436,378	(4,075,830)	1,758,397,700
Leasehold Improvements	1,761,002	706,069	(773,590)	1,693,481
Infrastructure	134,196,600	7,663,494	-	141,860,094
Equipment	290,212,993	20,752,524	(7,078,161)	303,887,356
Vehicles	25,787,389	1,336,184	(263,755)	26,859,818
Total depreciable capital assets	<u>2,132,995,136</u>	<u>111,894,649</u>	<u>(12,191,336)</u>	<u>2,232,698,449</u>
Total capital asset cost	<u>2,338,597,040</u>	<u>469,938,149</u>	<u>(106,042,543)</u>	<u>2,702,492,646</u>
<u>Accumulated depreciation</u>				
Buildings	706,517,911	57,853,449	(2,756,551)	761,614,809
Leasehold Improvements	569,997	131,266	(464,154)	237,109
Infrastructure	46,232,098	4,894,110	-	51,126,208
Equipment	219,071,083	20,794,586	(6,468,611)	233,397,058
Vehicles	15,978,120	3,117,164	(224,348)	18,870,936
Total accumulated depreciation	<u>988,369,209</u>	<u>86,790,575</u>	<u>(9,913,664)</u>	<u>1,065,246,120</u>
Capital assets, net	<u>\$ 1,350,227,831</u>	<u>\$ 383,147,574</u>	<u>\$ (96,128,879)</u>	<u>\$ 1,637,246,526</u>

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2017 and 2016

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Capital asset activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
<u>Non-depreciable capital assets</u>				
Land	\$ 29,426,631	\$ 4,792,461	\$ (753,401)	\$ 33,465,691
Land improvements	5,232,913	1,395,195	-	6,628,108
Construction in progress	87,838,591	224,133,888	(174,374,800)	137,597,679
Software	6,327,173	-	-	6,327,173
Works of Art	21,185,424	397,829	-	21,583,253
Total non-depreciable capital assets	<u>150,010,732</u>	<u>230,719,373</u>	<u>(175,128,201)</u>	<u>205,601,904</u>
<u>Depreciable capital assets</u>				
Buildings	1,534,544,631	162,868,570	(16,376,049)	1,681,037,152
Leasehold Improvements	1,718,487	42,515	-	1,761,002
Infrastructure	122,841,724	11,354,876	-	134,196,600
Equipment	287,411,410	18,452,250	(15,650,667)	290,212,993
Vehicles	25,779,068	698,166	(689,845)	25,787,389
Total depreciable capital assets	<u>1,972,295,320</u>	<u>193,416,377</u>	<u>(32,716,561)</u>	<u>2,132,995,136</u>
Total capital asset cost	<u>2,122,306,052</u>	<u>424,135,750</u>	<u>(207,844,762)</u>	<u>2,338,597,040</u>
<u>Accumulated depreciation</u>				
Buildings	665,225,076	55,323,851	(14,031,016)	706,517,911
Leasehold Improvements	456,823	113,174	-	569,997
Infrastructure	41,720,197	4,511,901	-	46,232,098
Equipment	212,791,100	21,055,560	(14,775,577)	219,071,083
Vehicles	13,560,504	3,103,111	(685,495)	15,978,120
Total accumulated depreciation	<u>933,753,700</u>	<u>84,107,597</u>	<u>(29,492,088)</u>	<u>988,369,209</u>
Capital assets, net	<u>\$ 1,188,552,352</u>	<u>\$ 340,028,153</u>	<u>\$ (178,352,674)</u>	<u>\$ 1,350,227,831</u>

KU elected not to capitalize its library book collections. These collections adhere to KU's policy to (a) maintain them for public exhibition, education, or research; (b) protect, keep encumbered, care for, and preserve them; and (c) require proceeds from their sale to be used to acquire other collection items. Generally accepted accounting principles permit collections maintained in this manner to be charged to operations at the time of purchase rather than be capitalized.

Costs incurred during construction of long-lived assets are recorded as construction in progress and are not depreciated until placed in service. KU capitalized \$4,945,928 and \$2,084,410 in interest during the years ended June 30, 2017 and 2016, respectively.

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2017 and 2016

### NOTE 10 - CHANGES IN NON-CURRENT LIABILITIES

Non-current liability activity for the year ended June 30, 2017 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Accrued compensated absences	\$ 43,057,385	\$ 24,147,302	\$ (28,403,806)	\$ 38,800,881	\$ 33,053,295
Accrued other post-employment benefits	562,077	-	(562,077)	-	-
Capital leases payable	12,340,234	3,434,497	(3,309,583)	12,465,148	1,997,171
Notes payable	2,679,565	1,000,000	(3,272,009)	407,556	297,878
Revenue bonds payable	776,981,024	67,510,000	(59,274,581)	785,216,443	29,162,004
Other long-term liabilities	76,088,873	5,084,409	(6,498,255)	74,675,027	6,628,932
Total	<u>\$ 911,709,158</u>	<u>\$ 101,176,208</u>	<u>\$ (101,320,311)</u>	<u>\$ 911,565,055</u>	<u>\$ 71,139,280</u>

Non-current liability activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Accrued compensated absences	\$ 38,042,925	\$ 29,916,450	\$ (24,901,990)	\$ 43,057,385	\$ 35,124,618
Accrued other post-employment benefits	32,223,000	-	(31,660,923)	562,077	-
Capital leases payable	12,853,085	2,211,647	(2,724,498)	12,340,234	2,709,440
Notes payable	5,556,688	3,495,477	(6,372,600)	2,679,565	2,302,350
Revenue bonds payable	430,148,194	372,275,000	(25,442,170)	776,981,024	24,534,581
Other long-term liabilities	19,745,552	60,636,803	(4,293,482)	76,088,873	4,065,273
Total	<u>\$ 538,569,444</u>	<u>\$ 468,535,377</u>	<u>\$ (95,395,663)</u>	<u>\$ 911,709,158</u>	<u>\$ 68,736,262</u>

### NOTE 11 - REVENUE BONDS OUTSTANDING

Revenue bonds payable consist of the following:

