



KU[®]

2018 ANNUAL
FINANCIAL REPORT

July 1, 2017 - June 30, 2018

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis has been prepared by management to provide an overview of the financial performance of the University of Kansas and its affiliated corporations (collectively referred to as "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.

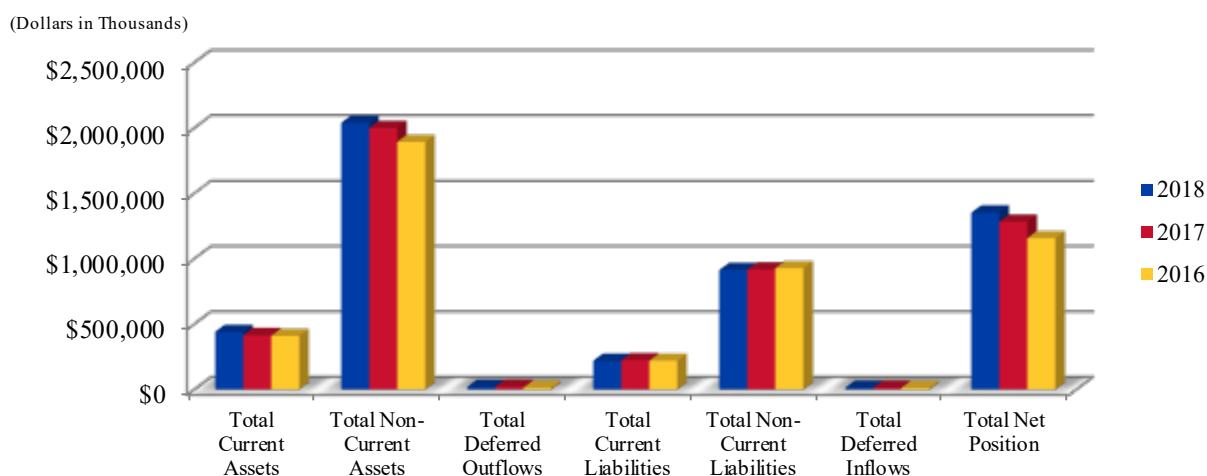
Within the Statement of Net Position, assets and liabilities are further classified as current or non-current. The current classification distinguishes those assets which are highly liquid and available for immediate and unrestricted use by KU, and those liabilities likely to be settled in the next 12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

Condensed Consolidated Statement of Net Position (Dollars in Thousands)

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Assets:			
Current assets	\$ 440,073	\$ 415,991	\$ 409,946
Non-current assets	274,233	362,847	542,757
Non-current capital assets, net	<u>1,766,262</u>	<u>1,637,247</u>	<u>1,350,228</u>
Total assets	\$ 2,480,568	\$ 2,416,085	\$ 2,302,931
Deferred outflows	\$ 19,425	\$ 21,923	\$ 13,545
Liabilities:			
Current liabilities	\$ 220,381	\$ 224,309	\$ 219,803
Non-current liabilities	163,710	150,740	165,047
Non-current long-term debt	<u>749,844</u>	<u>766,632</u>	<u>762,454</u>
Total liabilities	\$ 1,133,935	\$ 1,141,681	\$ 1,147,304
Deferred inflows	\$ 13,263	\$ 12,914	\$ 12,100
Net position	\$ 1,352,795	\$ 1,283,413	\$ 1,157,072

MANAGEMENT'S DISCUSSION AND ANALYSIS

The composition of current and non-current assets and liabilities, deferred outflows, deferred inflows, and net position are displayed below for the fiscal years ended June 30, 2018, 2017, and 2016 (in thousands):



Assets

At June 30, 2018, total assets were \$2.5 billion, an increase of \$64.5 million (2.7%) compared to 2017. Current assets increased \$24.1 million (5.8%), and are used to support the operations of KU and consist of cash and cash equivalents, short-term investments, and accounts receivable. This increase is attributable to the accounts receivable associated with grants and contracts for KU Center for Research, Inc., (KUCR), and the pledges receivables from the Kansas Athletics, Inc.

Non-current assets increased \$40.4 million (2.0%) compared to 2017. The primary cause for this increase relates to the continued construction of several buildings and projects listed 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 2017. Additionally, long-term pledges receivables from Kansas Athletics, Inc. increased \$39.8 million when compared to 2017.

At June 30, 2017, total assets were \$2.4 billion, an increase of \$113.2 million (4.9%) compared to 2016. Non-current assets increased \$107.1 million (5.7%) compared to 2016. Similar to 2018, KU had a significant number of construction projects in progress in 2017 as identified in the Capital Asset section. The funding of the construction was provided through the use of the long-term investments and restricted cash, thereby reducing the balances in these accounts when compared to 2016.

Liabilities

At June 30, 2018, total liabilities were \$1.1 billion, a decrease of \$7.7 million (0.7%) compared to 2017. Current liabilities decreased \$3.9 million (1.8%) because of (1) decrease in payables for construction projects in progress; (2) decrease in revenues deferred until the recognition criteria have been met, and (3) increase in the portion of long-term debt to be paid within the next fiscal year.

Non-current liabilities decreased \$3.8 million (0.4%) principally from the principal payments on long-term debt of \$31.2 million; offset by an increase in (1) accrued Other Postemployment Benefits (OPEB) liabilities of \$6.1 million because of the adoption of new accounting standards, (2) capital leases of \$8.7 million resulting from KU entering into several new agreements, and (3) other liabilities associated with the closure of the Perkins loan program in September 2017.

At June 30, 2017, total liabilities were \$1.1 billion, a decrease of \$5.6 million (0.5%) compared to 2016. Current liabilities increased \$4.5 million (2.0%) related to (1) payables for construction projects in progress and (2) the portion of long-term debt to be paid within the next fiscal year; offset by a decrease in (1) accruals for payroll because 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Non-current liabilities decreased \$10.1 million (1.1%) attributed to (1) the defeasance of \$36.5 million in revenue bonds, which included \$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.

Deferred Outflows and Inflows of Resources

At June 30, 2018, total deferred outflows were \$19.4 million, a decrease of \$2.5 million (11.4%) compared to 2017 primarily associated with differences incurred between actual and projected earnings of the plan. At June 30, 2017, total deferred outflows were \$21.9 million, an increase of \$8.4 million (61.9%) compared to 2016 attributed to a change in the actuarially determined difference in the actual and projected earnings in the deferred pension plan.

At June 30, 2018, total deferred inflows were \$13.3 million, an increase of \$0.3 million (2.7%) compared to 2017 related to the change KU's proportion of the total State of Kansas KPERs plan. At June 30, 2017, total deferred inflows were \$12.9 million, an increase of \$0.8 million (6.7%) compared to 2016 related to changes in the actuarially determined deferred pension plan.

Net Position

At June 30, 2018, total net position was \$1.4 billion, an increase of \$69.4 million (5.4%) compared to 2017. At June 30, 2017, total net position was \$1.3 billion, an increase of \$126.3 million (10.9%) compared to 2016.

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 who 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>2018</u>	<u>2017</u>	<u>2016</u>
Net investment in capital assets	\$ 937,266	\$ 947,005	\$ 828,780
Restricted for:			
Nonexpendable	66,971	62,396	60,450
Expendable:			
Scholarships, research, instruction and other	37,342	45,457	43,568
Loans	24,123	37,899	40,075
Capital projects	76,486	16,171	44,728
Debt service	8,999	9,514	12,081
Unrestricted	201,608	164,971	127,390
Total net position	<u>\$ 1,352,795</u>	<u>\$ 1,283,413</u>	<u>\$ 1,157,072</u>

At June 30, 2018, the decrease in net investment in capital assets is reflective of the additional depreciation taken during the current year on newly completed projects (see Capital Asset section). Additionally, during September 2017, the Federal Department of Education government sunset the Perkins Loan Revolving Fund program. As a result, KU was required to establish a liability equal to the amount of contributions owed back the federal government, which removed this amount from the restricted for loans net asset category. Restricted net position "expendable for capital projects" increased \$60.3 million as Kansas Athletics, Inc. received pledges for the construction of an indoor football practice facility.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 which were held by KU 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 are categorized to net investment in capital assets upon completion.

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,		
	2018	2017	2016
Operating revenues	\$ 935,991	\$ 883,297	\$ 866,248
Operating expenses	(1,268,718)	(1,184,646)	(1,165,799)
Total operating gain (loss)	(332,727)	(301,349)	(299,551)
Non-operating revenues	352,127	349,637	337,278
Non-operating expenses	(42,191)	(32,542)	(24,698)
Net non-operating revenues (expenses)	309,936	317,095	312,580
Income (loss) before other revenues, expenses, gains and losses	(22,791)	15,746	13,029
Other revenues, expenses, gains and losses	98,128	110,595	82,860
Increase (decrease) in net position	75,337	126,341	95,889
Net position, beginning of year	1,283,413	1,157,072	1,061,183
Restatement of net position - beginning of year ⁽¹⁾	(5,955)	-	-
Net position, end of year	\$ 1,352,795	\$ 1,283,413	\$ 1,157,072

¹ See New Accounting Standard Section

MANAGEMENT'S DISCUSSION AND ANALYSIS

Revenues

Operating Revenues

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Tuition and fees	\$ 325,002	\$ 314,335	\$ 304,318
Grants and contracts	271,821	251,464	275,416
Sales and services	126,671	119,375	104,672
Auxiliary enterprises	202,948	186,152	180,975
Other operating revenues	9,549	11,971	867
Total operating revenues	<u>\$ 935,991</u>	<u>\$ 883,297</u>	<u>\$ 866,248</u>

For the year ended June 30, 2018, operating revenues at KU increased \$52.7 million (6.0%) compared to 2017. The increase in overall revenues is primarily a result of:

- Revenue from tuition and fees increased \$10.7 million (3.4%) which is in line with the approved tuition and fee rate increases from 2017 to 2018.
- Grants and contracts increased \$20.4 million (8.1%) because of an increase in direct research revenues as well as clinical trial and non-clinical trial revenues associated with the KU Medical Center Research Institute Inc. (KUMCRI).
- Sales and services revenues increased \$7.3 million (6.1%) compared to 2017. This increase is a result of additional testing certain departments did for state and local government organizations which were not performed in 2017.
- Auxiliary enterprises revenues increase \$16.8 million (9.0%) related to additional revenues generated by KU's housing and parking operations and revenues from Athletics.

