



# *2019 ANNUAL* **FINANCIAL REPORT**

July 1, 2018 - June 30, 2019

KU<sup>®</sup>

# TABLE OF CONTENTS

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Kansas Board of Regents and Officers	1
Management’s Discussion and Analysis	2
Statement of Net Position	16
KU Endowment – Consolidated Statements of Financial Position	18
Statement of Revenues, Expenses, and Changes in Net Position	20
KU Endowment – Consolidated Statements of Activities	22
Statement of Cash Flows	24
Notes to Financial Statements	26

## KANSAS BOARD OF REGENTS

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Shane Bangerter	Ann Brandau-Murguia
Bill Feuerborn	Cheryl Harrison-Lee
Mark Hutton	Shellaine Kiblinger
Jon Rolph	Allen Schmidt
Helen Van Etten	

## EXECUTIVE OFFICERS

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Douglas A. Girod  
*Chancellor*

Diane H. Goddard  
*Chief Financial Officer and Vice Provost for Finance*

### Lawrence Campus

Carl Lejuez  
*Executive Vice Chancellor / Interim Provost*

Jason F. Hornberger  
*Senior Associate Vice Provost for Finance*

### Medical Center Campus

Dr. Robert D. Simari  
*Executive Vice Chancellor*

David Vranicar  
*Vice Chancellor for Finance and Chief Financial Officer*

Adrienne Kordalski  
*Associate Vice Chancellor of Institutional Finance and Administration*

### Financial Officers

Katrina Yoakum  
*Comptroller, Lawrence Campus*

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

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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The following discussion and analysis has been prepared by management to provide an overview of the financial performance of the University of Kansas 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

As of June 30

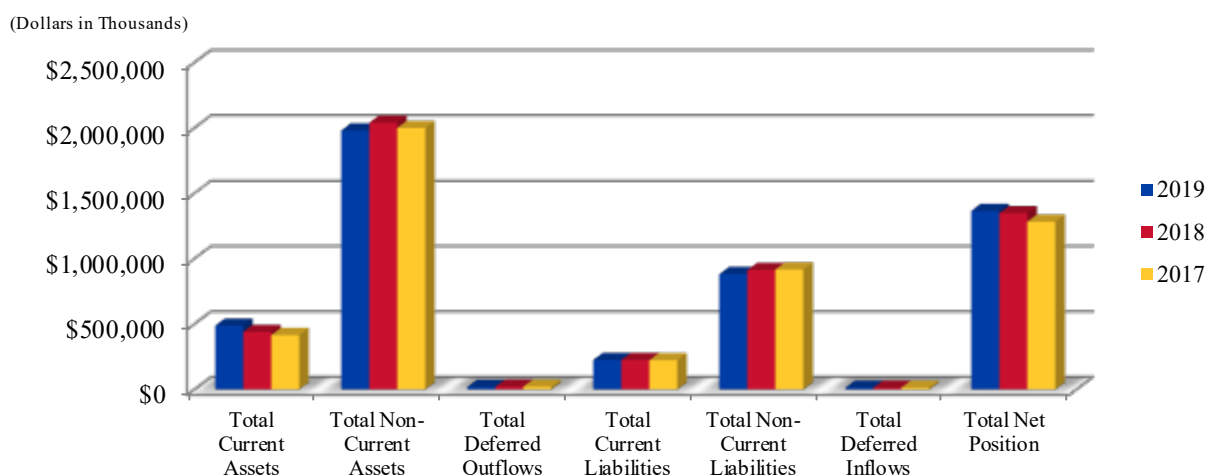
(Dollars in Thousands)

	<u>2019</u>	Restated <u>2018</u>	<u>2017</u>
Assets:			
Current assets	\$ 488,472	\$ 440,073	\$ 415,991
Non-current assets	251,142	274,233	362,847
Non-current capital assets, net	<u>1,729,328</u>	<u>1,766,262</u>	<u>1,637,247</u>
Total assets	\$ 2,468,942	\$ 2,480,568	\$ 2,416,085
Deferred outflows	\$ 19,127	\$ 20,329	\$ 21,923
Liabilities:			
Current liabilities	\$ 225,976	\$ 226,052	\$ 224,309
Non-current liabilities	152,011	163,710	150,740
Non-current long-term debt	<u>730,563</u>	<u>749,844</u>	<u>766,632</u>
Total liabilities	\$ 1,108,550	\$ 1,139,606	\$ 1,141,681
Deferred inflows	\$ 13,464	\$ 13,263	\$ 12,914
Net position	\$ 1,366,055	\$ 1,348,028	\$ 1,283,413



# 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, 2019, 2018, and 2017 (in thousands):



## Assets

At June 30, 2019, total assets were \$2.5 billion, a decrease of \$11.6 million (0.5%) compared to 2018. Current assets consist of cash and cash equivalents, short-term investments, and accounts receivable, all of which are used to support the operations of KU. Total current assets increased \$48.4 million (11.0%) compared to 2018. This increase is primarily attributed to (1) an increase of \$20.5 million (9.2%) cash and cash equivalents; (2) an increase of \$10.9 million (13.7%) in short-term investments; (3) \$9.1 million (9.3%) increase in accounts receivable; and (4) \$5.9 million (25.5%) increase in pledges receivables.

Non-current assets decreased \$60.0 million (2.9%) compared to 2018. This decrease is attributed to (1) a decrease of \$19.7 million (62.6%) in cash restricted for capital projects; and (2) a decrease of \$36.9 million (2.1%) in capital assets as depreciation exceeded new capital asset purchases.

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 (Athletics).

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 for Athletics increased \$39.8 million when compared to 2017.

## Liabilities

At June 30, 2019, total liabilities were \$1.1 billion, decreasing \$31.1 million (2.7%) compared to 2018. Total current liabilities were relatively unchanged when compared to 2018, but operating and construction payables decreased \$8.1 million (8.4%) were offset by an \$8.9 million (25.7%) increase in deferred revenues associated with additional summer tuition from timing of cash received and classes being taken.