	Principal Outstanding at June 30, 2017	Principal Outstanding at June 30, 2016
<b>KU Lawrence and Edwards Campuses</b>		
<b>Series 2017A</b> - Kansas Development Finance Authority Revenue Bonds (University of Kansas Projects: EEEEC, Corbin Hall, Refunding 2006B and 2007E Series) \$47,085,000. Issued 1/18/17 with final maturity of 5/1/42. Principal is due in annual installments ranging from \$1,380,000 to \$2,615,000 beginning in 5/1/17 with interest ranging from 3.0% to 5.0% payable semi-annually. At the time of issuance, Moody's Investor Service assigned a rating of Aa2.	\$ 45,565,000	\$ -
<b>Series 2014C</b> - Kansas Development Finance Authority Revenue Bonds (University of Kansas Projects: McCollum Residence Hall replacement and refunding of a portion of the Series 2005E-1 Series) \$55,310,000. Issued 6/19/14 with final maturity of 5/01/39. Principal is due in annual installments ranging from \$35,000 to \$2,625,000 beginning in 5/1/15 with interest ranging from 3.5% to 5.0% payable semi-annually. At the time of issuance, Standard & Poor's assigned a rating of AA and Moody's Investor Service assigned a rating of Aa2.	52,310,000	54,030,000

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2017 and 2016

	Principal Outstanding at June 30, 2017	Principal Outstanding at June 30, 2016
<p><b>Series 2013G-1</b> - Kansas Development Finance Authority Revenue Bonds (<b>University of Kansas School of Engineering Project</b>) \$74,370,000. Issued 10/29/13 with final maturity of 5/1/38. Principal is due in annual installments ranging from \$1,905,000 to \$4,935,000 beginning in 5/1/16 with interest ranging from 4.0% to 5.0% payable semi-annually. At the time of issuance, Standard and Poor's assigned a rating of AA and Moody's Investors Service assigned a rating of Aa1.</p>	\$ 70,465,000	\$ 72,465,000
<p><b>Series 2012D</b> - Kansas Development Finance Authority Refunding Revenue Bonds (<b>University of Kansas Projects: Refunding 1999C, 2002A, and 2002K Series</b>) \$7,370,000. Issued 3/7/12 with final maturity of 5/1/19. Principal is due in annual installments ranging from \$155,000 to \$1,750,000 beginning in 5/1/12 with interest ranging from 2.0% to 4.0% payable semi-annually. At the time of issuance, Standard &amp; Poor's assigned a rating of AA and Moody's Investor Service assigned a rating of Aa1.</p>	385,000	570,000
<p><b>Series 2011C</b> - Kansas Development Finance Authority Revenue Bonds (<b>University of Kansas Housing System Project: Grace Sellards Pearson Residence Hall renovation</b>) \$13,450,000. Principal is due in annual installments of \$385,000 to \$830,000 beginning 5/1/12. Issued 5/18/11 with final maturity on 5/1/36 with interest ranging from 2.0% to 5.0% payable semi-annually. At the time of issuance, Standard &amp; Poor's assigned a rating of AA and Moody's Investor Service assigned a rating of Aa1.</p>	11,135,000	11,540,000
<p><b>Series 2010M-2</b> - Kansas Development Finance Authority Revenue Bonds (<b>University of Kansas Edwards Campus Building No. 4 -Build America Bonds</b>) \$14,865,000. Due in annual installments of \$1,305,000 to \$1,700,000. Issued 5/5/10 with final maturity on 9/1/25. Interest ranging from 2.0% to 5.1% payable semi-annually. A rating of Aa2 was assigned by Moody's Investor Service and AA by Standard &amp; Poor's.</p>	13,560,000	14,865,000
<p><b>Series 2010K-1</b> - Kansas Development Finance Authority Revenue Bonds (<b>University of Kansas Refund of Edwards Campus 2002K</b>) \$3,615,000. Due in annual installments of \$40,000 to \$530,000. Issued 5/12/10 with final maturity on 5/1/23. Interest ranging from 2.0% to 3.5% payable semi-annually. A rating of Aa2 was assigned by Moody's Investor Service and AA by Standard &amp; Poor's.</p>	2,935,000	3,370,000
<p><b>Series 2010B</b> - Kansas Development Finance Authority Revenue Bonds (<b>University of Kansas Energy Conservation Program</b>) \$21,650,000. Due in annual installments of \$275,000 to \$1,815,000. Issued 1/7/10 with final maturity on 11/1/26. Interest ranging from 2.5% to 3.8% payable semi-annually. A rating of Aa2 was assigned by Moody's Investor Service and AA by Standard &amp; Poor's.</p>	14,530,000	15,735,000

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2017 and 2016

	Principal Outstanding at June 30, 2017	Principal Outstanding at June 30, 2016
<p><b>Series 2010A</b> - Kansas Development Finance Authority Revenue Bonds (University of Kansas Housing System Projects: Jayhawker Renovation, current refunding of 1998D Series and advance refunding 2002A-1 Series) \$23,700,000. Principal due in annual installments of \$610,000 to \$2,030,000 beginning 11/1/10. Issued 1/28/10 with final maturity on 11/1/29 with interest ranging from 2.0% to 4.1% payable semi-annually. At the time of issuance, Standard &amp; Poor's assigned a rating of AA and Moody's Investor Service assigned a rating of Aa2.</p>	\$ 17,920,000	\$ 19,035,000
<p><b>Series 2009M</b> - Kansas Development Finance Authority Revenue Bonds (State of Kansas Project – Pharmacy) \$31,650,000. Due in annual installments of \$1,115,000 to \$2,350,000. Issued 8/13/09 with final maturity on 11/1/29. Interest ranging from 3.0% to 6.3% payable semi-annually. A rating of Aa2 was assigned by Moody's Investor Service and AA by Standard</p>	19,775,000	21,135,000
<p><b>Series 2008L</b> - Kansas Development Finance Authority Revenue Bonds (University of Kansas – School of Pharmacy Project) \$21,070,000. Due in annual installments of \$560,000 to \$1,245,000. Issued 11/1/08 with final maturity on 11/1/28. The first principal payment is due 11/1/09. Interest ranging from 2.0% to 5.3% payable semi-annually. A rating of Aaa was assigned by Moody's Investor Service based upon an insurance policy issued by Financial Security Assurance, Inc.</p>	1,910,000	15,570,000
<p><b>Series 2007M</b> - Kansas Development Finance Authority Revenue Bonds (University of Kansas – Law Enforcement Training Center) \$18,220,000. Due in annual installments of \$670,000 to \$1,350,000. Issued 12/6/07 with final maturity on 6/1/27. Interest ranging from 3.5% to 4.6% payable semi-annually. A rating of A1 was assigned by Moody's Investor Service. The bonds were upgraded to Aaa with the addition of an insurance policy issued by Assured Guaranty Corporation.</p>	-	12,140,000
<p><b>Series 2007E</b> - Kansas Development Finance Authority Revenue Bonds (University of Kansas Recreation and Fitness Center Expansion Project) \$6,275,000. Due in annual installments of \$200,000 to \$450,000. Issued 5/1/07 with final maturity on 5/1/27. Interest ranging from 3.8% to 4.3% payable semi-annually. A rating of AAA was assigned by Standard &amp; Poor's based upon an insurance policy issued by XL Capital Assurance.</p>	-	4,050,000
<p><b>Series 2006B</b> - Kansas Development Finance Authority Revenue Bonds (University of Kansas Parking Facilities Project – Park &amp; Ride) \$9,790,000. Due in annual installments of \$140,000 to \$1,450,000. Issued 4/1/06 with final maturity on 4/1/21. Interest ranging from 3.5% to 4.1% payable semi-annually. A rating of Aa3 was assigned by Moody's Investor Service. The bonds were upgraded to Aaa with the addition of an insurance policy issued by XL Capital Assurance Inc.</p>	-	6,690,000



# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2017 and 2016

	Principal Outstanding at June 30, 2017	Principal Outstanding at June 30, 2016
<b>KU Medical Center</b>		
<p><b>Series 2017A</b> - Kansas Development Finance Authority Revenue Bonds (<b>University of Kansas Medical Center Project: Health Education Building</b>) \$20,425,000. Issued 1/18/17 with final maturity of 5/1/42. Principal is due in annual installments ranging from \$470,000 to \$1,210,000 beginning in 5/1/17 with interest ranging from 3.0% to 5.0% payable semi-annually. At the time of issuance, Moody's Investor Service assigned a rating of Aa2.</p>	\$ 20,425,000	\$ -
<p><b>Series 2016C</b> - Kansas Development Finance Authority Revenue Bonds (<b>University of Kansas Medical Center Parking Garage 5</b>) \$45,330,000. Issued 3/3/16 with final maturity of 5/1/41. Principal is due in annual installments ranging from \$1,280,000 to \$2,690,000 beginning 5/1/18 with interest ranging from 2% to 4% payable semi-annually. At the time of issuance, Standard &amp; Poor's assigned a rating of AA and Moody's Investor Service assigned a rating of A1.</p>	45,330,000	45,330,000
<p><b>Series 2014C</b> - Kansas Development Finance Authority Revenue Bonds (<b>University of Kansas Project: Refund a portion of the 2005E-2 Series Medical Center Parking Garage 3</b>) \$1,345,000. Issued 6/19/14 with final maturity of 5/1/24. Principal is due in annual installments ranging from \$140,000 to \$195,000 beginning 5/1/17 with interest of 5% payable semi-annually. At the time of issuance, Standard &amp; Poor's assigned a rating of AA and Moody's Investor Service assigned a rating of Aa2.</p>	1,205,000	1,345,000
<p><b>Series 2014B</b> - Kansas Development Finance Authority Revenue Bonds (<b>University of Kansas Medical Center Energy Conservation Project</b>) \$2,423,400. Issued 3/12/14 with final maturity of 2/1/19. Principal is due in annual installments ranging from \$480,206 to \$489,439 beginning 2/1/15 with interest of 0.5% payable semi-annually. Private placement with the Pooled Money Investment Board.</p>	976,443	1,461,024
<p><b>Series 2013G-2</b> - Kansas Development Finance Authority Refunding Revenue Bonds (<b>University Medical Center Energy Conservation Project: Refund a portion of 2003J Series</b>) \$2,965,000. Issued 10/29/13 with final maturity of 5/1/19. Principal is due in annual installments ranging from \$520,000 to \$675,000 beginning 5/1/15 with interest ranging from 4.0% to 5.0% payable semi-annually. At the time of issuance, Standard &amp; Poor's assigned a rating of AA and Moody's Investor Service assigned a rating of Aa1.</p>	1,305,000	1,895,000
<p><b>Series 2012D-2.2</b> - Kansas Development Finance Authority Revenue Bonds (<b>University of Kansas Projects: Medical Center Energy Conservation partial refund of 2003J Series</b>) \$5,265,000. Issued 3/7/12 with final maturity of 5/1/25. Principal is due in annual installments ranging from \$5,000 to \$995,000 beginning 5/1/15 with interest ranging from 2.0% to 4.0% payable semi-annually. At the time of issuance, Standard &amp; Poor's assigned a rating of AA and Moody's Investor Services assigned a rating of Aa1.</p>	5,250,000	5,255,000

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2017 and 2016

	Principal Outstanding at June 30, 2017	Principal Outstanding at June 30, 2016
<p><b>Series 2012D-2.1</b> - Kansas Development Finance Authority Refunding Revenue Bonds (<b>University of Kansas Projects: Medical Center Scientific Research and Development refund 2003C Series</b>) \$36,565,000. Issued 3/7/12 with final maturity of 5/1/29. Principal is due in annual installments ranging from \$2,200,000 to \$3,475,000 beginning 5/1/17 with interest ranging from 2.0% to 4.0% payable semi-annually. At the time of issuance, Standard &amp; Poor's assigned a rating of AA and Moody's Investor Services assigned a rating of Aa1.</p>	\$ 34,365,000	\$ 36,565,000
<p><b>Series 2010P-2</b> - Kansas Development Finance Authority Revenue Bonds (<b>University of Kansas Medical Center Clinical Research Center Project - Build America Bonds</b>) \$11,980,000. Due in annual installments ranging from \$725,000 to \$1,025,000. Issued 10/7/10 with final maturity in 9/1/30. Interest ranging from 2.6% to 5.0% payable semi-annually. A rating of Aa2 was assigned by Moody's Investor Service and AA by Standard &amp; Poor's.</p>	11,980,000	11,980,000
<p><b>Series 2010P-1</b> - Kansas Development Finance Authority Revenue Bonds (<b>University of Kansas Medical Center Clinical Research Center Project</b>) \$3,950,000. Due in annual installments ranging from \$620,000 to \$705,000. Issued 10/7/10 with final maturity in 9/1/16. Interest ranging from 2.0% to 3.0% payable semi-annually. A rating of Aa2 was assigned by Moody's Investor Service and AA by Standard &amp; Poor's.</p>	-	705,000
<p><b>Series 2010K-2</b> - Kansas Development Finance Authority Revenue Bonds (<b>University of Kansas Medical Center Parking Build America Bonds</b>) \$7,190,000. Due in annual installments of \$265,000 to \$495,000. Issued 5/12/10 with final maturity on 5/1/35. Interest ranging from 3.6% to 6.2% payable semi-annually. A rating of Aa2 was assigned by Moody's Investor Service and AA by Standard &amp; Poor's.</p>	6,655,000	6,925,000
<p><b>KU Medical Center Research Institute</b></p>		
<p><b>Series 2010N</b> - Kansas Development Finance Authority Revenue Bonds (<b>University of Kansas Medical Center Research Institute, Inc. Project: Wahl Hixon renovation, refund 1999B Series and refund 2001U Series (2001T-1 portion)</b>) \$30,160,000. Principal is due in annual installments ranging from \$490,000 to \$2,550,000 beginning 4/1/11. Issued 10/14/10 with final maturity 4/1/30 and interest ranging from 3.5% to 5.0% payable semi-annually. At the time of issuance Standard &amp; Poor's issued a rating of AA and Moody's Investor Service issued a rating of Aa1.</p>	16,140,000	18,570,000
<p><b>Kansas Athletics, Inc.</b></p>		
<p><b>Series 2014F</b> - Kansas Development Finance Authority Refunding Revenue Bonds (<b>Kansas Athletics, Incorporated: Refund the 2004K and 2008C Series</b>) \$39,430,000. Principal is due in annual installments of \$1,495,000 to \$2,825,000 beginning 2/1/15. Issued 6/26/14 with final maturity on 6/01/33 and interest ranging from 3.0% to 4.0% payable semi-annually. At the time of issuance, Standard &amp; Poor's assigned a rating of A and Moody's Investors Service assigned a rating of A1.</p>	34,830,000	36,385,000