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 was 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Non-operating Revenues

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
State appropriations	\$ 238,165	\$ 240,347	\$ 237,045
Local appropriations	11,021	11,638	11,306
Gifts	62,293	49,203	59,351
Investment income	15,013	16,006	3,411
Non-operating federal grants and contracts	19,123	18,068	17,886
Other non-operating revenues	6,512	14,375	8,279
Total non-operating revenues	<u>\$ 352,127</u>	<u>\$ 349,637</u>	<u>\$ 337,278</u>

For the year ended June 30, 2018, non-operating revenues increased \$2.4 million (0.7%) compared to 2017. The increase in overall non-operating revenues is primarily a result of:

- Gift revenues increased \$13.1 million (26.6%) primarily related to fluctuations in amounts received from the Kansas University Endowment Association (KU Endowment) during 2018.
- State appropriations decreased \$2.2 million (0.9%) related to a decrease in the allotment provide by the State of Kansas because of an additional pay period in 2017 which did not occur in 2018.
- Other non-operating revenues decreased \$7.9 million (54.7%) related to nonemployer benefits received in the KPERS pension plan from the State of Kansas in 2017 which were not received in 2018.

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 was primarily a result of:

- State appropriations increased \$3.3 million (1.4%) related to a one-time increase in appropriated funds for an additional pay period in 2017 which did not occur in 2016.
- Investment income increased \$12.6 million compared to 2016 because of an \$8.2 million change in 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.
- 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.

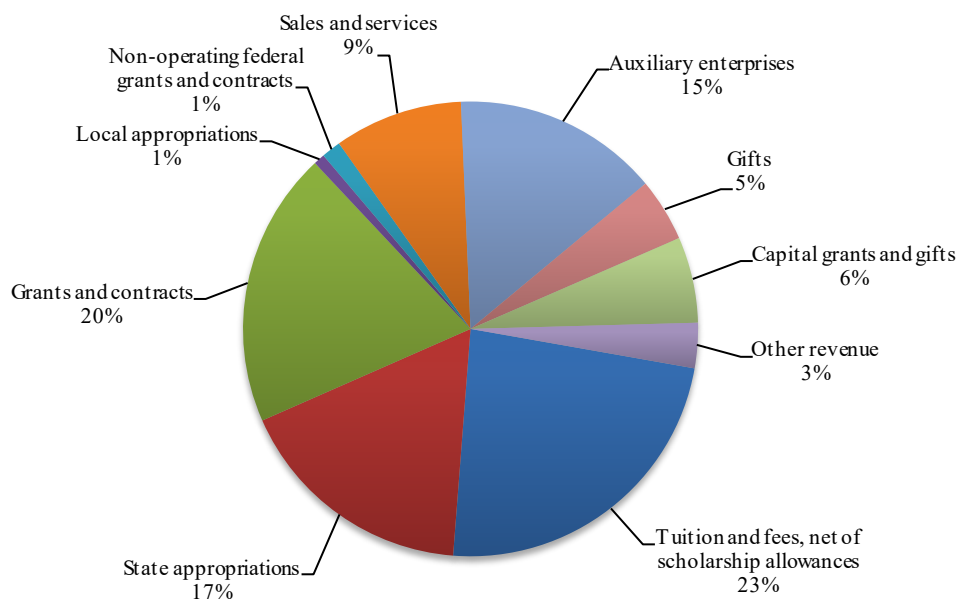
Other revenues, expenses, gains and losses include capital appropriations, capital gifts & additions to permanent endowments. These revenues will vary year to year based upon funding received for capital projects and endowment contributions.

For the year ended June 30, 2018, capital appropriations decreased \$23.5 million (63.5%) compared to 2017 as a result of the State of Kansas refunding \$25.8 million of bond issues during 2017. In addition, capital grants increased \$11.2 million (15.3%) compared to 2017. This can vary year to year based on funding provided for capital projects.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The composition of these revenues, including operating and non-operating, for the year ended June 30, 2018 is displayed in the following graph:



Expenses

Operating Expenses

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

	2018	2017	2016
Instruction	\$ 410,455	\$ 391,755	\$ 376,435
Research	260,314	247,073	256,347
Public service	45,593	40,848	48,507
Academic support	65,454	65,050	65,297
Student services	38,221	35,236	33,818
Institutional support	67,243	65,315	58,885
Operations and maintenance of plant	90,770	74,875	71,765
Depreciation	104,229	86,791	84,108
Scholarships and fellowships	18,935	19,636	18,760
Auxiliary enterprises	167,110	155,864	150,751
Other operating expenses	394	2,203	1,126
Total operating expenses	\$ 1,268,718	\$ 1,184,646	\$ 1,165,799

For the year ended June 30, 2018, operating expenses were \$1.3 billion, an increase of \$84.1 million (7.1%) compared to 2017. The increase in overall operating expenses are primarily a result of:

- Instruction expenses increased \$18.7 million (4.8%) related to (1) increases in salaries associated with instruction function and (2) increases in online course direct expenses.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Depreciation expense increased \$17.4 million (20.1%) directly associated with the completion of several large capital projects as noted below in the Capital Asset section.
- Operations and maintenance increased \$15.9 million (21.2%) primarily associated with various capital repairs and maintenance projects which did not meet the criteria for capitalization by KU. This increase is partially a result of a spending limit imposed by the State of Kansas during 2017, which depressed 2017 expenses.
- Research expenses increased \$13.2 million (5.4%) compared to 2017 because of additional clinical and non-clinical research done by KUMCRI.
- Auxiliary enterprises expenses increased \$11.2 million (7.2%) compared to 2017. This increase is primarily driven by an increase in Athletics salaries and benefits and scholarships, and new operating expenses associated with the operations of a new residence hall which opened in fall 2017.
- Public service increased \$4.7 million (11.6%) because of new and additional testing and training services provided by KU to external governmental organization and institutions which did not occur in 2017.

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 were primarily a result of:

- Changes to the health insurance program provided to KU's retirees that increased operating expenses by \$31.7 million compared to 2016.
- 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 testing and training services provided by KU to external governmental organization and institutions which did not occur at the same level in 2017.
- Auxiliary enterprises expenses increased \$5.1 million (3.4%) compared to 2016. This increase was primarily driven by an increase in Athletics salaries and benefits and scholarships.

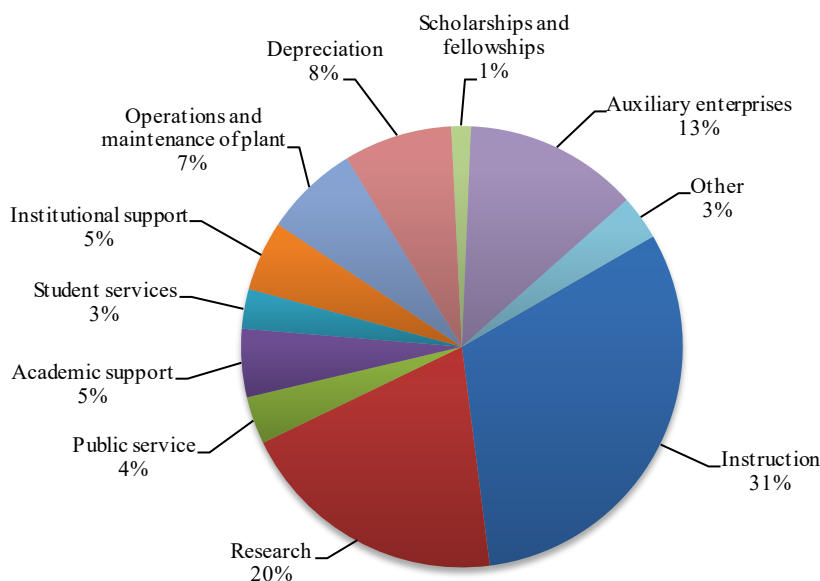
Non-operating Expenses

For the year ended June 30, 2018, non-operating expenses, which consist of interest expense and other non-operating expenses, increased \$9.6 million (29.7%) compared to 2017. Other non-operating expenses increased during 2018 as a result of the closure of the Perkins Revolving Loan program and the recognition of an estimated amount to be repaid to the Department of Education for its federal contribution to the loan program. Interest expense also decreased \$6.7 million (24.9%) as a result of the continued payment of principal on outstanding debt as well as (1) new capital debt being issued and (2) costs associated with the defeasance of debt in 2017 which did not occur in 2018.

For the year ended June 30, 2017, 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 2016.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The composition of total expenses, including operating and non-operating, for the year ended June 30, 2018 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 tuition and 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.

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, 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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>2018</u>	<u>2017</u>	<u>2016</u>
Net cash provided by (used in):			
Operating activities	\$ (246,273)	\$ (235,738)	\$ (254,093)
Noncapital financing activities	336,389	324,845	324,305
Capital and related financing activities	(242,473)	(269,706)	238,204
Investing activities	<u>110,559</u>	<u>196,923</u>	<u>(320,225)</u>
Net increase (decrease) in cash and cash equivalents	(41,798)	16,324	(11,809)
Beginning cash and cash equivalents	<u>295,705</u>	<u>279,381</u>	<u>291,190</u>
Ending cash and cash equivalents	<u>\$ 253,907</u>	<u>\$ 295,705</u>	<u>\$ 279,381</u>

Extraordinary Items

KU did not have any special and/or extraordinary items in 2018, 2017, or 2016.

New Accounting Standards

KU implemented Governmental Accounting Standards Board ("GASB") Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, resulting in a \$1,569,567 increase to deferred outflows of resources, a \$7,524,662 increase to the total OPEB liability and a \$5,955,095 decrease to net position as of July 1, 2017.

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 which 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 \$161.3 million, \$181.2 million, and \$164.8 million for the years ended June 30, 2018, 2017, and 2016, respectively.