Non-current liabilities decreased \$31.0 million (3.4%) primarily because of (1) net reduction in long-term debt of \$19.3 million from principal payments of \$41.3 million offset by \$21.2 million in new debt; (2) a \$6.8 million (8.7%) decrease in the KPERS pension liability; and (3) a \$5.5 million (7.7%) decrease in other liabilities associated with bond premiums and long-term Federal Perkins Loan program liabilities.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

At June 30, 2018, total liabilities were \$1.1 billion, a decrease of \$2.1 million (0.2%) compared to 2017. Current liabilities increased \$1.7 million (0.8%) because of (1) an increase associated with the adoption of a new asset retirement obligation accounting standard; and (2) increase in the portion of long-term debt to be paid within the next fiscal year; offset by (1) decrease in payables for construction projects in progress; (2) decrease in revenues deferred until the recognition criteria have been met.

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.

## Deferred Outflows and Inflows of Resources

At June 30, 2019, total deferred outflows were \$19.1 million, a decrease of \$1.2 million (5.9%) compared to 2018 primarily attributed to changes in the differences between actual and projected earnings of the KPERS pension plan. At June 30, 2018, total deferred outflows were \$20.3 million, a decrease of \$1.6 million (7.3%) compared to 2017 primarily associated with differences incurred between actual and projected earnings of the KPERS pension plan.

At June 30, 2019, total deferred inflows were \$13.5 million, an increase of \$0.2 million (1.5%) related to changes in the actuarial determined items related to the KPERS 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 actuarial determined items.

## Net Position

At June 30, 2019, total net position was \$1.4 billion, an increase of \$18.0 million (1.3%) compared to 2018. At June 30, 2018, total net position was \$1.3 billion, an increase of \$64.6 million (5.0%) compared to 2017.

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:

	2019	Restated 2018	2017
Net investment in capital assets	\$ 916,225	\$ 937,266	\$ 947,005
Restricted for:			
Nonexpendable	68,174	66,971	62,396
Expendable:			
Scholarships, research, instruction and other	42,910	37,342	45,457
Loans	21,162	20,433	37,899
Capital projects	61,824	76,486	16,171
Debt service	8,769	8,999	9,514
Unrestricted	246,991	200,531	164,971
Total net position	<u>\$ 1,366,055</u>	<u>\$ 1,348,028</u>	<u>\$ 1,283,413</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

At June 30, 2019, the decrease in net investment in capital assets is reflective of the additional depreciation in excess of new capital asset purchases. Restricted net position "expendable for capital projects" decreased \$14.7 million as Athletics started to use the money received and pledged in prior years to work on the construction of the indoor football practice facility. Unrestricted net position has increased \$46.5 million (23.2%) primarily as a result of KU's net income excluding depreciation and other capital related income items.

At June 30, 2018, the decrease in net investment in capital assets like 2019 activity is reflective of the additional depreciation taken during the current year on newly completed projects. Additionally, during September 2017, the Federal Department of Education 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 Athletics received pledges for the construction of an indoor football practice facility.

### 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**  
**For the fiscal years ended June 30,**  
(Dollars in Thousands)

	<b>2019</b>	Restated 2018	Restated 2017
Operating revenues	\$ 985,181	\$ 960,385	\$ 895,790
Operating expenses	<u>(1,314,727)</u>	<u>(1,293,112)</u>	<u>(1,197,139)</u>
Total operating gain (loss)	<b>(329,546)</b>	(332,727)	(301,349)
Non-operating revenues	<b>350,935</b>	352,127	349,637
Non-operating expenses	<u>(33,974)</u>	<u>(45,966)</u>	<u>(32,542)</u>
Net non-operating revenues (expenses)	<b>316,961</b>	306,161	317,095
Income (loss) before other revenues, expenses, gains and losses	<b>(12,585)</b>	(26,566)	15,746
Other revenues, expenses, gains and losses	<b>30,076</b>	98,128	110,595
Increase (decrease) in net position	<b>17,491</b>	71,562	126,341
Net position, beginning of year	<b>1,348,028</b>	1,283,413	1,157,072
Restatement of net position - beginning of year <sup>(1)</sup>	<b>536</b>	(6,947)	-
Net position, end of year	<b><u>\$ 1,366,055</u></b>	<b><u>\$ 1,348,028</u></b>	<b><u>\$ 1,283,413</u></b>

<sup>1</sup> See New Accounting Standard Section

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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## Revenues

### Operating Revenues

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

	<b>2019</b>	Restated 2018	Restated 2017
Tuition and fees	\$ 325,096	\$ 324,036	\$ 314,335
Grants and contracts	276,046	268,182	248,534
Sales and services	160,019	153,404	131,868
Auxiliary enterprises	215,279	204,524	188,462
Other operating revenues	8,741	10,239	12,591
Total operating revenues	<u>\$ 985,181</u>	<u>\$ 960,385</u>	<u>\$ 895,790</u>

For the year ended June 30, 2019, operating revenues at KU increased \$24.8 million (2.6%) compared to 2018. The increase in operating revenues is primarily a result of:

- Auxiliary enterprises increased \$10.8 million (5.3%) because (1) Athletics received increased distributions from the NCAA and conferences; and (2) housing revenues increased resulting from additional revenues from new apartments.
- Grants and contracts increased \$7.9 million (2.9%) because of an increase in direct research revenues associated with KU Center for Research (KUCR) and direct research and clinical revenues associated with the KU Medical Center Research Institute Inc. (KUMCRI).
- Sales and services increased \$6.6 (4.3%) as a result of the continuing expansion of the medical support and administrative support services between the KUMC and the Kansas Hospital Authority.