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2017 and 2016

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	Principal Outstanding at June 30, 2017	Principal Outstanding at June 30, 2016
<b>KU Center for Research, Inc.</b>		
<p><b>Series 2014E</b> - Kansas Development Finance Authority Refunding Revenue Bonds (<b>University of Kansas Center for Research, Inc. Project: Advance refund a portion of 2006G Series</b>) \$10,580,000. Principal is due in annual installments of \$90,000 to \$4,045,000 beginning 2/1/15. Issued 6/19/14 with final maturity on 2/1/25 and interest ranging from 2.0% to 3.0% payable semi-annually. At the time of issuance, Standard &amp; Poor's assigned a rating of AA and Moody's Investor Service assigned a rating of Aa2.</p>	\$ 10,195,000	\$ 10,285,000
<p><b>Series 2012E</b> - Kansas Development Finance Authority Refunding Revenue Bonds (<b>University of Kansas Center for Research, Inc. Project: Refund 2005B Series</b>) \$29,675,000 (\$14,075,000 tax-exempt and \$15,600,000 taxable). Principal is due in annual installments of \$2,190,000 to \$2,950,000 beginning 2/1/13. Issued 3/15/12 with final maturity on 2/1/24 and interest ranging from 2.0% to 5.0% payable semi-annually. At the time of issuance, Standard &amp; Poor's assigned a rating of AA and Moody's Investor Service assigned a rating of Aa1.</p>	18,405,000	20,725,000
<p><b>Series 2006G</b> - Kansas Development Finance Authority Revenue Bonds (<b>University of Kansas Center for Research, Inc. Project (SBCIII)</b>) \$17,085,000. Due in annual installments of \$470,000 to \$4,615,000. Issued 10/1/06 with final maturity on 2/1/26. Interest ranging from 4.0% to 5.0% payable semi-annually. A rating of A Stable was assigned by Standard &amp; Poor's and a rating of Aa1 was assigned by Moody's Investor Services.</p>	720,000	1,415,000
<b>KU Campus Development Corporation</b>		
<p><b>Series 2016</b> - Public Financial Authority Lease Development Revenue Bonds (<b>KU Campus Develop Corporation - Central District Development Project</b>) \$326,945,000. Principal is due in annual installment of \$1,620,000 to \$20,445,000 beginning 3/1/18. Issued 1/7/16 with final maturity on 3/1/46 and interest ranging from 4.0% to 5.0% payable semi-annually. At the time of issuance, Moody's Investor Service assigned a rating of Aa2.</p>	326,945,000	326,945,000
Total	\$ 785,216,443	\$ 776,981,024

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2017 and 2016

### NOTE 12 - REVENUE BONDS MATURITY SCHEDULE

Maturities of principal and interest requirements on revenue bonds payable are as follows:

Year Ending June 30:	Principal	Interest	Total
2018	\$ 29,162,004	\$ 35,165,100	\$ 64,327,104
2019	31,224,439	34,021,369	65,245,808
2020	30,965,000	32,764,804	63,729,804
2021	31,485,000	31,365,878	62,850,878
2022	32,595,000	29,924,836	62,519,836
2023-2027	170,390,000	126,115,441	296,505,441
2028-2032	139,905,000	89,870,451	229,775,451
2033-2037	127,680,000	62,109,589	189,789,589
2038-2042	115,695,000	33,885,484	149,580,484
2043-2047	76,115,000	9,746,250	85,861,250
	\$ 785,216,443	\$ 484,969,204	\$ 1,270,185,647

In prior years, KU defeased certain revenue bonds by placing the proceeds of new bonds into an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the defeased bonds and the related trust balances are not reflected in KU's financial statements. During the year ended June 30, 2017, KU refunded two series in conjunction with one bond issuance and two series in conjunction with a bond issued by the State of Kansas. As of June 30, 2017 and 2016, KU had no outstanding amount of defeased issuances held in irrevocable trusts. The defeased bonds are as follows:

Series	Amount Defeased	Outstanding at June 30, 2017
2006B - University of Kansas Parking Facilities Project - KU Park & Ride	\$ 6,690,000	\$ -
2007E - University of Kansas Recreation and Fitness Center Expansion Project	4,050,000	-
2007M - University of Kansas - Kansas Law Enforcement Training Center	12,140,000	-
2008L - University of Kansas - School of Pharmacy Project	13,660,000	-
Total	\$ 36,540,000	\$ -

In January 2017, the Kansas Development Finance Authority issued for KU \$67,510,000 in revenue bonds, Series 2017A, with interest ranging from 3.0% to 5.0% which refunded all of the outstanding Series 2006B and Series 2007E bonds, and financed \$24,540,000 towards the Earth, Energy and Environment Center, \$13,775,000 towards the Corbin Hall renovation and \$20,425,000 towards the Health Education Building. KU refunded the Series 2006B and Series 2007E to reduce its total debt service payments over the next 11 years by \$819,046 and obtained an economic gain (difference between the present value of debt service payments on the old and new debt) of approximately \$766,000.