The following support items totaling \$50.7 million are reflected in KU's statements for 2018:

- **Capital Projects.** KU Endowment sponsored many capital projects throughout 2018 at a cost of \$19.4 million, a decrease of \$18.6 million from 2017. The primary capital projects benefited from KU Endowment's fundraising efforts included continued funding on a new facility for the Earth Energy and Environment Center (\$8.8 million), Simons Bioscience Laboratory addition (\$6.0 million), and various other building upgrades and remodeling, as well as various equipment purchases and contributions.
- **Salaries and other operating expenses.** KU Endowment reimbursed KU approximately \$31.3 million, an increase of \$10.5 million from 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 in its appropriate function 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSETS

KU made significant investments in capital during the 2018 fiscal year. Additional 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 completed during the current fiscal year:

- KU completed its Central District Development project that included the following projects.
 - A new four level 285,000 square foot Integrated Sciences Building (ISB) was constructed for instructional and research laboratories. The ISB also contains meeting rooms, offices, and administration space for faculty, graduate students, and post-doctoral researchers. Construction was completed in May 2018 with a total cost of \$154.4 million.
 - An additional residence hall and apartments to help accommodate KU's growing enrollment. The residence hall is primarily geared toward undergraduate students. The apartments are to accommodate a growing demand for on-campus housing among upper division and graduate students. Construction of the residence hall was completed in August 2017 with a total cost of \$42.1 million, and the construction of the apartments was completed in May 2018 with a total cost of \$65.2 million.
 - A new 26,500 square foot student union to replace the Burge Union. The union supports the needs of the students, faculty, and staff and includes food service and a conference space which expands KU's capability to host conferences and events on campus, and provides student service offices and study spaces. Construction of the union was completed in March 2018 with a total cost of \$11.5 million.
 - A parking lot to provide additional spaces for an already oversold parking system and to accommodate the public, business and industry during visits on campus. Construction of the parking was completed in May 2018 with a total cost of \$1.3 million.
 - Finally, the cost of the site development, utilities, soft costs and fees which are shared among the various Central District Development Project components. Construction was completed in May 2018 with a total cost of \$40.0 million.
- The Earth Energy and Environment Center, comprising of Ritchie Hall and Slawson Hall, is a 130,000 square foot mix of spaces including a state-of-the-art instructional space with 200 seats promoting collaborative learning. Other instructional spaces include an 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. Construction was completed in December 2017 with a total cost of \$79.2 million.
- 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 undertook an extensive renovation including replacement of building mechanical systems and steam heating; air conditioning/cooling air handlers; potable water; building electrical systems including lighting and fire alarm systems; replacement of building plumbing systems; renovation of bathroom and shower areas; and upgrades to finishes. Finally, the renovation also included the kitchen and related equipment, cabinets and counters, and upgrades to the dining and recreation areas, and stair and corridor improvements such as ceiling and carpet replacement and painting throughout. Construction was completed in fall 2017 with a total cost of \$1.9 million.
- Watkins Memorial Health Center completed the installation of its new heating, ventilating, and air-conditioning (HVAC) system and electrical equipment. Construction was completed in summer 2018 with a total cost of \$3.5 million.
- Dyche Hall original construction was completed in 1903 as a museum and collection facility. Today this facility supports outreach, research and instructional programs for the Biodiversity Institute. This renovation project addressed a series of detailed investigations and studies of the deteriorated condition of the exterior envelope and mechanical systems which were contributing to a poor quality of interior environment. The work included 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 to address temperature and moisture migration through exterior walls and also upgraded the building HVAC systems to provide better temperature and humidity control, ventilation and exhaust systems and overall ability to manage lab and collection environments. Construction was completed in spring 2018 with a total cost of \$4.2 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Construction was completed 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 consolidated facilities for the Schools of Medicine, Nursing, and Health Professions programs previously spread throughout campus in various buildings. This new building serves as the primary teaching facility for these programs and is intended to address critical healthcare worker shortages in Kansas. Construction was completed in July 2017 with a total cost of \$82.0 million.

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

- 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 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.
- 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. This project includes the addition of a minimum of 17,500 gross square feet in a multi-story addition to support at least four research groups; reconfiguration of the lab support spaces; and access to central utility services on the west end of the existing building. 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 2019.
- Irving Hill Road serves as a critical link on the Lawrence campus between north, central and west districts and the student housing on Daisy Hill. The street is also adjacent to the main newly developed Central District facilities and will need to support an additional volume of traffic including bus/transit on an asphalt roadway. The project will include replacement of the road with more durable concrete, related work on existing curb and gutter, sidewalks, improved storm water management, and the replacement of aged utilities as needed within the construction project. Additional improvements include the addition of trees and landscaping, and street and pedestrian lighting will be upgraded to comply with campus design standard. The project is budgeted for \$4.9 million and will be funded with state and university resources. Construction is estimated to be completed in 2019.
- Student Housing is in the process of replacing two existing 100% outdoor air units on Lewis Hall with new power and gas lines to distribute to outdoor air units. The project includes the removal of portions of a shaft wall to install new duct riser, modify shaft wall in place, modify some branch ductwork from outdoor air unit system, and patch/repair fresh air vents and upgrade smoke alarm system. The project is budgeted for \$1.4 million and will be funded with university housing resources. The project is estimated to be completed in 2019.
- Jayhawker Towers B was built in 1968 and included 77,480 gross square footage of residential living units and commons spaces. The apartment building will receive general improvements to the individual rooms to provide modern amenities, and overall mechanical and electrical improvements. The facility will also be brought up to current life safety codes. The project is budgeted for \$10.2 million and will be funded with university housing resources. Construction is estimated to be completed in 2021.
- Student Housing is undertaking a renovation of Battenfeld Hall with the work anticipated to include replacement of building mechanical systems and steam heating, air conditioning and cooling air handlers, potable water, building electrical systems, lighting and fire alarm systems, building plumbing systems, renovation of bathroom and shower areas and upgrades to finishes. The project also includes renovation to the kitchen and related equipment, cabinets and counters and improvements in the dining and recreation areas, partial interior renovation. The project is budgeted for \$2.2 million and will be funded with university housing resources. Construction is estimated to be completed in 2019.
- KU began work on a project to provide additional space adjacent to Life Science Research Lab Building B/C in a proposed Building E to accommodate new foundation professor hires, related research labs and support spaces. The expansion will provide high quality research labs designed for maximum flexibility. The project is budgeted for \$6.6 million and will be funded with research and private gifts. Construction is estimate to be completed in 2020.
- KU has begun work on the construction of a new indoor football practice facility, to provide a state of the art facility for developing a competitive football program. The project is budgeted for \$26.0 million and will be funded with private gifts. Construction is estimated to be completed in 2019.

MANAGEMENT'S DISCUSSION AND ANALYSIS

DEBT ADMINISTRATION

At June 30, 2018, KU and its affiliated corporations had \$756.1 million in revenue bond debt outstanding, and \$32.7 million in capital leases and notes payable. In fiscal year 2018, KU entered into \$26.9 million in new notes payable and capital leases. The composition of the notes and capital leases were:

- \$10.6 million in new notes payable for equipment purchases.
- \$11.2 million in a new capital lease for a wireless network upgrade.
- \$4.0 million in new capital leases for equipment.

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.

KU and its affiliated corporations paid \$66.3 million, \$63.4 million, and \$52.6 million in principal and interest payments related to all outstanding capital debt and capital leases in 2018, 2017, and 2016, 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 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

Fiscal year 2019 state appropriations are currently budgeted to be \$245.0 million or about 2.8% more than fiscal year 2018. The increase in the state appropriations is for regular operations of KU in addition to a small restoration of funding cuts done in prior years. State appropriations for 2019 and beyond will likely be impacted by the legislative priorities of the new governor for the State of Kansas, and KU will evaluate the impact of these priorities as they become known in the future.

Beginning in late fiscal year 2018, the Lawrence, Edwards, and Leavenworth campuses started planning for a budget realignment to allow for greater flexibility in budgeting, forecasting and utilization of resources within the programs offered. The internal realignment of \$20 million or 5.87% was announced in May 2018. This budget realignment is a starting point for the development of a new budget model to be used in providing resources to those areas and/or programs which the administration is wanting to strategically fund in the coming years.

In October 2017, the State of Kansas Supreme Court struck down the formula for providing K-12 funding to local school districts. During 2018, the state legislature submitted a proposal with additional funding identified, but the Kansas Supreme Court rejected the proposal. 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

For fiscal year 2018, the Kansas Board of Regents approved an increase in tuition and campus fees between 2% and 3% for undergraduate resident, graduate resident, undergraduate nonresident, and graduate nonresident tuition, depending on the program the student is enrolled. Because of a progressive reduction in the percentage of students who opt-in to the tuition compact, beginning with the fall 2018 semester, KU ceased providing a compact rate for new students. Going forward all students will be charged the standard tuition rate. The additional revenue from the tuition increase for the Lawrence, Edwards, and Leavenworth campuses will be used (1) to fund existing basic operations, including non-discretionary operating costs; (2) to enhance the educational experiences of students; and, at the Medical Center campus will be used to also fund new technology infrastructure.

During the fall 2018 semester 28,510 students were enrolled at KU, which was an increase of 63 students from fall 2017. KU continues to focus on increasing undergraduate enrollment (including international students), increasing student retention, and increasing graduation rates for undergraduates. Regarding the management of tuition funds, assessments and collections of tuition are monitored on an ongoing basis to ensure 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, KU is anticipating a continued competition in direct and indirect federal research opportunities in 2019 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.

KU is not aware of any additional facts, decisions, or conditions which 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, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 214,942,958	\$ 225,159,353
Restricted cash and cash equivalents	7,451,839	7,180,610
Investments	79,891,503	76,683,570
Accounts receivable, net	98,304,788	76,323,527
Pledges receivable, net	23,181,475	15,394,931
Loans to students, net	3,327,384	3,220,652
Inventories	7,001,438	6,819,640
Other assets	5,971,490	5,208,964
Total current assets	<u>440,072,875</u>	<u>415,991,247</u>
Non-current assets:		
Restricted cash and cash equivalents	31,512,586	63,365,135
Accounts receivable, net	4,675,751	982,172
Pledges receivable, net	43,450,248	3,612,390
Endowment investments	90,926,122	84,452,010
Other investments	69,387,491	177,907,082
Loans to students, net	34,280,825	32,193,278
Other assets	-	334,464
Capital assets, net	<u>1,766,261,848</u>	<u>1,637,246,526</u>
Total non-current assets	<u>2,040,494,871</u>	<u>2,000,093,057</u>
Total assets	<u>2,480,567,746</u>	<u>2,416,084,304</u>
<u>DEFERRED OUTFLOWS</u>		
Unamortized loss on bond refunding	4,259,045	4,923,549
Deferred OPEB expense	821,885	-
Deferred pension expense	14,343,595	16,999,737
Total deferred outflows	<u>19,424,525</u>	<u>21,923,286</u>

THE UNIVERSITY OF KANSAS
STATEMENT OF NET POSITION
AS OF JUNE 30, 2018 AND 2017

(CONTINUED)

	<u>2018</u>	<u>2017</u>
<u>LIABILITIES</u>		
Current liabilities:		
Accounts payable and accrued expenses	94,404,404	103,993,776
Unearned revenue	34,735,861	36,940,838
Assets held in custody for others	9,410,479	9,676,565
Accrued compensated absences – current portion	34,835,686	33,053,295
Capital leases payable - current portion	5,455,778	1,997,171
Notes payable – current portion	2,208,753	297,878
Revenue bonds payable - current portion	31,224,439	29,162,004
Other liabilities	8,105,403	9,187,513
Total current liabilities	<u>220,380,803</u>	<u>224,309,040</u>
Non-current liabilities:		
Accrued compensated absences	8,063,902	5,747,586
Accrued other post-employment benefits	6,186,629	-
Accrued pension liability	78,007,342	79,504,833
Capital leases payable	19,216,580	10,467,977
Notes payable	5,797,185	109,678
Revenue bonds payable	724,830,000	756,054,439
Other long-term liabilities	71,452,203	65,487,514
Total non-current liabilities	<u>913,553,841</u>	<u>917,372,027</u>
Total liabilities	<u>1,133,934,644</u>	<u>1,141,681,067</u>
<u>DEFERRED INFLOWS</u>		
Deferred OPEB expense	166,277	-
Deferred pension expense	13,096,212	12,913,516
Total deferred inflows	<u>13,262,489</u>	<u>12,913,516</u>
<u>NET POSITION</u>		
Net investment in capital assets	937,265,888	947,005,063
Restricted for:		
Nonexpendable	66,971,232	62,395,581
Expendable:		
Scholarships, research, instruction and other	37,341,908	45,457,698
Loans	24,123,186	37,898,589
Capital projects	76,485,988	16,171,327
Debt service	8,998,937	9,513,835
Unrestricted	201,607,999	164,970,914
Total net position	<u>\$ 1,352,795,138</u>	<u>\$ 1,283,413,007</u>

See accompanying notes to financial statements.