For the year ended June 30, 2018, operating revenues at KU increased \$64.6 million (7.2%) compared to 2017. The increase in operating revenues is primarily a result of:

- Revenue from tuition and fees increased \$9.7 million (3.1%) which is in line with the approved tuition and fee rate increases from 2017 to 2018.
- Grants and contracts increased \$19.6 million (7.9%) because of an increase in direct research revenues as well as clinical trial and non-clinical trial revenues associated with the KUMCRI.
- Sales and services revenues increased \$21.5 million (16.3%) 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. During 2018, KUMC also provided more services to the Kansas Hospital Authority than in 2017.
- Auxiliary enterprises revenues increase \$16.1 million (8.5%) related to additional revenues generated by KU's housing and parking operations and revenues from Athletics.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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## Non-operating Revenues

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

	<b>2019</b>	Restated 2018	Restated 2017
State appropriations	\$ 244,972	\$ 238,165	\$ 240,347
Local appropriations	11,989	11,021	11,638
Gifts	57,941	62,293	49,203
Investment income	14,249	15,013	16,006
Non-operating federal grants and contracts	19,254	19,123	18,068
Other non-operating revenues	2,530	6,512	14,375
Total non-operating revenues	<u>\$ 350,935</u>	<u>\$ 352,127</u>	<u>\$ 349,637</u>

For the year ended June 30, 2019, non-operating revenues decreased \$1.2 million (0.3%) compared to 2018. This decrease in non-operating revenues is primarily a result of:

- State appropriations increased \$6.8 million (2.9%) because of State of Kansas restoration of budget cuts which occurred in prior fiscal years.
- Gift revenues decreased \$4.4 million (7.0%) because of fluctuations in amounts received from the Kansas University Endowment Association (KU Endowment) during 2019, primarily related to gifts for the Medical Center Health Education building.
- Other non-operating revenues decreased \$3.9 million (61.1%) primarily related to the timing and amount of revenues arising from nonoperating sources, such as royalties.

For the year ended June 30, 2018, non-operating revenues increased \$2.5 million (0.7%) compared to 2017. The increase in overall non-operating revenues is primarily a result of:

- State appropriations decreased \$2.2 million (0.9%) related to a decrease in the additional pay period allotment provided by the State of Kansas in 2017 which did not occur in 2018.
- Gift revenues increased \$13.1 million (26.6%) because of fluctuations in amounts received from KU Endowment during 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.

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.

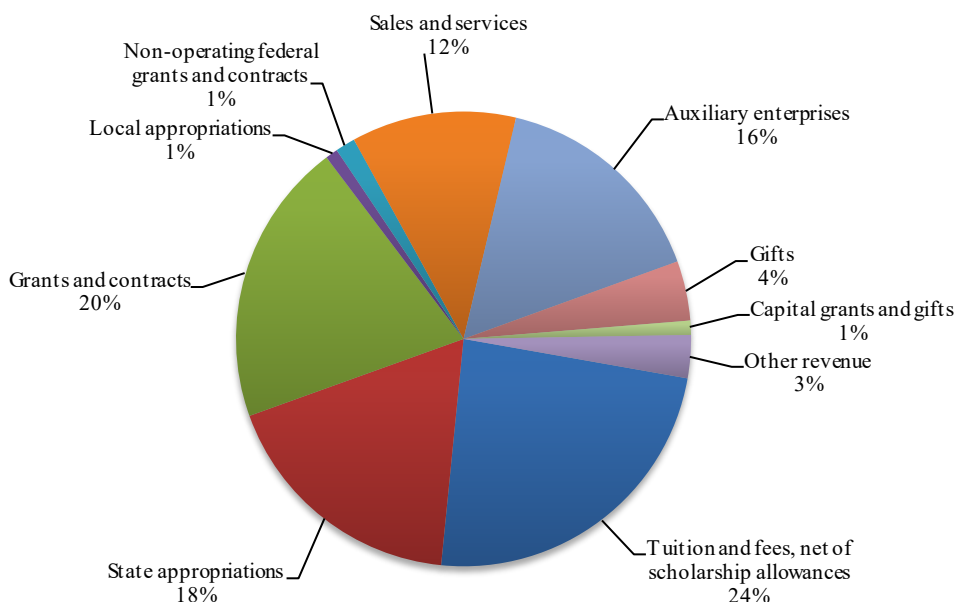
For the year ended June 30, 2019, capital appropriations increased \$2.7 million (20.3%) compared to 2018 as a result of the State of Kansas providing additional appropriated funds for deferred maintenance. In addition, capital grants decreased \$70.8 million (83.6%) compared to 2018. This can vary year to year based on funding provided for capital projects.

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.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

The composition of these revenues, including operating and non-operating, for the year ended June 30, 2019 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:

	2019	Restated 2018	Restated 2017
Instruction	\$ 429,134	\$ 425,904	\$ 399,739
Research	264,585	266,785	250,020
Public service	55,232	47,087	41,562
Academic support	65,298	65,777	65,268
Student services	41,150	38,172	35,236
Institutional support	59,610	63,593	65,734
Operations and maintenance of plant	88,015	90,871	75,019
Depreciation	113,663	104,229	86,791
Scholarships and fellowships	16,533	18,935	19,636
Auxiliary enterprises	180,785	169,108	155,931
Other operating expenses	723	2,651	2,203
Total operating expenses	<u>\$ 1,314,728</u>	<u>\$ 1,293,112</u>	<u>\$ 1,197,139</u>

For the year ended June 30, 2019, operating expenses were \$1.3 billion, an increase of \$21.6 million (1.7%) compared to 2018. The increase in overall operating expenses are primarily a result of:

- Public Service expenses increased \$8.1 million (17.3%) related to continued expansion of Achievement & Assessment Institute program and the services it provides.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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- Depreciation expense increased \$9.4 million (9.1%) directly associated with the completion of several large capital projects in 2018.
- Scholarships and fellowships decreased \$2.4 million (12.7%) as a result of a reduction in a number of departmental scholarship programs across campus.
- Auxiliary expenses increased \$11.7 million (6.9%) primarily related to (1) increase in Athletics salaries and benefits with the changes in personnel during 2019, and (2) an increase in parking expenses associated with the KUMC parking garage that was opened in later part of 2018.