In August 2016, the State of Kansas issued \$51,500,000 in revenue bonds, Series 2016H, with interest ranging from 2.0% to 5.0% towards the refunding of \$12,140,000 of KU's Series 2007M bonds and \$13,660,000 of KU's Series 2008L bonds. The State of Kansas refunded the Series 2007M and 2008L bonds to maximize immediate budgetary savings without increasing principal and interest payments. KU recognized a gain of \$25.8 million related to this transaction, which is included in capital appropriations in the Statement of Revenues, Expenses, and Changes in Net Position.

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2017 and 2016

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### NOTE 13 - LEASE OBLIGATIONS

KU is obligated for the purchase of certain equipment funded through the issuance of blanket financing agreements in the amount of \$12,465,148 and \$12,340,234 as of June 30, 2017 and 2016, respectively. Payments to liquidate these obligations are scheduled as follows:

Year Ending June 30:	Total
2018	\$ 2,236,390
2019	5,078,813
2020	1,874,469
2021	1,865,620
2022	1,467,600
2023 and thereafter	727,649
	<u>13,250,541</u>
Less: Capital lease interest	(785,393)
	<u>\$ 12,465,148</u>

Included in this balance is the Master Lease Purchase agreement between KU and the State for KU's Energy Performance Contract. KU's Energy Performance Contract consists of approximately 100 energy saving measures that were completed in fiscal year 2004 and were expected to result in annual utility and maintenance savings of \$1,700,000. The projects were funded through a Master Lease Purchase Agreement between the State of Kansas and Citibank, N.A. KU is responsible for repaying the State for the 20-year term of the lease. The remaining principal balance of the master lease agreement as of June 30, 2017 and 2016 is \$7,222,489 and \$8,383,230, respectively.

### NOTE 14 – NOTES PAYABLE

KU Unions has a loan agreement to a bank with an outstanding balance of \$297,130 and \$493,848 as of June 30, 2017 and 2016, respectively. The loan bears interest at a fixed rate of 2.88%, matures in October 2018, and is secured by the equipment purchased.

KU Unions has a line of credit with a bank in the amount of \$1,500,000. As of June 30, 2017 and 2016, there was no balance outstanding on the line of credit. The line of credit carried a variable interest rate, which was 4.25% and 3.5% at June 30, 2017 and 2016, respectively. The line of credit is secured by accounts receivable, inventory and equipment.

Athletics had a note payable to a donor with an outstanding balance of \$2,000,000 as of June 30, 2016, and the note was paid off during 2017. The note payable bore no interest, matured in January 2017, and was unsecured.

Athletics has a note payable to a bank with an outstanding balance of \$32,648 and \$41,273 as of June 30, 2017 and 2016, respectively. The note bears at 3.39%, matures in December 2020, and is secured by property and equipment.

Athletics has a note payable to a bank with an outstanding balance of \$77,778 and \$144,444 as of June 30, 2017 and 2016, respectively. The note bears at 3.34%, matures in August 2018, and is secured by property and equipment.

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2017 and 2016

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Future maturities of the notes payable are as follows:

Year Ending June 30:	Total
2018	\$ 297,878
2019	95,203
2020	9,566
2021	4,909
	<u>\$ 407,556</u>

### NOTE 15– DEFERRED INFLOWS/OUTFLOWS

Per GASB Statement No. 63, KU’s unamortized loss on bond refunding is no longer reported as a negative long-term liability, but instead as a deferred outflow. Deferred outflow amounts for the year ended June 30, 2017 are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Unamortized loss on bond refunding	<u>\$ 5,365,605</u>	<u>\$ 184,237</u>	<u>\$ (626,293)</u>	<u>\$ 4,923,549</u>	<u>\$ 664,505</u>

Deferred outflow amounts for the year ended June 30, 2016 are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Unamortized loss on bond refunding	<u>\$ 3,991,493</u>	<u>\$ 1,982,961</u>	<u>\$ (608,849)</u>	<u>\$ 5,365,605</u>	<u>\$ 608,849</u>

### NOTE 16– PENSION PLAN

#### GENERAL INFORMATION ABOUT THE PENSION PLAN

*Plan description:* KU participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et. seq. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. KPERS’ financial statements are included in its Comprehensive Annual Financial Report which can be found on the KPERS website at [www.kpers.org](http://www.kpers.org) or by writing to KPERS (611 South Kansas, Suite 100, Topeka, KS 66603) or by calling 1-888-275-5737. The amounts presented below include the KPERS State of Kansas and KPERS police and fire participants located at the Lawrence, Edwards and Medical Center campuses.

*Benefits provided.* KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Benefits are established by statute and may only be changed by the General Assembly. Member employees with ten or more years of credited service, may retire as early as age 55, with an actuarially reduced monthly benefit. Normal retirement is at age 65, age 62 with ten years of credited service, or whenever an employee’s combined age and years of credited service equal 85 “points”.

Monthly retirement benefits are based on a statutory formula that includes final average salary and years of service. When ending employment, member employees may withdraw their contributions from their individual accounts, including interest. Member employees who withdraw their accumulated contributions lose all rights and privileges of membership. The accumulated contributions and interest are deposited into and disbursed from the membership accumulated reserve fund as established by K.S.A. 74-4922.

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2017 and 2016

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Member employees chose one of seven payment options for their monthly retirement benefits. At retirement a member employee may receive a lump-sum payment of up to 50% of the actuarial present value of the member employee's lifetime benefit. His or her monthly retirement benefit is then permanently reduced based on the amount of the lump-sum. Benefit increases, including ad hoc post-retirement benefit increases, must be passed into law by the Kansas Legislature. Benefit increases are under the authority of the Legislature and the Governor of the State of Kansas.

The 2012 Legislature made changes affecting new hires, current members and employers. A new KPERS 3 cash balance retirement plan for new hires starting January 1, 2015, was created. Normal retirement age for KPERS 3 is 65 with five years of service or 60 with 30 years of service. Early retirement at age 55 with ten years of service, with a reduced benefit. Monthly benefit options are an annuity benefit based on the account balance at retirement.

For all pension coverage groups, the retirement benefits are disbursed from the retirement benefit payment reserve fund as established by K.S.A. 74-4922.