KANSAS UNIVERSITY ENDOWMENT ASSOCIATION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
	<i>(In Thousands)</i>	
Assets		
Cash and cash equivalents	\$ 19,836	\$ 8,531
Receivables:		
Receivables from investing activities	15,461	904
Other receivables	7,961	1,395
Student loans receivable, less allowance of \$1,669 and \$1,557 in 2018 and 2017, respectively	21,580	21,929
Contributions pledged, less allowance of \$3,317 and \$3,510 in 2018 and 2017, respectively	106,633	60,751
Real estate loans receivable	7,487	7,984
Total receivables	<u>159,122</u>	<u>92,963</u>
Investments:		
Securities	1,753,245	1,690,139
Trust held by others	45,856	44,210
Interest in other KU Endowment entities	3,859	3,439
Real estate	18,501	13,221
Total investments	<u>1,821,461</u>	<u>1,751,009</u>
Property and facilities:		
Land	15,115	13,753
Buildings	26,199	26,160
Equipment and furnishings	3,221	3,096
	<u>44,535</u>	<u>43,009</u>
Less accumulated depreciation	15,002	13,753
Net property and facilities	<u>29,533</u>	<u>29,256</u>
Deposits and other assets	6,114	6,555
Total assets	<u>\$ 2,036,066</u>	<u>\$ 1,888,314</u>

KANSAS UNIVERSITY ENDOWMENT ASSOCIATION
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2018 AND 2017

(CONTINUED)

	<u>2018</u>	<u>2017</u>
	<i>(In Thousands)</i>	
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 20,533	\$ 19,772
Payables from investment activities	546	730
Trust payable	117	83
Life income gifts payable	21,569	23,778
Agency funds	<u>67,339</u>	<u>66,573</u>
Total liabilities	<u>110,104</u>	110,936
Net assets:		
Unrestricted	193,543	181,854
Temporarily Restricted	1,258,404	1,142,792
Permanently Restricted	<u>474,015</u>	<u>452,732</u>
Total net assets	<u>1,925,962</u>	1,777,378
Total liabilities and net assets	<u><u>\$ 2,036,066</u></u>	<u><u>\$ 1,888,314</u></u>

THE UNIVERSITY OF KANSAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<u>OPERATING REVENUES</u>		
Tuition and fees (net of scholarship allowances of \$34,518,650 in 2018 and \$33,068,220 in 2017)	\$ 325,001,520	\$ 314,335,203
Federal grants and contracts	147,181,907	150,322,497
State and local grants and contracts	43,438,829	45,569,990
Nongovernmental grants and contracts	81,200,706	55,571,690
Sales and services of educational departments	71,317,046	66,291,142
Sales and services of medical and administrative activities	55,353,806	53,083,616
Auxiliary enterprises:		
Housing	31,650,924	27,405,840
Athletics	101,230,658	92,046,075
Parking and transit	18,559,410	16,274,965
Student unions	37,705,353	37,587,689
University health services	10,358,108	10,404,034
Other auxiliary enterprises	3,443,972	2,433,780
Other operating revenues	9,548,602	11,970,445
Total operating revenues	<u>935,990,841</u>	<u>883,296,966</u>
<u>OPERATING EXPENSES</u>		
Instruction	410,454,897	391,754,992
Research	260,313,672	247,072,961
Public service	45,592,674	40,848,421
Academic support	65,453,823	65,049,670
Student services	38,221,353	35,235,629
Institutional support	67,242,819	65,314,920
Operations and maintenance of plant	90,770,584	74,875,296
Depreciation	104,229,330	86,790,577
Scholarships and fellowships	18,935,345	19,636,472
Auxiliary enterprises:		
Housing	18,026,219	15,984,137
Athletics	94,017,379	88,343,725
Parking and transit	7,532,685	7,517,183
Student unions	35,776,614	32,972,416
University health services	8,474,967	8,123,626
Other auxiliary enterprises	3,281,799	2,922,616
Other operating expenses	394,108	2,203,080
Total operating expenses	<u>1,268,718,268</u>	<u>1,184,645,721</u>
Total operating income (loss)	<u>(332,727,427)</u>	<u>(301,348,755)</u>

THE UNIVERSITY OF KANSAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

(CONTINUED)

	<u>2018</u>	<u>2017</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>		
State appropriations	238,164,714	240,346,756
Local appropriations	11,020,800	11,637,600
Gifts	62,293,228	49,202,947
Investment income	15,012,827	16,006,459
Federal grants and contracts	19,123,509	18,068,316
Other non-operating revenues	6,512,182	14,375,078
Interest expense	(20,104,785)	(26,766,044)
Other non-operating expenses	(22,085,871)	(5,775,834)
Net non-operating revenues (expenses)	<u>309,936,604</u>	<u>317,095,278</u>
Income (loss) before other revenues, expenses, gains or losses	(22,790,823)	15,746,523
<u>OTHER REVENUES, EXPENSES, GAINS AND LOSSES</u>		
Capital appropriations	13,483,042	36,965,371
Capital grants and gifts	84,648,875	73,399,573
Additions to permanent endowments	(3,868)	229,783
Total other revenues, expenses, gains or losses	<u>98,128,049</u>	<u>110,594,727</u>
Increase (decrease) in net position	75,337,226	126,341,250
<u>NET POSITION</u>		
Net position - beginning of year	1,283,413,007	1,157,071,757
Restatement of net position - beginning of year	(5,955,095)	-
Net position - end of year	<u>\$ 1,352,795,138</u>	<u>\$ 1,283,413,007</u>

KANSAS UNIVERSITY ENDOWMENT ASSOCIATION
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	Year Ended June 30, 2018				Summarized Financial Information for the Year Ended June 30, 2017
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
	<i>(In Thousands)</i>				
Revenues, gains (losses), and other support:					
Fundraising:					
Contributions and grants received and pledged	\$ 1,210	\$ 172,953	\$ 8,436	\$ 182,599	\$ 107,679
Bequests	1,077	15,530	11,709	28,316	15,054
Life income gifts	-	119	33	152	1,094
Change in value of life income gifts	(69)	1,636	993	2,560	411
Change in net interest in KU Endowment entities	-	420	-	420	(77)
Total fundraising	2,218	190,658	21,171	214,047	124,161
Income (loss) from asset holdings:					
Investment income	6,840	30,032	-	36,872	18,332
Realized and unrealized gain (loss) on investments and trusts held by others	23,869	74,726	1,595	100,190	146,453
Loan interest income	691	1,136	-	1,827	1,767
Agricultural and mineral income	979	831	-	1,810	1,557
Rental, gain on sale of assets, and other income	1,154	646	308	2,108	(1,172)
Total income (loss) from asset holdings	33,533	107,371	1,903	142,807	166,937
Other receipts	474	3,321	-	3,795	4,138
Net assets released from restrictions:					
Satisfaction of program restrictions	184,860	(184,860)	-	-	-
Total revenues, gains and other support	221,085	116,490	23,074	360,649	295,236

KANSAS UNIVERSITY ENDOWMENT ASSOCIATION
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

(CONTINUED)

	Year Ended June 30, 2018				Summarized Financial Information for the Year Ended June 30, 2017
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
	<i>(In Thousands)</i>				
Expenses:					
University support:					
Student support	\$ 36,415	\$ -	\$ -	\$ 36,415	\$ 33,587
Faculty support and contractual services	40,306	-	-	40,306	38,622
Construction, furnishings, equipment and supplies	51,753	-	-	51,753	62,556
Program and other educational support	62,691	-	-	62,691	50,561
Total University support	191,165	-	-	191,165	185,326
Supporting services:					
Administrative and fundraising support	21,468	-	-	21,468	21,578
Asset management expense	787	-	-	787	685
Depreciation	1,038	-	-	1,038	1,205
Total supporting services	23,293	-	-	23,293	23,468
Total expenses	214,458	-	-	214,458	208,794
Excess (deficit) of revenues over expenses	6,627	116,490	23,074	146,191	86,442
Net interfund transfers	2,669	(878)	(1,791)	-	-
Change in net assets before amortization of pension adjustments	9,296	115,612	21,283	146,191	86,442
Amortization of unrecognized actuarial adjustments	2,393	-	-	2,393	3,515
Change in net assets	11,689	115,612	21,283	148,584	89,957
Net assets at beginning of year	181,854	1,142,792	452,732	1,777,378	1,687,421
Net assets at end of year	\$ 193,543	\$ 1,258,404	\$ 474,015	\$ 1,925,962	\$ 1,777,378

See accompanying notes

THE UNIVERSITY OF KANSAS
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Tuition and fees	\$ 329,151,441	\$ 313,398,651
Sales and services of educational activities	59,263,747	66,411,183
Sales and services of medical and administrative activities	55,353,805	53,083,616
Auxiliary enterprises:		
Housing	13,200,149	11,330,902
Athletics	5,938,170	1,226,573
Parking and transit	15,412,214	12,724,619
Student unions	1,512,666	4,630,032
University health services	1,758,952	2,284,023
Other auxiliary enterprises	1,503,411	1,585,851
Grants and contracts	260,683,109	258,065,476
Payments to suppliers	(208,524,848)	(171,210,027)
Payments to utilities	(25,134,287)	(23,363,331)
Compensation and benefits	(743,176,518)	(753,060,136)
Payments for scholarships and fellowships	(13,976,870)	(13,007,113)
Loans issued to students	(12,930,824)	(9,890,996)
Collection of loans to students	4,987,277	4,703,446
Other receipts	8,705,626	5,349,327
Net cash used in operating activities	<u>(246,272,780)</u>	<u>(235,737,904)</u>
<u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u>		
State appropriations	238,164,714	240,346,756
Local appropriations	11,181,181	11,850,790
Gifts	64,437,670	49,526,905
Federal education loan receipts	162,152,915	159,592,621
Federal education loan disbursements	(162,024,883)	(156,806,866)
Non-operating grants and contracts	19,092,490	18,048,961
Other	3,384,568	2,285,879
Net cash provided by non-capital financing activities	<u>336,388,655</u>	<u>324,845,046</u>
<u>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</u>		
Proceeds from revenue bond defeasance	-	9,605,328
Proceeds from capital debt	10,624,684	61,446,316
Capital appropriations	10,487,168	11,002,286
Capital grants and gifts	7,759,403	25,011,693
Purchases of capital assets	(210,046,455)	(307,136,836)
Proceeds from sale of capital assets	531,311	1,833,258
Principal paid by revenue bond defeasance	-	(10,740,000)
Principal paid on capital debt and leases	(34,753,796)	(29,289,895)
Interest paid on capital debt and leases	(31,511,547)	(34,121,208)
Other	4,436,177	2,683,335
Net cash used in capital financing activities	<u>(242,473,055)</u>	<u>(269,705,723)</u>