For the year ended June 30, 2018, operating expenses were \$1.3 billion, an increase of \$96.0 million (8.0%) compared to 2017. The increase in overall operating expenses are primarily a result of:

- Instruction expenses increased \$26.2 million (6.5%) because of (1) increases in salaries associated with instruction function and (2) increases in online course direct expenses.
- Depreciation expense increased \$17.4 million (20.1%) directly associated with the completion of several large capital projects in 2018.
- Operations and maintenance increased \$15.9 million (21.1%) 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 \$16.8 million (6.7%) compared to 2017 because of additional clinical and non-clinical research done by KUMCRI.
- Auxiliary enterprises expenses increased \$13.2 million (8.5%) 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 \$5.5 million (13.3%) because of new and additional testing and training services provided by KU to external governmental organization and institutions which did not occur in 2017.

### *Non-operating Expenses*

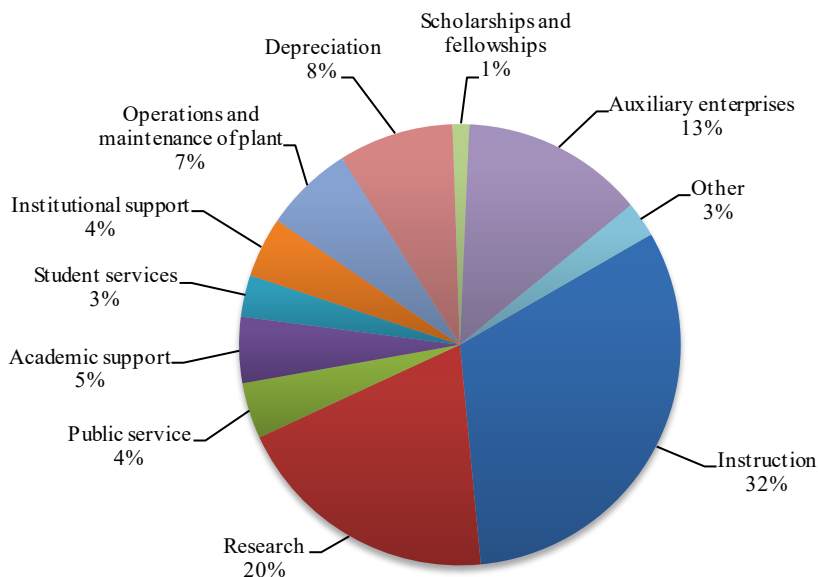
For the year ended June 30, 2019, non-operating expenses, which consist of interest expense and other non-operating expenses, decreased \$12.0 million (26.1%) compared to 2018. Other non-operating expenses decreased during 2019 as a result of the closure of the Perkins Revolving Loan program in 2018 and the recognition of an estimated amount to be repaid to the Department of Education for its federal contribution to the loan program. The adjustment to the Department of Education Perkins Loan repayment recognized in 2019 was significantly less than original recognition. Interest expense also increased \$9.7 million (48.5%) as a result not capitalizing any interest associated with construction projects as all current year construction projects were not funded by bonds, and accounting standards no longer require capitalization.

For the year ended June 30, 2018, non-operating expenses increased \$13.4 million (41.3%) 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.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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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

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## *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>2019</u>	<u>2018</u>	<u>2017</u>
Net cash provided by (used in):			
Operating activities	\$ (232,165)	\$ (244,590)	\$ (235,738)
Noncapital financing activities	341,173	334,706	324,845
Capital and related financing activities	(104,037)	(242,473)	(269,706)
Investing activities	<u>(4,143)</u>	<u>110,559</u>	<u>196,923</u>
Net increase (decrease) in cash and cash equivalents	828	(41,798)	16,324
Beginning cash and cash equivalents	<u>253,907</u>	<u>295,705</u>	<u>279,381</u>
Ending cash and cash equivalents	<u>\$ 254,735</u>	<u>\$ 253,907</u>	<u>\$ 295,705</u>

## **Extraordinary Items**

KU did not have any special and/or extraordinary items in 2019, 2018, or 2017.

## **New Accounting Standards**

KUCR and KUMCRI implemented Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2016-09, *Revenue from Contracts with Customers Topic (606)*, using the modified-retrospective method. This adoption resulted in a \$634,222 increase in accounts receivable, a \$97,626 increase in deferred revenues, and a \$536,546 increase to net position as of July 1, 2018.

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.

KU implemented GASB Statement No. 83, *Certain Asset Retirement Obligations*, resulting in a \$437,230 increase of deferred outflow of resources, a \$1,429,000 increase to accounts payable, and a \$991,770 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 \$166.3 million, \$161.3 million, and \$181.2 million for the years ended June 30, 2019, 2018, and 2017, respectively.

The following support items totaling \$34.7 million are reflected in KU’s statements for 2019:

- **Capital Projects.** KU Endowment sponsored many capital projects throughout 2019 at a cost of \$6.0 million, a decrease of \$13.4 million from 2018. The primary capital projects benefited from KU Endowment’s fundraising efforts included continued funding on Simons Bioscience Laboratory addition (\$2.7 million) and various other building upgrades and remodeling, as well as various equipment purchases and contributions.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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- **Salaries and other operating expenses.** KU Endowment reimbursed KU approximately \$28.6 million, a decrease of \$2.6 million from 2018, 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.

## CAPITAL ASSETS

KU made significant investments in capital during the 2019 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:

- 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 included the addition 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 was completed in November 2018 at an original cost of \$9.5 million.
- Student Housing replaced two existing 100% outdoor air units on Lewis Hall with new power and gas lines to distribute to outdoor air units. The project included 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 was completed in August 2018 at an original cost of \$1.3 million.
- Student Housing renovated Battenfeld Hall with the project including the 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 included renovation to the kitchen and related equipment, cabinets and counters and improvements in the dining and recreation areas, partial interior renovation. The project was completed in August 2018 at an original cost of \$2.1 million.

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

- 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 was completed in July 2019.
- KU identified a need to perform infrastructure repairs to Cambridge Garage, which was built in the early 1980s. 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.
- 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 2020.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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## DEBT ADMINISTRATION

At June 30, 2019, KU and its affiliated corporations had \$724.8 million in revenue bond debt outstanding, and \$43.8 million in capital leases and notes payable. In fiscal year 2019, KU entered into \$21.2 million in new notes payable and capital leases. The composition of the notes and capital leases were:

- \$17.7 million in an Athletic line of credit for the construction of the new indoor football practice facility.
- \$2.3 million in other notes for the purchase of equipment.
- \$1.2 million in new capital leases for equipment.