*Contributions.* K.S.A. 74-4919 and K.S.A. 74-4920 establish the KPERS member-employee contributions rates. Effective July 1, 2009, KPERS has two benefit structures and contribution rates depend on whether the employee is a Tier 1 or Tier 2 member. Tier 1 members are active and contributing member hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law establishes the KPERS member-employee contribution rate at 5% of covered salary for Tier 1 member and 6% of covered salary for Tier 2 members through December 31, 2014. On January 1, 2015, Kansas law increased the KPERS member-employee contribution rate to 6% of covered salary for Tier 1 members; however, the Tier 2 member-employee contribution rate remained at 6% of covered salary. Member employee's contributions are withheld by their employer and paid to KPERS according to the provisions of Section 414(h) of the Internal Revenue Code.

State law provides that the employer contribution rates be determined based on the results of each annual actuarial valuation. KPERS is funded on an actuarial reserve basis. Kansas law sets a limitation on annual increases in the employer contribution rates. The actuarially determined employer contribution rate (not including the 0.85% contribution rate for the Death and Disability Program) and the statutory contribution rates for the year ended June 30, 2016 are as follows:

	Actuarial employer rate	Statutory employer capped rate
State employees	11.44 %	10.91 %
Police and fire fighters	20.42	20.42

Contributions to the pension plan from KU were \$6,825,522 and \$6,735,233 for the years ended June 30, 2017 and 2016, respectively.

### PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

At June 30, 2017 and 2016, KU reported a liability of \$79,504,833 and \$84,528,551, respectively, for its proportionate share of the net pension liability. The net pension liability as of June 30, 2017 was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015, which was rolled forward to June 30, 2016. KU's proportion of the net pension liability was based on the ratio of KU's actual contributions to KPERS, relative to the total employer and nonemployer contributions of the State/School and Police and Fire subgroups within KPERS for the fiscal year ended June 30, 2016. The contributions used exclude contributions made for prior service, excess benefits and irregular payments. At the June 30, 2016 measurement date, KU's proportion made to the State/School subgroup was 1.09%, which was a decrease of 0.06% from its proportion measured as of June 30, 2015. At the June 30, 2016 measurement date, KU's proportion made to the Police and Fire subgroup was 0.70%, which was an increase of 0.03% from its proportion measured as of June 30, 2015.

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2017 and 2016

For the years ended June 30, 2017 and 2016, KU recognized pension expense of \$4,911,509 and \$4,400,864, respectively. At June 30, 2017 and 2016, KU reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2017		2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 343,282	\$ 3,513,591	\$ 44,461	\$ 2,468,676
Net difference between projected and actual earnings on pension plan investments	7,445,065	-	-	2,229,879
Change in proportion	620,712	9,230,480	554,937	7,175,851
Change of assumptions	-	169,445	-	225,997
Contributions subsequent to measurement date	8,590,678	-	7,580,472	-
	<u>\$ 16,999,737</u>	<u>\$ 12,913,516</u>	<u>\$ 8,179,870</u>	<u>\$ 12,100,403</u>

\$8,590,678 reported as deferred outflows of resources related to pensions resulting from KU's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended June 30, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30:	Total
2018	\$ (2,398,182)
2019	(2,398,182)
2020	246,332
2021	662,086
2022	(616,511)
	<u>\$ (4,504,457)</u>

*Actuarial assumptions.* The total pension liability was determined by an actuarial valuation as of December 31, 2015, which was rolled forward to June 30, 2016. The actuarial valuation used the following actuarial assumptions, applied to all periods included in the measurement:

Price Inflation	3.00%
Wage Inflation	4.00%
Salary increases, including wage increases	4.00% to 16.00%, including inflation
Long-term rate of return net of investment expense, and including price inflation	8.00%

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study conducted for the three year period ending December 31, 2012.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of



# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2017 and 2016

return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocations as of June 30, 2016 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global equity	47.0%	6.80%
Fixed income	13.0	1.25
Yield driven	8.0	6.55
Real return	11.0	1.71
Real estate	11.0	5.05
Alternative	8.0	9.85
Short-term investments	2.0	(0.25)
Total	100.0%	

*Discount rate.* The discount rate used to measure the total pension liability was 8.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from KU will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of KU's proportionate share of the net pension liability to changes in the discount rate.* The following presents KU's proportionate share of the net pension liability calculated using the discount rate of 8.00%, as well as what KU's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Proportionate share of the net pension liability	\$ 103,846,222	\$ 79,504,833	\$ 58,839,457

*Pension plan fiduciary net position.* Detailed information about the pension plan's fiduciary net position is available in the separately issued KPERS financial report.

### NOTE 17 - RETIREMENT PLANS

Unclassified employees participate in the "Board of Regents 403(b) Retirement Program". This defined contribution program is funded through contributions by KU and the individual employees at rates established by state statute. KU contributed \$38,592,101 and \$36,166,322 during fiscal years 2017 and 2016, respectively.

Employees of Kansas Athletics, Inc., the University of Kansas Memorial Corporation, and the University of Kansas Medical Center Research Institute, participate in defined contribution programs similar to the "Board of Regents 403(b) Retirement Program". The Corporations contributed \$2,154,367 and \$2,065,675 to their individual plans during fiscal years 2017 and 2016, respectively.

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2017 and 2016

### NOTE 18 – OTHER POSTEMPLOYMENT HEALTHCARE BENEFITS (OPEB)

#### DESCRIPTION

As an agency of the State of Kansas, KU participates in the State's health insurance benefit plan. Kansas statute provides that postemployment healthcare benefits be extended to retired employees who have met age and/or service eligibility requirements. The health insurance benefit generally provides the same coverage for retirees and their dependents as for active employees and their dependents. The health insurance benefit plan is a single employer defined benefit plan administered by Kansas Health Care Finance. The benefit is available for selection at retirement and is extended to retirees and their dependents for life. At a State level, the accounting for the health insurance for retirees is included in the State's Self-Insurance Health fund, with the subsidy provided from the Self-Insurance Health fund.

#### FUNDING POLICY

KU provides health insurance benefits to retirees and their dependents in accordance with Kansas law (K.S.A. 75-6511). Kansas statute, which may be amended by the state legislature, established that participating retirees contribute to the employee group health fund benefits plan, including administrative costs.

KU does not pay retirement benefits directly; they are paid implicitly over time through employer subsidization of active premiums that would be lower if retirees were not part of the experience group.

#### ANNUAL OPEB COST AND NET OPEB OBLIGATION

KU's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any Unfunded Actuarial Accrued Liabilities (UAAL) over a period of not to exceed thirty years.

The following table presents the components of KU's annual OPEB cost, the contributions to the plan, and changes in KU's net OPEB obligation for the years ended June 30, 2017 and 2016.