THE UNIVERSITY OF KANSAS
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

(CONTINUED)

	<u>2018</u>	<u>2017</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Proceeds from sales and maturities of investments	192,855,507	342,484,396
Interest on investments	9,179,376	10,919,563
Purchase of investments	<u>(91,475,418)</u>	<u>(156,480,943)</u>
Net cash provided by (used in) investing activities	<u>110,559,465</u>	<u>196,923,016</u>
Net increase (decrease) in cash	(41,797,715)	16,324,435
Cash - beginning of the year	<u>295,705,098</u>	<u>279,380,663</u>
Cash - end of year	<u>\$ 253,907,383</u>	<u>\$ 295,705,098</u>

**RECONCILIATION OF NET OPERATING REVENUES (EXPENSES)
TO NET CASH USED BY OPERATING ACTIVITIES:**

Operating loss	\$ (332,727,427)	\$ (301,348,755)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Non-cash expense	3,094,087	(4,498,745)
Depreciation expense	104,229,330	86,790,577
Changes in assets and liabilities:		
Accounts receivables, net	(19,301,116)	3,122,385
Pledges receivable, net	1,781,065	683,396
Loans to students, net	(2,851,054)	1,653,536
Inventories	(181,798)	262,289
Prepaid expenses and other assets	(5,843,504)	475,196
Other assets	(1,373,134)	108,378
Accounts payable and accrued liabilities	7,166,750	(16,683,920)
Unearned revenue	(2,036,850)	(1,996,717)
Accrued compensated absences	4,098,707	(4,256,504)
Accrued other post-employment benefits	(1,338,033)	(4,456,617)
Accrued pension liability	(838,781)	3,740,193
Assets held in custody for others	(151,022)	667,404
Net cash provided used in operating activities:	<u>\$ (246,272,780)</u>	<u>\$ (235,737,904)</u>
Non-cash Investing, Capital and Financing Activities:		
Gifts-in-kind	\$ 84,648,875	\$ 65,949,821
Net change in unrealized gains and losses	7,736,043	(4,423,832)
Purchases of capital assets in accounts payable and accrued expenses	12,855,919	6,383,564

See accompanying notes to financial statements

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

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, Leavenworth, Kansas, and the Medical Center campuses in Kansas City, Kansas, Salina, Kansas, and Wichita, Kansas.

For fall 2017, the Lawrence, Edwards and Leavenworth campuses had an undergraduate enrollment of 18,760 and a graduate/first professional enrollment of 6,131. The Medical Center had an undergraduate enrollment of 563 and a graduate/first professional (including medical residents, fellows and trainees) enrollment of 2,993. Enrollment at all campuses was 28,447 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 GASB Statement No. 80, 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 accounting. Additional details regarding KU Endowment are available in Note 23.

The financial activity and balances of Studio 804, Inc., William Allen White Foundation, 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 and GASB Statement No. 80 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 entity 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, 2018 and 2017

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 a letter of credit for \$32 million that expires in July 2018 to provide additional security for amounts over the FDIC limit. Management has also evaluated the financial stability of component unit financial institutions and feels the risk to the component units is minimal.

Restricted cash and cash equivalents pertain to amounts restricted for funds held in custody for student organizations and 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. Assets 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 bears 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 22)

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

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, and estimated amounts to be repaid to the federal government related to the closing of the Federal Perkins Loan Revolving Fund program.

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.

Other Postemployment Benefit Plan. In accordance with the provisions of GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, KU has reported its proportional share of the entire KPERs other postemployment benefit (OPEB) liability. For purposes of measuring the OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense have been determined on the same basis as they are reported by KPERs. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

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.

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.

NOTE 2 – DEPOSITS

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

	<u>2018</u>	<u>2017</u>
Carrying value:		
Deposits	\$ 241,949,224	\$ 284,035,843
Investments	<u>252,163,275</u>	<u>350,711,917</u>
	<u>\$ 494,112,499</u>	<u>\$ 634,747,760</u>

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

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 214,942,958	\$ 225,159,353
Restricted cash and cash equivalents	7,451,839	7,180,610
Investments	79,891,503	76,683,570
Restricted cash and cash equivalents (non-current)	31,512,586	63,365,135
Endowment investments (non-current)	90,926,122	84,452,010
Other investments (non-current)	<u>69,387,491</u>	<u>177,907,082</u>
	<u>\$ 494,112,499</u>	<u>\$ 634,747,760</u>

KU carried the following deposits as of June 30:

<u>Deposit Type</u>	<u>2018</u>	<u>2017</u>
Cash deposits with State Treasury	\$ 180,156,319	\$ 208,598,957
Cash deposits with financial institutions	61,315,065	74,959,046
Certificates of deposit	<u>477,840</u>	<u>477,840</u>
	<u>\$ 241,949,224</u>	<u>\$ 284,035,843</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

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

	2018	2017
KU Lawrence and Edwards Campuses	\$ 120,237,189	\$ 145,746,772
Kansas Athletics, Inc.	9,428,409	8,042,438
KU Campus Development Corporation	18,626,986	22,519,463
KU Center for Research, Inc.	17,351,805	21,814,308
KU Memorial Corporation*	278,742	654,768
KU Medical Center	71,110,084	77,068,933
KU Medical Center Research Institute	4,333,761	7,431,259
Student Union Corporation of KUMC	500,999	567,232
Kansas University Health Partners, Inc.	81,249	190,670
	<u>\$ 241,949,224</u>	<u>\$ 284,035,843</u>

* - The KU Memorial Corporation utilizes an overnight repurchase agreement for its bank deposits to maximize investment return. At June 30, 2018 and 2017, the overnight repurchase agreement amounted to \$4,265,735 and \$3,477,446, 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, Leavenworth, 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>	2018	2017
	Fair Value	Fair Value
US Treasury obligations	\$ 319,790	\$ 7,171,389
US Agency obligations	3,068,867	55,607,113
Municipal bonds	2,168,574	2,599,541
Corporate bonds	2,233,685	32,462,251
Foreign bonds	15,992	69,077
Collateralized mortgage obligations	48,465,262	38,217,994
Domestic stock	5,941,062	5,125,334
Foreign stock	517,195	525,005
Mutual funds	58,546,879	52,261,691
Limited liability companies	1,746,261	765,208
Repurchase agreements	4,265,735	3,477,446
Guaranteed investment contracts	1,419,475	1,419,477
Other	18,440,275	49,288,322
External investment pools		
KUEA Short-term Investment Program	39,105,486	39,722,591
KUEA Long-term Investment Program	65,908,737	61,999,478
	<u>\$ 252,163,275</u>	<u>\$ 350,711,917</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

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

	<u>2018</u>	<u>2017</u>
KU Lawrence and Edwards Campuses	\$ 65,598,684	\$ 62,431,874
Kansas Athletics, Inc.	54,418,923	52,183,096
KU Campus Development Corporation	1,184,538	121,009,009
KU Center for Research, Inc.	54,565,965	49,460,157
KU Memorial Corporation	4,376,542	3,580,373
KU Medical Center	5,625,077	5,406,708
KU Medical Center Research Institute	66,393,546	56,640,700
	<u>\$ 252,163,275</u>	<u>\$ 350,711,917</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, 2018 and 2017

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 30th 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. In accordance with 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, 2018 and 2017

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, 2018:

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	\$ 319,790	\$ 22,941	\$ 111,668	\$ 113,423	\$ 71,758
US Agency obligations	3,068,867	2,058,717	853,552	-	156,598
Municipal bonds	2,168,574	85,000	530,000	1,553,574	-
Corporate bonds	2,233,685	246,488	1,468,772	452,484	65,941
Foreign bonds	15,992	15,992	-	-	-
Collateralized mortgage obligations	48,465,262	866	2,299,946	4,399,434	41,765,016
Repurchase agreements	4,265,735	4,265,735	-	-	-
Guaranteed investment contracts	1,419,475	-	-	-	1,419,475
Other	13,860,187	3,207,827	10,407,697	244,663	-
External investment pools					
KUEA Short-term Investment Program	39,105,486	39,105,486	-	-	-
	114,923,053	49,009,052	15,671,635	6,763,578	43,478,788
Investments not subject to maturity dates:					
Domestic stock	5,941,062				
Foreign Stock	517,195				
Mutual funds	58,546,879				
Limited liability companies	1,746,261				
Other	4,580,088				
External investment pools					
KUEA Long-term Investment Program*	65,908,737				
	<u>137,240,222</u>				
	<u>\$ 252,163,275</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, 2018 and 2017

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.

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, 2018, 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	\$ 1,876,497	0.7%
AA+/AA/AA-	Aa1/Aa2/Aa3	3,220,140	1.3%
A+/A/A-	A1/A2/A3	3,718,994	1.5%
BBB+/BBB/BBB-	Baa1/Baa2/Baa3	2,609,062	1.0%
BB+/BB/BB-	Ba1/Ba2/Ba3	30,930	0.0%
B+/B/B-	B1/B2/B3	195,715	0.1%
Not Rated		240,511,937	95.4%
		<u>\$ 252,163,275</u>	<u>100.0%</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

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

<u>S&P Credit Rating</u>	<u>Moody's Credit Rating</u>	<u>Fair Value</u>	<u>% of Total</u>
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%
		<u>\$ 350,711,917</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 investments directly in limited partnerships, which would have some custodial risk. The balance of these investments as of June 30, 2018 and 2017 was \$1,746,261 and \$765,208, 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 \$252,163,275 and \$350,711,917 as of June 30, 2018 and 2017, respectively, KU Endowment administers \$105,014,223 and \$101,722,069 respectively.

KU investments also include \$5,801,127 and \$5,657,901 of investments administered by U.S. Trust Bank of America Private Wealth Management as of June 30, 2018 and 2017, respectively, and \$19,216,259 and \$16,794,631 of investments administered by Frost Wealth Advisors as of June 30, 2018 and 2017, respectively. These investments consist of three

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

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.