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.

KU and its affiliated corporations paid \$75.5 million, \$66.3 million, and \$63.4 million in principal and interest payments related to all outstanding capital debt and capital leases in 2019, 2018, and 2017, respectively.

On May 2, 2019 Moody's Investor Service revised KU's overall rating to Aa2 with a stable outlook from Aa2 with a negative outlook. On July 17, 2019, Standard and Poor's reaffirmed KU's rating of AA-, with a stable outlook. More detailed information about KU's revenue bonds is available in Notes 13 and 14 to the financial statements.

## ECONOMIC OUTLOOK

Fiscal year 2020 state appropriations are currently budgeted to be \$259.5 million or about 6.0% more than fiscal year 2019. The fiscal year 2020 appropriations include fringe and debt service adjustments, restoration of funding as provided by the fiscal year 2019 Legislature and a 2.5% merit pool provided per action of the State Financial Council. Additional monies were also provided as a distribution of block grant funds through the Kansas Board of Regents. State appropriations for 2020 and beyond will likely be impacted by the legislative priorities of the 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 campus started planning for a way to redesign KU's budget model for revenue allocation. The new model – Priority Centered Management -- will intentionally and explicitly align the budget to priorities including research and scholarship, and undergraduate and graduate student success, career development of employees, outreach across our state and beyond, as well as diversity, equity, and inclusion.

An internal realignment of \$20 million or 5.87% that was announced in May 2018 was the starting point for the development of the new budget model. KU's new budget model will be used to allocate resources in a manner that is consistent with university priorities. A team, led by the interim provost, has worked with the KU community for over a year and the first phase of the new budget model will go into effect for academic (student credit hour generating) units in fiscal year 2021 as a result of the new model. The second phase of the roll out is expected to go into effect for all other units in fiscal year 2022.

For fiscal year 2020, the Kansas Board of Regents approved a 0% increase in tuition and campus fees for undergraduate resident and graduate resident students and a 2.5% increase in undergraduate nonresident and graduate nonresident students.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

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During the fall 2019 semester 28,423 students were enrolled at KU, which was a decrease of 87 students from fall 2018. KU continues to focus on managing 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.

Beginning in fall 2019, KU is launching the next strategic planning process to shape the future of the university. The goal of the strategic planning process is to make choices, set priorities and listen to various stakeholders around campus, so that KU will continue to advance its mission and aspirations as a top national research university. The new strategic plan is expected to be completed by June 2020.

At the beginning of 2020, KU hired a new Vice Chancellor for Research to head up the office of Research/KUCR on the Lawrence campus. The new Vice Chancellor has renewed enthusiasm across campus, particularly with energizing scholars and scholarly activity across campus. KU continues to work on coordinating research development and support. 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 2020 and beyond. As a result, KU is looking to other direct and indirect grant sources, including state and private grants, to complement its 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, 2019 AND 2018

	<u>2019</u>	<u>Restated 2018</u>
<b><u>ASSETS</u></b>		
Current assets:		
Cash and cash equivalents	\$ 232,284,633	\$ 214,942,958
Restricted cash and cash equivalents	10,651,704	7,451,839
Investments	90,816,592	79,891,503
Accounts receivable, net	107,450,800	98,304,788
Pledges receivable, net	29,082,579	23,181,475
Loans to students, net	3,038,504	3,327,384
Inventories	7,140,826	7,001,438
Other assets	8,006,560	5,971,490
Total current assets	<u>488,472,198</u>	<u>440,072,875</u>
Non-current assets:		
Restricted cash and cash equivalents	11,798,830	31,512,586
Accounts receivable, net	4,012,657	4,675,751
Pledges receivable, net	33,948,315	43,450,248
Endowment investments	90,368,689	90,926,122
Other investments	77,392,714	69,387,491
Loans to students, net	33,620,351	34,280,825
Capital assets, net	<u>1,729,327,945</u>	<u>1,766,261,848</u>
Total non-current assets	<u>1,980,469,501</u>	<u>2,040,494,871</u>
Total assets	<u>2,468,941,699</u>	<u>2,480,567,746</u>
<b><u>DEFERRED OUTFLOWS</u></b>		
Unamortized loss on bond refunding	3,615,025	4,259,045
Deferred OPEB expense	1,438,216	821,885
Asset retirement obligations	783,715	904,785
Deferred pension expense	<u>13,290,202</u>	<u>14,343,595</u>
Total deferred outflows	<u>19,127,158</u>	<u>20,329,310</u>

THE UNIVERSITY OF KANSAS  
STATEMENT OF NET POSITION  
AS OF JUNE 30, 2019 AND 2018

(CONTINUED)

	2019	Restated 2018
<b><u>LIABILITIES</u></b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 88,280,934	\$ 96,385,904
Unearned revenue	43,677,064	34,735,861
Assets held in custody for others	9,668,135	9,410,479
Accrued compensated absences – current portion	35,398,814	34,835,686
Capital leases payable - current portion	5,718,543	5,455,778
Notes payable – current portion	1,392,229	2,208,753
Revenue bonds payable - current portion	30,965,000	31,224,439
Other liabilities	10,875,085	11,795,601
Total current liabilities	<u>225,975,804</u>	<u>226,052,501</u>
Non-current liabilities:		
Accrued compensated absences	9,207,460	8,063,902
Accrued other post-employment benefits	5,665,501	6,186,629
Accrued pension liability	71,182,592	78,007,342
Capital leases payable	14,568,179	19,216,580
Notes payable	22,129,549	5,797,185
Revenue bonds payable	693,865,000	724,830,000
Other long-term liabilities	65,955,515	71,452,203
Total non-current liabilities	<u>882,573,796</u>	<u>913,553,841</u>
Total liabilities	<u>1,108,549,600</u>	<u>1,139,606,342</u>
<b><u>DEFERRED INFLOWS</u></b>		
Deferred OPEB expense	208,961	166,277
Deferred pension expense	13,254,890	13,096,212
Total deferred inflows	<u>13,463,851</u>	<u>13,262,489</u>
<b><u>NET POSITION</u></b>		
Net investment in capital assets	916,224,657	937,265,888
Restricted for:		
Nonexpendable	68,173,980	66,971,232
Expendable:		
Scholarships, research, instruction and other	42,909,894	37,341,908
Loans	21,162,427	20,432,988
Capital projects	61,824,249	76,485,988
Debt service	8,769,113	8,998,937
Unrestricted	246,991,086	200,531,284
Total net position	<u>\$ 1,366,055,406</u>	<u>\$ 1,348,028,225</u>