	<u>2017</u>	<u>2016</u>
Annual Required Contribution (ARC)	\$ 562,077	\$ 856,387
Interest on Net OPEB Obligation	21,640	1,240,586
Adjustment to the ARC	<u>(583,717)</u>	<u>(32,991,125)</u>
Annual OPEB cost	-	(30,894,152)
Net Employer Contributions	<u>(562,077)</u>	<u>(766,771)</u>
Increase in net OPEB obligation	<u>(562,077)</u>	<u>(31,660,923)</u>
Net OPEB obligation, beginning of the year	<u>562,077</u>	<u>32,223,000</u>
Net OPEB obligation, end of the year	<u>\$ -</u>	<u>\$ 562,077</u>

#### Schedule of Employer Contributions (for fiscal year ended)

Fiscal Year	Annual OPEB Cost	Net Employer Contributions	Percentage Contributed	End of Year Net OPEB Obligation
2017	\$ -	\$ 562,077	0%	\$ -
2016	(30,894,152)	780,169	0%	562,077
2015	3,926,000	1,021,000	26%	32,223,000

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2017 and 2016

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### FUNDED STATUS AND FUNDING PROGRESS

As of June 30, 2017, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$0. KU's policy is to fund the benefits on a pay-as-you-go basis that is paid implicitly through rate subsidization, resulting in an UAAL of \$0. The covered payroll (annual payroll of active employees covered by the plan) was \$563,156,307, and the ratio of the UAAL to the covered payroll was 0%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The valuation includes, for example, assumptions about future employment, mortality and the healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of employer are subject to continual revision as actual results are compared with the past expectations and new estimates are made about the future. The schedule of funding progress will present in time, multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liabilities for benefits.

#### Schedule of Funding Progress

Actuarial Valuation Date June 30,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent of Covered Payroll ((b-a)/c)
2017	\$ -	\$ -	\$ -	0%	\$ 563,156,307	0%
2016	-	562,077	562,077	0%	537,940,000	0%
2015	-	34,833,000	34,833,000	0%	570,208,000	6%

### ACTUARIAL METHODS AND ASSUMPTIONS

Projections of benefits for reporting purposes are based on the substantive plan and include the types of benefits provided at the time of valuation and the historical pattern of sharing of benefit cost between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and actuarial value of assets, consistent with the long-term perspective of the calculations.

The State subsidy expired on December 31, 2016 (except for 10 Bridge Participants). This produced several changes impacting the UAAL.

- The Normal Cost went to \$0.
- The UAAL includes an adjustment for lagging benefit payments of 8.5% of gross payments. This is not needed in an ongoing valuation, but significant when the subsidy is ending.
- The fiscal 2016 ARC was set to the expected benefit payments for that fiscal year.
- The fiscal 2017 ARC will be \$0.
- The Annual OPEB Cost for 2013 was increased to produce an NOO as of June 30, 2016 which equals the UAAL.
- The NOO for the year ending June 30, 2016 was set to the UAAL.
- The Health Care Reform Excise Tax is not projected to have any impact on the UAAL

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2017 and 2016

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### **NOTE 19 - COMMITMENTS AND CONTINGENT LIABILITIES**

At June 30, 2017 and 2016, KU had outstanding commitments under construction contracts totaling \$208,059,134 and \$492,906,416 respectively.

KUCR has agreed to provide funding to the Bioscience & Technology Business Center, Inc. totaling \$2 million to expand the Bioscience & Technology Business Center. Outstanding amounts under this commitment were \$200,000 as of June 30, 2017 and 2016, respectively.

KUCR is subject to ongoing reviews from granting agencies. Additionally, an external review of a particular department in regards to overstatement of prior years' cost share allocations was ongoing as of June 30, 2017. Amounts for repayment to awarding agencies, if any, cannot be reasonably estimated and are thus not recorded as a liability in the statement of net assets.

KU participates in the Federal Perkins Program, under which loans are provided to eligible students and repayments are made directly to KU to provide funding for future eligible participants in the program. Effective October 1, 2015, the Department of Education ("DOE") stipulated that new loans may not be disbursed under the program; however, the Perkins Loan Extension Act of 2015 was passed in December 2015 extending the date for which Perkins Loans may be awarded to September 30, 2017. Therefore, effective October 1, 2017 new loans may not be awarded under the program and will ultimately result in the closure of the program. If students receive a disbursement of a Perkins Loan after June 30, 2017 and before October 1, 2017 for the 2017-2018 award year, the student may receive any subsequent disbursements of that Perkins Loan. Pursuant to GASB accounting standards, the University has recorded previous contributions from the Federal Government for the program as revenue (and related restricted net position) in the period that the funds were received. The closure of this program will result in the University recording an expense when refunding previous Federal contributions received under this program to the DOE.

As a part of the program, each year an Excess Liquid Cash calculation is made by the DOE to calculate any required amounts to be returned to the DOE. KU's cash restricted for the program for which a portion or all could be required to be returned totaled approximately \$3,059,918 at June 30, 2017, and will change in future years based upon the activity of the program.

All university buildings and contents were insured up to a limit of \$1,000,000,000 per occurrence subject to deductibles of \$500,000. Named equipment is covered up to the declared value with a \$5,000 deductible. State-owned automobiles are covered by liability coverage for bodily injury and property damage up to \$500,000 per occurrence. KU is not aware of any significant outstanding claims as of June 30, 2017.

In the normal course of operations, KU receives grants and other forms of reimbursement from various Federal and State agencies. These activities are subject to audit by agents of the funding authority, the purpose of which is to ensure compliance with conditions precedent to providing of such funds. University officials believe that the liability, if any, for any reimbursement that may arise as the result of audits, would not be material.

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2017 and 2016

### NOTE 20 – NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

KU's operating expenses by functional and natural classification for 2017 are as follows:

Functional Classification	Natural Classification					Total
	Compensation & Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation	
Instruction	\$ 368,904,014	\$ -	\$ 278,592	\$ 22,572,386	\$ -	\$ 391,754,992
Research	169,327,137	-	10,374	77,735,450	-	247,072,961
Public service	25,191,932	-	7,435	15,649,054	-	40,848,421
Academic support	46,101,450	-	-	18,948,220	-	65,049,670
Student services	27,063,653	-	770,617	7,401,359	-	35,235,629
Institutional support	36,451,626	-	-	28,863,294	-	65,314,920
Operations and maintenance of plant	46,874,700	-	22,208,946	5,791,650	-	74,875,296
Depreciation	-	-	-	-	86,790,577	86,790,577
Scholarships and fellowships	-	19,636,472	-	-	-	19,636,472
Auxiliary enterprises:						
Housing	4,024,496	-	2,840,663	9,118,978	-	15,984,137
Athletics	32,331,443	13,841,984	1,630,379	40,539,919	-	88,343,725
Parking	4,405,269	-	298,470	2,813,444	-	7,517,183
Student unions	15,164,436	-	1,089,087	16,718,893	-	32,972,416
University health services	5,958,682	-	-	2,164,944	-	8,123,626
Other auxiliary enterprises	2,100,129	-	23,969	798,518	-	2,922,616
Other	3,224,025	-	5,336	(1,026,281)	-	2,203,080
<b>Total</b>	<b>\$ 787,122,992</b>	<b>\$ 33,478,456</b>	<b>\$ 29,163,868</b>	<b>\$ 248,089,828</b>	<b>\$ 86,790,577</b>	<b>\$ 1,184,645,721</b>