The Gertrude S. Pearson Trust had a reported market value of \$19,216,259 and \$16,794,631 at June 30, 2018 and 2017, respectively.

The Elizabeth M. Watkins Trust for Watkins and Miller Scholarship Halls had a reported market value of \$3,740,448 and \$3,656,235 at June 30, 2018 and 2017, respectively.

The Elizabeth M. Watkins Trust for Watkins Hospital had a reported market value of \$2,060,679 and \$2,001,666 at June 30, 2018 and 2017, respectively.

KU did not have any other investments which exceeded 5 percent of the investment portfolio at June 30, 2018, but the following investments exceed 5 percent of KU's investment portfolio as of June 30, 2017:

<u>Counterparty:</u>	<u>2017 Fair Value</u>
FHLMC	\$ 21,955,882

The remaining investments consist of \$122,131,666 and \$204,581,434 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.

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

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

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, 2018 and 2017

As of June 30, 2018, KU had the following investments by fair value hierarchy levels:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fixed Maturity Securities:				
US treasury obligations	\$ 319,790	\$ 319,790	\$ -	\$ -
US agency obligations	3,068,867	-	3,068,867	-
Municipal bond	2,168,574	-	2,168,574	-
Corporate bonds	2,233,685	-	2,233,685	-
Foreign bonds	15,992	-	15,992	-
Collateralized mortgage obligations	48,465,262	-	48,465,262	-
Total fixed maturity securities	<u>56,272,170</u>	<u>319,790</u>	<u>55,952,380</u>	<u>-</u>
Equity Securities:				
Consumer discretionary	1,207,499	1,207,499	-	-
Energy	323,209	323,209	-	-
Financials	1,202,910	1,202,910	-	-
Healthcare	691,595	691,595	-	-
Industrials	1,038,252	1,038,252	-	-
Information technology	1,650,832	1,650,832	-	-
Materials	144,014	144,014	-	-
Telecommunications services	94,713	94,713	-	-
Other	105,233	105,233	-	-
Total equity securities	<u>6,458,257</u>	<u>6,458,257</u>	<u>-</u>	<u>-</u>
Repurchase agreements	4,265,735	4,265,735	-	-
Guaranteed investment contracts	1,419,475	-	1,419,475	-
Mutual funds	58,546,879	58,546,879	-	-
Other	18,440,275	3,622,604	12,285,718	2,531,953
External investment pools:				
KUEA Short-term Investment Program	39,105,486	-	39,105,486	-
KUEA Long-term Investment Program	65,908,737	-	65,908,737	-
Total investments by fair value level	<u>\$ 250,417,014</u>	<u>\$ 73,213,265</u>	<u>\$ 174,671,796</u>	<u>\$ 2,531,953</u>
Investments with no determinable fair value:				
Limited liability company	\$ 1,746,261			

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

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

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
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>

Investments with no determinable fair value:

Limited liability company	\$ 765,208
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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, 2018 or 2017. At June 30, 2018 and 2017, limited partnership investments totaled \$1,746,261 and \$765,208, respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

NOTE 5 – ACCOUNTS RECEIVABLE

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

	<u>2018</u>	<u>2017</u>
Tuition and Fees	\$ 21,109,919	\$ 19,783,865
Auxiliary	13,191,437	11,353,931
Grants and Contracts	46,887,821	39,340,735
Other	<u>26,371,026</u>	<u>11,183,653</u>
	107,560,203	81,662,184
Less:		
Allowance for uncollectible amounts	<u>(4,579,664)</u>	<u>(4,356,485)</u>
	<u>\$ 102,980,539</u>	<u>\$ 77,305,699</u>

NOTE 6 – PLEDGES RECEIVABLE

Pledges receivable consist of the following unconditional promises to give:

	<u>2018</u>	<u>2017</u>
Due in less than one year	\$ 26,488,445	\$ 16,128,914
Due in one to five years	43,429,248	3,674,262
Due in greater than five years	<u>21,000</u>	<u>49,000</u>
	69,938,693	19,852,176
Less		
Unamortized discount	2,524,058	110,872
Allowance for uncollectible amounts	<u>782,912</u>	<u>733,983</u>
	<u>\$ 66,631,723</u>	<u>\$ 19,007,321</u>

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

	<u>2018</u>	<u>2017</u>
Pledges receivable - current	\$ 23,181,475	\$ 15,394,931
Pledges receivable - non-current	<u>43,450,248</u>	<u>3,612,390</u>
	<u>\$ 66,631,723</u>	<u>\$ 19,007,321</u>

NOTE 7 – INVENTORIES

Inventories consisted of the following at June 30:

	<u>2018</u>	<u>2017</u>
Bookstore	\$ 2,378,758	\$ 3,166,515
Food service	246,516	197,217
Physical plant	2,409,346	2,301,335
Professional and scientific supplies	420,267	462,446
Other	<u>1,546,551</u>	<u>692,127</u>
	<u>\$ 7,001,438</u>	<u>\$ 6,819,640</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

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, 2018 and 2017. 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. As KU determines that Perkins loans are uncollectible and not eligible for reimbursement by the federal government, the loans are written off or 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, 2018 and 2017, the allowance for uncollectible loans was estimated to be \$148,429 and \$138,591 respectively.

NOTE 9 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
<u>Non-depreciable capital assets</u>				
Land	\$ 34,009,694	\$ 242	\$ -	\$ 34,009,936
Land improvements	7,410,764	-	(7,245,157)	165,607
Construction in progress	399,851,318	228,526,817	(594,899,938)	33,478,197
Software	5,163,758	-	-	5,163,758
Works of Art	23,358,663	359,427	(19,000)	23,699,090
Total non-depreciable capital assets	<u>469,794,197</u>	<u>228,886,486</u>	<u>(602,164,095)</u>	<u>96,516,588</u>
<u>Depreciable capital assets</u>				
Buildings	1,758,397,700	538,624,862	(17,272,308)	2,279,750,254
Leasehold Improvements	1,693,481	371,242	-	2,064,723
Infrastructure	141,860,094	44,205,939	(7,113,506)	178,952,527
Equipment	303,887,356	38,805,492	(14,796,233)	327,896,615
Vehicles	26,859,818	2,096,652	(558,015)	28,398,455
Total depreciable capital assets	<u>2,232,698,449</u>	<u>624,104,187</u>	<u>(39,740,062)</u>	<u>2,817,062,574</u>
Total capital asset cost	<u>2,702,492,646</u>	<u>852,990,673</u>	<u>(641,904,157)</u>	<u>2,913,579,162</u>
<u>Accumulated depreciation</u>				
Buildings	761,614,809	70,750,219	(6,234,099)	826,130,929
Leasehold Improvements	237,109	165,791	-	402,900
Infrastructure	51,126,208	4,950,545	(1,492,062)	54,584,691
Equipment	233,397,058	25,130,096	(13,916,044)	244,611,110
Vehicles	18,870,936	3,232,679	(515,931)	21,587,684
Total accumulated depreciation	<u>1,065,246,120</u>	<u>104,229,330</u>	<u>(22,158,136)</u>	<u>1,147,317,314</u>
Capital assets, net	<u>\$ 1,637,246,526</u>	<u>\$ 748,761,343</u>	<u>\$ (619,746,021)</u>	<u>\$ 1,766,261,848</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

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	57,853,451	(2,756,553)	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>86,790,577</u>	<u>(9,913,666)</u>	<u>1,065,246,120</u>
Capital assets, net	<u>\$ 1,350,227,831</u>	<u>\$ 383,147,572</u>	<u>\$ (96,128,877)</u>	<u>\$ 1,637,246,526</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 \$11,690,940 and \$4,945,928 in interest during the years ended June 30, 2018 and 2017, respectively.

NOTE 10 - CHANGES IN NON-CURRENT LIABILITIES

Non-current liability activity for the year ended June 30, 2018 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Accrued compensated absences	\$ 38,800,881	\$ 18,260,996	\$ (14,162,289)	\$ 42,899,588	\$ 34,835,686
Accrued other post-employment benefits	-	7,756,196	(1,569,567)	6,186,629	-
Capital leases payable	12,465,148	16,280,892	(4,073,682)	24,672,358	5,455,778
Notes payable	407,556	10,624,684	(3,026,302)	8,005,938	2,208,753
Revenue bonds payable	785,216,443	-	(29,162,004)	756,054,439	31,224,439
Other long-term liabilities	74,675,027	13,867,077	(8,984,498)	79,557,606	8,105,403
Total	<u>\$ 911,565,055</u>	<u>\$ 66,789,845</u>	<u>\$ (60,978,342)</u>	<u>\$ 917,376,558</u>	<u>\$ 81,830,059</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

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	9,187,513
Total	\$ 911,709,158	\$ 101,176,208	\$ (101,320,311)	\$ 911,565,055	\$ 73,697,861

NOTE 11 – FEDERAL OBLIGATIONS UNDER STUDENT LOAN PROGRAMS

Campus based student loans are funded by allocations received from the federal government, as well as principal and interest collected from previous student loan recipients. The Federal Perkins Revolving Loan Fund program expired on September 30, 2017, thereby no new student loans will be issued from this program. At June 30, 2018, KU established a liability of \$17,557,276 which will be required to be repaid over successive periods as payments are received from previous student loan recipients. This liability is included in other current and non-current other liabilities in the Statement of Net Position.