*See accompanying notes to financial statements.*

KANSAS UNIVERSITY ENDOWMENT ASSOCIATION  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS OF JUNE 30, 2019 AND 2018

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	<b>2019</b>	<b>2018</b>
	<i>(In Thousands)</i>	
<b>Assets</b>		
Cash and cash equivalents	\$ 8,794	\$ 19,836
Receivables:		
Receivables from investing activities	2,665	15,461
Other receivables	9,077	7,961
Student loans receivable, less allowance of \$1,796 and \$1,669 in 2019 and 2018, respectively	22,075	21,580
Contributions pledged, less allowance of \$2,293 and \$3,317 in 2019 and 2018, respectively	109,664	106,633
Real estate loans receivable	6,692	7,487
Total receivables	<b>150,173</b>	159,122
Investments:		
Securities	1,925,171	1,753,245
Trust held by others	46,445	45,856
Interest in other KU Endowment entities	3,853	3,859
Real estate	18,700	18,501
Total investments	<b>1,994,169</b>	1,821,461
Property and facilities:		
Land	16,495	15,115
Buildings	25,514	26,199
Equipment and furnishings	3,688	3,221
	<b>45,697</b>	44,535
Less accumulated depreciation	<b>(16,003)</b>	(15,002)
Net property and facilities	<b>29,694</b>	29,533
Deposits and other assets	5,815	6,114
Total assets	<b>\$ 2,188,645</b>	<b>\$ 2,036,066</b>

KANSAS UNIVERSITY ENDOWMENT ASSOCIATION  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS OF JUNE 30, 2019 AND 2018

(CONTINUED)

	<u>2019</u>	<u>2018</u>
	<i>(In Thousands)</i>	
<b>Liabilities and net assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 25,632	\$ 20,533
Payables from investment activities	580	546
Trust payable	160	117
Life income gifts payable	21,221	21,569
Agency funds	69,714	67,339
Total liabilities	<u>117,307</u>	<u>110,104</u>
Net assets:		
Without donor restrictions	200,547	193,543
With donor restrictions	1,870,791	1,732,419
Total net assets	<u>2,071,338</u>	<u>1,925,962</u>

Total liabilities and net assets	<u>\$ 2,188,645</u>	<u>\$ 2,036,066</u>
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*See accompanying notes*



THE UNIVERSITY OF KANSAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>Restated 2018</u>
<b><u>OPERATING REVENUES</u></b>		
Tuition and fees (net of scholarship allowances of \$32,518,282 in 2019 and \$34,518,650 in 2018)	\$ 325,095,850	\$ 324,035,590
Federal grants and contracts	179,434,573	164,728,124
State and local grants and contracts	37,338,423	38,119,702
Nongovernmental grants and contracts	59,273,481	65,333,833
Sales and services of educational departments	98,855,918	98,050,487
Sales and services of medical and administrative activities	61,163,289	55,353,806
Auxiliary enterprises:		
Housing	34,591,774	31,650,924
Athletics	110,957,751	101,230,658
Parking and transit	19,178,042	18,559,410
Student unions	37,090,380	37,705,353
University health services	10,236,914	10,358,108
Other auxiliary enterprises	3,223,703	5,019,934
Other operating revenues	8,740,948	10,239,065
Total operating revenues	<u>985,181,046</u>	<u>960,384,994</u>
<b><u>OPERATING EXPENSES</u></b>		
Instruction	429,133,732	425,903,941
Research	264,584,740	266,784,693
Public service	55,231,853	47,086,911
Academic support	65,298,599	65,777,017
Student services	41,149,695	38,172,391
Institutional support	59,609,675	63,592,652
Operations and maintenance of plant	88,015,434	90,870,614
Depreciation	113,663,073	104,229,330
Scholarships and fellowships	16,532,918	18,935,345
Auxiliary enterprises:		
Housing	18,681,499	19,752,579
Athletics	103,769,050	94,017,379
Parking and transit	11,969,050	7,663,340
Student unions	33,181,074	34,050,254
University health services	8,338,458	8,474,967
Other auxiliary enterprises	4,845,598	5,149,823
Other operating expenses	722,676	2,651,185
Total operating expenses	<u>1,314,727,124</u>	<u>1,293,112,421</u>
 Total operating income (loss)	 <u>(329,546,078)</u>	 <u>(332,727,427)</u>

THE UNIVERSITY OF KANSAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

(CONTINUED)

	<u>2019</u>	<u>Restated 2018</u>
<b><u>NON-OPERATING REVENUES (EXPENSES)</u></b>		
State appropriations	\$ 244,972,426	\$ 238,164,714
Local appropriations	11,988,800	11,020,800
Gifts	57,941,219	62,293,228
Investment income	14,248,669	15,012,827
Federal grants and contracts	19,253,695	19,123,509
Other non-operating revenues	2,530,638	6,512,182
Interest expense	(29,846,661)	(20,104,785)
Other non-operating expenses	(4,127,892)	(25,861,014)
Net non-operating revenues (expenses)	<u>316,960,894</u>	<u>306,161,461</u>
 Income (loss) before other revenues, expenses, gains or losses	 (12,585,184)	 (26,565,966)
<b><u>OTHER REVENUES, EXPENSES, GAINS AND LOSSES</u></b>		
Capital appropriations	16,221,689	13,483,042
Capital grants and gifts	13,845,739	84,648,875
Additions to permanent endowments	8,391	(3,868)
Total other revenues, expenses, gains or losses	<u>30,075,819</u>	<u>98,128,049</u>
 Increase (decrease) in net position	 17,490,635	 71,562,083
<b><u>NET POSITION</u></b>		
Net position - beginning of year	1,348,028,225	1,283,413,007
Restatement of net position - beginning of year	536,546	(6,946,865)
Net position - end of year	<u>\$ 1,366,055,406</u>	<u>\$ 1,348,028,225</u>