KU's operating expenses by functional and natural classification for 2016 are as follows:

Functional Classification	Natural Classification					Total
	Compensation & Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation	
Instruction	\$ 340,232,668	\$ -	\$ 280,493	\$ 35,922,430	\$ -	\$ 376,435,591
Research	170,179,760	-	8,405	86,159,295	-	256,347,460
Public service	25,549,962	-	8,891	22,948,619	-	48,507,472
Academic support	50,364,985	-	35	14,931,681	-	65,296,701
Student services	24,118,669	-	855,870	8,843,184	-	33,817,723
Institutional support	37,790,557	-	-	21,094,927	-	58,885,484
Operations and maintenance of plant	39,055,740	-	21,419,865	11,289,447	-	71,765,052
Depreciation	-	-	-	-	84,107,598	84,107,598
Scholarships and fellowships	-	18,760,038	-	-	-	18,760,038
Auxiliary enterprises:						
Housing	3,735,455	-	2,667,273	10,889,092	-	17,291,820
Athletics	30,412,796	12,727,405	1,991,861	35,876,977	-	81,009,039
Parking	3,256,789	-	279,065	2,521,001	-	6,056,855
Student unions	15,081,065	-	1,012,910	17,353,531	-	33,447,506
University health services	5,223,427	-	-	2,799,433	-	8,022,860
Other auxiliary enterprises	7,901,456	-	-	(2,978,761)	-	4,922,695
Other	2,797,623	-	6,607	(1,678,643)	-	1,125,587
<b>Total</b>	<b>\$ 755,700,952</b>	<b>\$ 31,487,443</b>	<b>\$ 28,531,275</b>	<b>\$ 265,972,213</b>	<b>\$ 84,107,598</b>	<b>\$ 1,165,799,481</b>

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2017 and 2016

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### **NOTE 21 – ASSETS HELD FOR OTHERS**

KUCR has entered into an agreement with a community based organization to administer the State of Kansas' Alternative Financing Program and Telework Program (the Program). In association with this agreement, KUCR will maintain certain administrative and fiduciary responsibilities related to certain financial assets of the Program. These financial assets primarily consist of investments. Accordingly, the amounts of financial assets administered by KUCR under the Program are also reported as assets held for others. At June 30, 2017 and 2016, these amounts totaled \$8,087,955 and \$7,420,551, respectively.

KU holds funds on the behalf of certain student organizations. The amounts held by KU are recorded in restricted cash and cash equivalents and assets held in custody for others. As of June 30, 2017 and 2016, KU held \$824,682 and \$769,787 on behalf of the student organizations. In addition, KU holds certain capital assets loaned from other external organizations for which title has not transferred but are used in the research functions of the university. As of June 30, 2017 and 2016, KU held \$763,928 and \$0 on behalf of these other organizations.

### **NOTE 22 – DISCRETELY PRESENTED COMPONENT UNIT**

The Kansas University Endowment Association (KU Endowment) is an independent, nonprofit organization serving as the official fund-raising and fund-management foundation for KU. 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 a tax-exempt organization as described in Sections 501(c)(3) and 170(b)(1)(A)(iv) of the Internal Revenue Code (the Code) and has received an Internal Revenue Service (IRS) determination letter stating that its exempt function income is exempt from tax, pursuant to Section 501(a) of the Code.

KU Endowment's consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP).

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 KU Endowment's consolidated financial statements, and all financial transactions have been recorded and reported accordingly, by fund groups.

Funds have been grouped by classification into three categories: unrestricted, temporarily restricted, and permanently restricted. Unrestricted funds represent assets and contributions that are available for the broad benefit of KU but are not otherwise restricted by donors. Temporarily restricted funds represent assets and contributions with a donor-imposed restriction that permits the organization to use or expend the donated assets as specified, and the restriction is satisfied either by the passage of time or by actions of the organization. Permanently restricted funds represent assets and contributions with a donor-imposed restriction that stipulates that the resources be maintained permanently but permits the organization to use or expend part or all of the income derived from the donated assets.

KU Endowment's complete Audit Report is available at:

<http://kuendowment.org/Resources/Financials-Forms>

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2017 and 2016

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### **NOTE 23 – SUBSEQUENT EVENTS**

#### Internal Borrowing

Senate Substitute for Substitute House Bill 2052 was passed during the 2017 Legislative Session and approved by the Governor on April 18, 2017. House Bill 2052, Section 45(m) provides for internal borrowing from the Pooled Money Investment Board idle funds pool for deposit to the State General Fund. Repayment of the internal borrowing is to be in 6 equal payments beginning on or before June 30, 2019, June 30, 2020, June 30, 2021, June 30, 2022, June 30, 2023, and June 30, 2024.

As certified by the director of the budget a borrowing in the amount of \$198,400,000 was effected in June 2017 and a subsequent borrowing in the amount of \$118,800,000 was effected in July 2017. The amounts borrowed have been allocated to specific state funds of the idle funds pool. Of the amount borrowed in July 2017, for state fiscal year 2018, \$5,000,000 is anticipated to be allocated to KU's general fees fund and \$5,000,000 is anticipated to be allocated to KUMC's restricted fees fund. This will create a restriction of that amount for fiscal year 2018 financial statement reporting for KU's general fee fund and KUMC's restricted fees fund.

#### Debt Issuance

In July 2017, KUMC entered into a new six-year capital lease for \$1.2 million for new scientific equipment.

In August 2017, Athletics entered into a new five-year capital lease for \$1.6 million for several different capital projects.

In October 2017, KU entered into a new five-year capital lease for \$11.2 million to finance the replacement of the wireless network on the campus.

In November 2017, Athletics entered into a bridge line of credit to provide up to \$20 million in financing for capital projects.