NOTE 12 - REVENUE BONDS OUTSTANDING

Revenue bonds payable consist of the following:

	Principal Outstanding at June 30, 2018	Principal Outstanding at June 30, 2017
KU Lawrence and Edwards Campuses		
Series 2017A - 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.	\$ 43,510,000	\$ 45,565,000
Series 2014C - 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.	50,505,000	52,310,000

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

	Principal Outstanding at June 30, 2018	Principal Outstanding at June 30, 2017
<p>Series 2013G-1 - Kansas Development Finance Authority Revenue Bonds (University of Kansas School of Engineering Project) \$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 rating of Aa1.</p>	\$ 68,365,000	\$ 70,465,000
<p>Series 2012D - Kansas Development Finance Authority Refunding Revenue Bonds (University of Kansas Projects: Refunding 1999C, 2002A, and 2002K Series) \$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 & Poor's assigned a rating of AA and Moody's Investor Service assigned a rating of Aa1.</p>	195,000	385,000
<p>Series 2011C - Kansas Development Finance Authority Revenue Bonds (University of Kansas Housing System Project: Grace Sellards Pearson Residence Hall renovation) \$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 & Poor's assigned a rating of AA and Moody's Investor Service assigned a rating of Aa1.</p>	10,720,000	11,135,000
<p>Series 2010M-2 - Kansas Development Finance Authority Revenue Bonds (University of Kansas Edwards Campus Building No. 4 - Build America Bonds) \$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 & Poor's.</p>	12,225,000	13,560,000
<p>Series 2010K-1 - Kansas Development Finance Authority Revenue Bonds (University of Kansas Refund of Edwards Campus 2002K) \$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 & Poor's.</p>	2,490,000	2,935,000
<p>Series 2010B - Kansas Development Finance Authority Revenue Bonds (University of Kansas Energy Conservation Program) \$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 & Poor's.</p>	13,270,000	14,530,000

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

	Principal Outstanding at June 30, 2018	Principal Outstanding at June 30, 2017
<p>Series 2010A - 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 & Poor's assigned a rating of AA and Moody's Investor Service assigned a rating of Aa2.</p>	\$ 16,755,000	\$ 17,920,000
<p>Series 2009M - 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 & Poor's.</p>	18,350,000	19,775,000
<p>Series 2008L - Kansas Development Finance Authority Revenue Bonds (University of Kansas – School of Pharmacy Project) \$21,070,000. Due in annual installments of \$560,000 to \$975,000. Issued 11/1/08 with final maturity on 11/1/19. 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. In 2017, the State of Kansas refunded the 2020 through 2028 maturities.</p>	975,000	1,910,000
<p>KU Medical Center</p>		
<p>Series 2017A - Kansas Development Finance Authority Revenue Bonds (University of Kansas Medical Center Project: Health Education Building) \$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>	19,955,000	20,425,000
<p>Series 2016C - Kansas Development Finance Authority Revenue Bonds (University of Kansas Medical Center Parking Garage 5) \$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 & Poor's assigned a rating of AA and Moody's Investor Service assigned a rating of A1.</p>	44,050,000	45,330,000

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

	Principal Outstanding at June 30, 2018	Principal Outstanding at June 30, 2017
<p>Series 2014C - Kansas Development Finance Authority Revenue Bonds (University of Kansas Project: Refund a portion of the 2005E-2 Series Medical Center Parking Garage 3) \$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 & Poor's assigned a rating of AA and Moody's Investor Service assigned a rating of Aa2.</p>	\$ 1,055,000	\$ 1,205,000
<p>Series 2014B - Kansas Development Finance Authority Revenue Bonds (University of Kansas Medical Center Energy Conservation Project) \$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>	489,439	976,443
<p>Series 2013G-2 - Kansas Development Finance Authority Refunding Revenue Bonds (University Medical Center Energy Conservation Project: Refund a portion of 2003J Series) \$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 & Poor's assigned a rating of AA and Moody's Investor Service assigned a rating of Aa1.</p>	675,000	1,305,000
<p>Series 2012D-2.2 - Kansas Development Finance Authority Revenue Bonds (University of Kansas Projects: Medical Center Energy Conservation partial refund of 2003J Series) \$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 & Poor's assigned a rating of AA and Moody's Investor Services assigned a rating of Aa1.</p>	5,245,000	5,250,000
<p>Series 2012D-2.1 - Kansas Development Finance Authority Refunding Revenue Bonds (University of Kansas Projects: Medical Center Scientific Research and Development refund 2003C Series) \$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 & Poor's assigned a rating of AA and Moody's Investor Services assigned a rating of Aa1.</p>	32,080,000	34,365,000

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

	Principal Outstanding at June 30, 2018	Principal Outstanding at June 30, 2017
<p>Series 2010P-2 - Kansas Development Finance Authority Revenue Bonds (University of Kansas Medical Center Clinical Research Center Project - Build America Bonds) \$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 & Poor's.</p>	\$ 11,255,000	\$ 11,980,000
<p>Series 2010K-2 - Kansas Development Finance Authority Revenue Bonds (University of Kansas Medical Center Parking Build America Bonds) \$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 & Poor's.</p>	6,380,000	6,655,000
KU Medical Center Research Institute		
<p>Series 2010N - Kansas Development Finance Authority Revenue Bonds (University of Kansas Medical Center Research Institute, Inc. Project: Wahl Hixon renovation, refund 1999B Series and refund 2001U Series (2001T-1 portion)) \$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 & Poor's issued a rating of AA and Moody's Investor Service issued a rating of Aa1.</p>	13,590,000	16,140,000
Kansas Athletics, Inc.		
<p>Series 2014F - Kansas Development Finance Authority Refunding Revenue Bonds (Kansas Athletics, Incorporated: Refund the 2004K and 2008C Series) \$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 & Poor's assigned a rating of A and Moody's Investors Service assigned a rating of A1.</p>	33,210,000	34,830,000
KU Center for Research, Inc.		
<p>Series 2014E - Kansas Development Finance Authority Refunding Revenue Bonds (University of Kansas Center for Research, Inc. Project: Advance refund a portion of 2006G Series) \$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 & Poor's assigned a rating of AA and Moody's Investor Service assigned a rating of Aa2.</p>	9,350,000	10,195,000

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

	Principal Outstanding at June 30, 2018	Principal Outstanding at June 30, 2017
<p>Series 2012E - Kansas Development Finance Authority Refunding Revenue Bonds (University of Kansas Center for Research, Inc. Project: Refund 2005B Series) \$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 & Poor's assigned a rating of AA and Moody's Investor Service assigned a rating of Aa1.</p>	\$ 16,035,000	\$ 18,405,000
<p>Series 2006G - Kansas Development Finance Authority Revenue Bonds (University of Kansas Center for Research, Inc. Project (SBCIII)) \$17,085,000. Due in annual installments of \$470,000 to \$720,000. Issued 10/1/06 with final maturity on 2/1/18. Interest ranging from 4.0% to 5.0% payable semi-annually. A rating of A Stable was assigned by Standard & Poor's and a rating of Aa1 was assigned by Moody's Investor Services.</p>	-	720,000
KU Campus Development Corporation		
<p>Series 2016 - Public Financial Authority Lease Development Revenue Bonds (KU Campus Develop Corporation - Central District Development Project) \$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>	325,325,000	326,945,000
Total	\$ 756,054,439	\$ 785,216,443

NOTE 13 - REVENUE BONDS MATURITY SCHEDULE

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

Year Ending June 30:	Principal	Interest	Total
2019	\$ 31,224,439	\$ 33,440,253	\$ 64,664,692
2020	30,965,000	32,178,658	63,143,658
2021	31,485,000	30,803,888	62,288,888
2022	32,595,000	29,372,573	61,967,573
2023	34,170,000	27,878,808	62,048,808
2024-2028	167,995,000	117,169,550	285,164,550
2029-2033	134,175,000	85,035,592	219,210,592
2034-2038	129,000,000	57,283,105	186,283,105
2039-2043	105,990,000	29,228,275	135,218,275
2044-2048	58,455,000	5,940,500	64,395,500
	\$ 756,054,439	\$ 448,331,202	\$ 1,204,385,641

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

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, 2018, KU did not refund any bonds. 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. The bonds defeased for the year ended June 30, 2017 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	<u>\$ 36,540,000</u>	<u>\$ -</u>

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.

As of June 30, 2018 and 2017, KU had no outstanding amount of defeased issuances held in irrevocable trusts.

NOTE 14 - LEASE OBLIGATIONS

KU is obligated for the purchase of certain equipment funded through the issuance of blanket financing agreements in the amount of \$24,672,358 and \$12,465,148 as of June 30, 2018 and 2017, respectively. Payments to liquidate these obligations are scheduled as follows:

Year Ending June 30:	Total
2019	\$ 5,950,410
2020	5,891,788
2021	5,870,611
2022	5,457,696
2023	1,728,241
2024 and thereafter	1,321,899
	<u>26,220,645</u>
Less: Capital lease interest	<u>(1,548,287)</u>
	<u>\$ 24,672,358</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

Included in this balance is the Master Lease Purchase agreement between KU and the State of Kansas 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, 2018 and 2017 is \$6,017,464 and \$7,222,489, respectively.

NOTE 15 – NOTES PAYABLE

KU Unions has a loan agreement to a bank with an outstanding balance of \$75,186 and \$297,130 as of June 30, 2018 and 2017, 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, 2018, the outstanding balance on the line of credit was \$1,500,000. As of June 30, 2017, there was no balance outstanding on the line of credit. The line of credit carries a variable interest rate, which was 5.0% and 4.25% at June 30, 2018 and 2017, respectively, and expires in January 2019. The line of credit is secured by accounts receivable, inventory and equipment.

Athletics has a note payable to a bank with an outstanding balance of \$34,822 and \$77,778 as of June 30, 2018 and 2017, respectively. The note bears at 3.34%, matures in August 2019, and is secured by property and equipment.

Athletics has a line of credit with a bank in the amount of \$20,000,000. As of June 30, 2018, there was no balance outstanding on the line of credit. The line of credit carries a variable interest rate of LIBOR plus 1.13%, which was 3.2% as of June 30, 2018. The line of credit expires in May 2021.

KUCR entered into a note agreement with KU Endowment for \$7,124,684. As of June 30, 2018, the outstanding balance on the note was \$6,395,930. The note carries a fixed interest rate of 3.0%, and matures in June 2023.

Future maturities of the notes payable are as follows:

Year Ending June 30:	Total
2019	\$ 2,208,753
2020	1,396,724
2021	1,423,692
2022	1,466,403
2023	1,510,366
	<u>\$ 8,005,938</u>

NOTE 16– 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, 2018 are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Unamortized loss on bond refunding	<u>\$ 4,923,549</u>	<u>\$ -</u>	<u>\$ (664,504)</u>	<u>\$ 4,259,045</u>	<u>\$ 644,648</u>

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

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	\$ 5,365,605	\$ 184,237	\$ (626,293)	\$ 4,923,549	\$ 608,849

NOTE 17– 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 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 Kansas Legislature. 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.

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 is 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.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

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, 2017 are as follows:

	Actuarial employer rate	Statutory employer capped rate
State employees	10.77%	10.81%
Police and fire fighters	19.03	19.02

Contributions to the pension plan from KU were \$6,344,163 and \$8,590,678 for the years ended June 30, 2018 and 2017, respectively.

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

At June 30, 2018 and 2017, KU reported a liability of \$78,007,342 and \$79,504,833, respectively, for its proportionate share of the net pension liability. The net pension liability as of June 30, 2018 was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016, which was rolled forward to June 30, 2017. 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, 2017. The contributions used exclude contributions made for prior service, excess benefits and irregular payments. At the June 30, 2017 measurement date, KU's proportion made to the State/School subgroup was 1.05%, which was a decrease of 0.10% from its proportion measured as of June 30, 2016. At the June 30, 2016 measurement date, KU's proportion made to the Police and Fire subgroup was 0.82%, which was an increase of 0.15% from its proportion measured as of June 30, 2016.