*See accompanying notes to financial statements.*

KANSAS UNIVERSITY ENDOWMENT ASSOCIATION  
CONSOLIDATED STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	Year Ended June 30, 2019			Summarized Financial Information for the Year Ended June 30, 2018
	Without Donor Restrictions	With Donor Restrictions	Total Current Year	
	<i>(In Thousands)</i>			
Revenues, gains (losses), and other support:				
Fundraising:				
Contributions and grants received and pledged	\$ 1,209	\$ 197,137	\$ 198,346	\$ 182,599
Bequests	343	24,879	25,222	28,316
Life income gifts	-	151	151	152
Change in value of life income gifts	(54)	1,302	1,248	2,560
Change in net interest in KU Endowment entities	-	(6)	(6)	420
Total fundraising	1,498	223,463	224,961	214,047
Income (loss) from asset holdings:				
Investment income	8,740	36,602	45,342	36,872
Realized and unrealized gain (loss) on investments and trusts held by others	25,869	25,088	50,957	100,190
Loan interest income	2,179	1,060	3,239	1,827
Agricultural and mineral income	871	1,006	1,877	1,810
Rental, gain on sale of assets, and other income	1,645	111	1,756	2,108
Total income (loss) from asset holdings	39,304	63,867	103,171	142,807
Other receipts	693	20,663	21,356	3,795
Net assets released from restrictions:				
Satisfaction of program restrictions	167,421	(167,421)	-	-
Total revenues, gains and other support	\$ 208,916	\$ 140,572	\$ 349,488	\$ 360,649

KANSAS UNIVERSITY ENDOWMENT ASSOCIATION  
CONSOLIDATED STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

(CONTINUED)

	Year Ended June 30, 2019			Summarized Financial Information for the Year Ended June 30, 2018
	Without Donor Restrictions	With Donor Restrictions	Total Current Year	
	<i>(In Thousands)</i>			
Expenses:				
University support:				
Student support	\$ 40,907	\$ -	\$ 40,907	\$ 36,415
Faculty support and contractual services	39,969	-	39,969	40,306
Construction, furnishings, equipment and supplies	42,657	-	42,657	51,753
Program and other educational support	50,060	-	50,060	62,691
Total University support	173,593	-	173,593	191,165
Supporting services:				
Administrative and fundraising support	22,497	-	22,497	21,468
Asset management expense	962	-	962	787
Depreciation	1,191	-	1,191	1,038
Total supporting services	24,650	-	24,650	23,293
Total expenses	198,243	-	198,243	214,458
Excess (deficit) of revenues over expenses	10,673	140,572	151,245	146,191
Net interfund transfers	2,201	(2,201)	-	-
Change in net assets before amortization of pension adjustments	12,874	138,371	151,245	146,191
Amortization of unrecognized actuarial adjustments	(5,869)	-	(5,869)	2,393
Change in net assets	7,005	138,371	145,376	148,584
Net assets at beginning of year	193,543	1,732,419	1,925,962	1,777,378
Net assets at end of year	\$ 200,548	\$ 1,870,790	\$ 2,071,338	\$ 1,925,962

See accompanying notes

THE UNIVERSITY OF KANSAS  
STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	Restated 2018
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>		
Tuition and fees	\$ 331,877,385	\$ 329,151,441
Sales and services of educational activities	72,503,675	59,263,747
Sales and services of medical and administrative activities	60,163,289	55,353,805
Auxiliary enterprises:		
Housing	15,951,578	13,200,149
Athletics	12,799,112	7,621,191
Parking and transit	14,912,442	15,412,214
Student unions	3,387,685	1,512,666
University health services	1,842,092	1,758,952
Other auxiliary enterprises	(93,217)	1,503,411
Grants and contracts	281,554,345	257,074,753
Payments to suppliers	(231,867,858)	(208,524,848)
Payments to utilities	(21,681,339)	(25,134,287)
Compensation and benefits	(756,072,035)	(743,176,518)
Payments for scholarships and fellowships	(16,532,918)	(13,976,870)
Loans issued to students	(8,889,009)	(12,930,824)
Collection of loans to students	4,479,009	4,987,277
Other receipts (payments)	3,500,923	12,313,982
Net cash used in operating activities	<u>(232,164,841)</u>	<u>(244,589,759)</u>
<b><u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u></b>		
State appropriations	244,972,426	238,164,714
Local appropriations	12,167,376	11,181,181
Gifts	57,949,610	62,754,649
Federal education loan receipts	163,188,907	162,152,915
Federal education loan disbursements	(161,220,655)	(162,024,883)
Non-operating grants and contracts	19,183,050	19,092,490
Other	4,931,673	3,384,568
Net cash provided by non-capital financing activities	<u>341,172,387</u>	<u>334,705,634</u>
<b><u>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</u></b>		
Proceeds from capital debt	19,989,161	10,624,684
Capital appropriations	15,422,351	10,487,168
Capital grants and gifts	14,105,021	7,759,403
Purchases of capital assets	(80,230,726)	(210,046,455)
Proceeds from sale of capital assets	1,065,524	531,311
Principal paid on capital debt and leases	(41,316,676)	(34,753,796)
Interest paid on capital debt and leases	(34,154,839)	(31,511,547)
Other	1,083,180	4,436,177
Net cash used in capital financing activities	<u>(104,037,004)</u>	<u>(242,473,055)</u>

THE UNIVERSITY OF KANSAS  
STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

(CONTINUED)