For the years ended June 30, 2018 and 2017, KU recognized pension expense of \$5,040,191 and \$4,664,241, respectively. At June 30, 2018 and 2017, KU reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 372,819	\$ 3,553,646	\$ 343,282	\$ 3,513,591
Net difference between projected and actual earnings on pension plan investments	1,793,284	-	7,445,065	-
Change in proportion	1,975,689	9,415,047	620,712	9,230,480
Change of assumptions	3,857,640	127,519	-	169,445
Contributions subsequent to measurement date	6,344,163	-	8,590,678	-
	<u>\$ 14,343,595</u>	<u>\$ 13,096,212</u>	<u>\$ 16,999,737</u>	<u>\$ 12,913,516</u>

KU reported \$6,344,163 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended June 30, 2019.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

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
2019	\$ (3,159,811)
2020	(550,355)
2021	(134,267)
2022	(1,397,504)
2023	145,157
	<u>\$ (5,096,780)</u>

Actuarial assumptions. The total pension liability was determined by an actuarial valuation as of December 31, 2016, which was rolled forward to June 30, 2017. The actuarial valuation used the following actuarial assumptions, applied to all periods included in the measurement:

Actual Cost Method	Entry age normal
Inflation	2.75%
Salary Increase	3.50% to 12.00%, including price inflation
Investment Rate of Return	7.75% compounded annually, net of investment expense, including price inflation

Mortality rates were based on the RP2014 Mortality Tables, with age setbacks and age set forwards as well as other adjustments based on different membership groups. Future mortality improvements are anticipated using Scale MP-2016.

The actuarial assumptions used in the December 31, 2016 valuation were based on the results of an actuarial experience study conducted for the period January 1, 2013 through December 31, 2015. The experience study is dated November 18, 2016.

The actuarial assumption changes adopted by KPERS for all groups based on the experience study:

- Price inflation assumption lowered from 3.00% to 2.75%
- Investment return assumption was lowered from 8.00% to 7.75%
- General wage growth assumption was lowered from 4.00% to 3.50%
- Payroll growth assumption was lowered from 4.00% to 3.00%

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 return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

Best estimates of arithmetic real rates of return for each major asset class as of the most recent experience study, dated November 18, 2016, as provided by KPERS' investment consultant, 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 7.75%. 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 7.75%, 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 (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Proportionate share of the net pension liability	\$ 104,619,959	\$ 78,007,342	\$ 55,539,020

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 18 - 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 \$38,726,559 and \$38,592,101 during fiscal years 2018 and 2017, 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 \$2,308,374 and \$2,154,367 to their individual plans during fiscal years 2018 and 2017, respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

NOTE 19 – OTHER POSTEMPLOYMENT HEALTHCARE BENEFITS (OPEB)

GENERAL INFORMATION ABOUT THE OPEB PLAN

Plan Description. KU participates in an agent multiple-employer defined benefit other post-employment benefit (OPEB) plan which is administered by KPERS. The Plan provides long-term disability benefits and life insurance benefit for disabled members to KPERS members, as provided by K.S.A. 74-04927. The plan is administered through a trust held by KPERS that is funded to pay annual benefit payments. Because the trust's assets are used to pay employee benefits other than OPEB, no assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75. There is no stand-alone financial report for the plan.

Benefits provided. Benefits are established by statute and may be amended by the KPERS Board of Trustees. The Plan provides long-term disability benefits equal to 60% (prior to January 1, 2006, 66 2/3%) of annual compensation, offset by other benefits. Members receiving long-term disability benefits also receive credit towards their KPERS retirement benefits and have their group life insurance coverage continued under the waiver premium provision.

Long-term disability benefit. Monthly benefit is 60% of the member's monthly compensation, with a minimum of \$100 and maximum of \$5,000. The monthly benefit is subject to reduction by deductible sources of income, which include Social Security primary disability or retirement benefits, worker's compensation benefits, other disability benefits from any other source by reason of employment, and earnings from any form of employment. If the disability begins before age 60, benefits are payable while disability continues until the member's 65th birthday or retirement date, whichever occurs first. If the disability occurs after age 60, benefits are payable while disability continues, for a period of 5 years or until the member retires, whichever occurs first. Benefit payments for disabilities caused or contributed to by substance abuse or non-biologically based mental illnesses are limited to the term of the disability or 24 months per lifetime, whichever is less. There are no automatic cost-of-living increase provisions. KPERS has the authority to implement an ad hoc cost-of living increase.

Group life waiver of premium benefit. Upon the death of an employee who is receiving monthly disability benefits, the plan will pay a lump-sum benefit to eligible beneficiaries. The benefit amount will be 150% of the greater of the member's previous 12 months of compensation at the time of the last date on payroll. If the member has been disabled for 5 or more years, the annual compensation or salary rate at the time of death will be indexed using the consumer price before the life insurance benefit is computed. The indexing is based on the consumer price index, less one percentage point, to compute the death benefit. If a member is diagnosed as terminally ill with a life expectancy of 12 months or less, the member may be eligible to receive up to 100% of the death benefit rather than having the benefit paid to the beneficiary. If a member retires or disability benefits end, the member may convert the group life insurance coverage to an individual life insurance plan.

Members covered by benefit terms. At June 30, 2018, the following members were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	96
Active employees	1,105
	<u>1,201</u>

OPEB LIABILITIES, OPEB EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPEB

KU's total OPEB liability of \$6,186,629 was measured as of June 30, 2017, and was determined by an actuarial valuation as of December 31, 2016, which was rolled forward to June 30, 2017.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

Actuarial assumptions and other inputs. The total OPEB liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all period included in the measurement, unless otherwise noted:

Inflation	2.75%
Payroll Growth	3.00%
Salary Increase	3.50% to 10.00%, including price inflation
Discount Rate	3.58%
Health care cost trend rates	Not applicable for the coverage in this plan
Retiree share of benefit cost	Not applicable for the coverage in this plan

The discount rate was based on the Bond Buyer General Obligation 20-Bond Municipal Index.

Mortality rates were based on the RP-2014 Mortality tables, as appropriate, with adjustment for mortality improvements based on Scale MP-2017.

The actuarial assumptions used in the June 30, 2017 valuation were based on actuarial experience study for the period July 1, 2014 through June 30, 2016. Other demographic assumptions are set to be consistent with the actuarial assumptions reflected in the December 31, 2016 KPERS pension valuation.

The following table presents the changes in KU's total OPEB liability for the year ended June 30:

Balance at June 30, 2017	\$ 7,524,662
Changes for the year:	
Service cost	218,496
Interest	198,471
Effect of assumption changes or inputs	(185,433)
Benefit payments	<u>(1,569,567)</u>
Net changes	<u>(1,338,033)</u>
Balance at June 30, 2018	<u>\$ 6,186,629</u>

Changes of assumptions. Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period. The discount rate increased from 2.85% on June 30, 2016 to 3.58% on June 30, 2017.

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents KU's total OPEB liability using the discount rate of 3.58%, as well as what KU's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.58%) or 1-percentage-point higher (4.58%) than the current rate:

	1% Decrease (2.58%)	Current Discount Rate (3.58%)	1% Increase (4.58%)
Proportionate share of the net pension liability	\$ 6,441,313	\$ 6,186,629	\$ 5,946,357

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The healthcare trend rates do not affect the liabilities related to the long-term disability benefits sponsored by KPERS. Therefore, there is no sensitivity to a change in healthcare trend rates.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

For the year ended June 30, 2018, KU recognized OPEB expense of \$397,811. At June 30, 2018, KU reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ -
Change of assumptions	-	166,277
Contributions subsequent to measurement date	821,885	-
	<u>\$ 821,885</u>	<u>\$ 166,277</u>

The deferred outflow of resources related to the benefit payments subsequent to the measurement date totaling \$821,885 consist of payments made to KPERS for benefits and administrative costs, and will be recognized as a reduction in the total OPEB liability during the year ended June 30, 2019. Other amounts reported as deferred outflows of sources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ending June 30:</u>	<u>Total</u>
2019	\$ (19,156)
2020	(19,156)
2021	(19,156)
2022	(19,156)
2023	(19,156)
Thereafter	(70,497)
	<u>\$ (166,277)</u>

Prior period adjustment. The implementation of GASB Statement No. 75 resulted in a \$1,569,567 increase to deferred outflows of resources, a \$7,524,662 increase to the total OPEB liability and a \$5,955,095 decrease to net position as of July 1, 2017.

NOTE 20 - COMMITMENTS AND CONTINGENT LIABILITIES

At June 30, 2018 and 2017, KU had outstanding commitments under construction contracts totaling \$62,090,218 and \$208,059,134 respectively.

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, 2018.

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, 2018 and 2017

NOTE 21 – NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

KU's operating expenses by functional and natural classification for 2018 are as follows:

Functional Classification	Natural Classification					Total
	Compensation & Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation	
Instruction	\$ 380,279,014	\$ -	\$ 284,992	\$ 29,890,891	\$ -	\$ 410,454,897
Research	172,923,845	-	72,893	87,316,934	-	260,313,672
Public service	23,212,362	-	8,593	22,371,719	-	45,592,674
Academic support	49,668,962	-	-	15,784,861	-	65,453,823
Student services	29,055,541	-	270,225	8,895,587	-	38,221,353
Institutional support	37,356,075	-	-	29,886,744	-	67,242,819
Operations and maintenance of plant	55,472,923	-	24,497,583	10,800,078	-	90,770,584
Depreciation	-	-	-	-	104,229,330	104,229,330
Scholarships and fellowships	-	18,935,345	-	-	-	18,935,345
Auxiliary enterprises:						
Housing	4,340,105	-	3,132,999	10,553,115	-	18,026,219
Athletics	40,825,687	-	2,130,931	51,060,761	-	94,017,379
Parking	4,636,284	-	263,869	2,632,532	-	7,532,685
Student unions	16,152,372	-	1,131,282	18,492,960	-	35,776,614
University health services	6,027,012	-	171	2,447,784	-	8,474,967
Other auxiliary enterprises	1,657,458	-	13,770	1,610,571	-	3,281,799
Other	1,895,024	-	-	(1,500,916)	-	394,108
Total	\$ 823,502,664	\$ 18,935,345	\$ 31,807,308	\$ 290,243,621	\$ 104,229,330	\$ 1,268,718,268

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
Total	\$ 787,122,992	\$ 33,478,456	\$ 29,163,868	\$ 248,089,828	\$ 86,790,577	\$ 1,184,645,721

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended June 30, 2018 and 2017

NOTE 22 – 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, 2018 and 2017, these amounts totaled \$7,936,933 and \$8,087,955, 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, 2018 and 2017, KU held \$859,160 and \$824,682 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, 2018 and 2017, KU held \$614,386 and \$763,928, respectively, on behalf of these other organizations.

NOTE 23 – 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>

NOTE 24 – SUBSEQUENT EVENT

Subsequent to June 30, 2018, the severance provision of the employment contract with the football head coach was triggered which calls for KU to make payments totaling \$3,000,000.