	<u>2019</u>	<u>Restated 2018</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>		
Proceeds from sales and maturities of investments	89,936,913	192,855,507
Interest on investments	11,294,575	9,179,376
Purchase of investments	<u>(105,374,246)</u>	<u>(91,475,418)</u>
Net cash provided by (used in) investing activities	<u>(4,142,758)</u>	<u>110,559,465</u>
 Net increase (decrease) in cash	 827,784	 (41,797,715)
 Cash - beginning of the year	 <u>253,907,383</u>	 <u>295,705,098</u>
Cash - end of year	<u>\$ 254,735,167</u>	<u>\$ 253,907,383</u>
 <b><u>RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH USED BY OPERATING ACTIVITIES:</u></b>		
Operating loss	\$ (329,546,078)	\$ (332,727,427)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Non-cash expense	1,560,134	3,094,087
Depreciation expense	113,663,073	104,229,330
Changes in assets and liabilities:		
Accounts receivables, net	(7,436,570)	(19,301,116)
Pledges receivable, net	(3,596,764)	3,464,086
Loans to students, net	949,354	(2,851,054)
Inventories	(139,388)	(181,798)
Prepaid expenses and other assets	(701,893)	(5,843,504)
Other assets	(1,330,505)	(1,373,134)
Accounts payable and accrued liabilities	(8,790,919)	7,166,750
Unearned revenue	8,675,400	(2,036,850)
Accrued compensated absences	1,706,686	4,098,707
Accrued other post-employment benefits	(414,309)	(1,338,033)
Accrued pension liability	(7,153,628)	(838,781)
Assets held in custody for others	390,566	(151,022)
Net cash provided used in operating activities:	<u>\$ (232,164,841)</u>	<u>\$ (244,589,759)</u>
 Non-cash Investing, Capital and Financing Activities:		
Gifts-in-kind	\$ 13,845,739	\$ 84,648,875
Net change in unrealized gains and losses	(2,529,630)	7,736,043
Purchases of capital assets in accounts payable and accrued expenses	6,760,374	6,383,564

*See accompanying notes to financial statements*



# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2019 and 2018

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

For fall 2018, the Lawrence, Edwards and Leavenworth campuses had an undergraduate enrollment of 18,975 and a graduate/first professional enrollment of 5,840. The Medical Center had an undergraduate enrollment of 601 and a graduate/first professional (including medical residents, fellows and trainees) enrollment of 3,094. Enrollment at all campuses was 28,510 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 24.

The financial activity and balances the Kansas University Alumni Association, the KU Medical School Alumni Association, Kansas University Physicians, Inc., the University of Kansas Hospital Authority and other immaterial related affiliated organizations are not included in the financial statements of KU as they are legally separate entities but 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, 2019 and 2018

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**Cash Equivalents.** For purposes of the Statement of Cash Flows, KU considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. At certain times, some of KU's component units maintain cash balances in excess of FDIC limits. KU has a letter of credit for \$35 million that expires in July 2019 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, 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. Construction of or 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 23)

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2019 and 2018

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**Non-current Liabilities.** Non-current liabilities include principal amounts and issuance premiums of notes and revenue bonds payable; capital lease obligations with contractual maturities greater than one year; estimated amounts for accrued compensated absences, accrued other postemployment benefits; 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, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, 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, 2019 and 2018

*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.

**Reclassifications.** Certain reclassifications have been made to the 2018 financial statements to conform to the 2019 financial statement presentation.

### 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>2019</u>	<u>2018</u>
Carrying value:		
Deposits	\$ 243,599,609	\$ 241,949,224
Investments	<u>269,713,553</u>	<u>252,163,275</u>
	<u>\$ 513,313,162</u>	<u>\$ 494,112,499</u>

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

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 232,284,633	\$ 214,942,958
Restricted cash and cash equivalents	10,651,704	7,451,839
Investments	90,816,592	79,891,503
Restricted cash and cash equivalents (non-current)	11,798,830	31,512,586
Endowment investments (non-current)	90,368,689	90,926,122
Other investments (non-current)	<u>77,392,714</u>	<u>69,387,491</u>
	<u>\$ 513,313,162</u>	<u>\$ 494,112,499</u>

KU carried the following deposits as of June 30:

<u>Deposit Type</u>	<u>2019</u>	<u>2018</u>
Cash deposits with State Treasury	\$ 166,379,121	\$ 180,156,319
Cash deposits with financial institutions	76,837,009	61,315,065
Certificates of deposit	<u>383,479</u>	<u>477,840</u>
	<u>\$ 243,599,609</u>	<u>\$ 241,949,224</u>

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2019 and 2018

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

	<u>2019</u>	<u>2018</u>
KU Lawrence and Edwards Campuses	\$ 112,261,579	\$ 120,237,189
Kansas Athletics, Inc.	19,492,338	9,428,409
KU Campus Development Corporation	7,766,624	18,626,986
KU Center for Research, Inc.	25,229,207	17,351,805
KU Memorial Corporation*	(86,862)	278,742
KU Medical Center	75,056,329	71,110,084
KU Medical Center Research Institute	3,245,494	4,333,761
Student Union Corporation of KUMC	458,689	500,999
Kansas University Health Partners, Inc.	176,211	81,249
	<u>\$ 243,599,609</u>	<u>\$ 241,949,224</u>

\* - The KU Memorial Corporation utilizes an overnight repurchase agreement for its bank deposits to maximize investment return. At June 30, 2019 and 2018, the overnight repurchase agreement amounted to \$3,171,339 and \$4,265,735, 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>	<u>2019</u> <u>Fair Value</u>	<u>2018</u> <u>Fair Value</u>
US Treasury obligations	\$ 6,316,043	\$ 319,790
US Agency obligations	1,020,394	3,068,867
Municipal bonds	2,612,214	2,168,574
Corporate bonds	3,441,087	2,233,685
Foreign bonds	-	15,992
Collateralized mortgage obligations	58,334,097	48,465,262
Domestic stock	4,832,354	5,941,062
Foreign stock	431,968	517,195
Mutual funds	64,015,418	58,546,879
Limited liability companies	1,246,650	1,746,261
Repurchase agreements	3,171,339	4,265,735
Guaranteed investment contracts	1,419,475	1,419,475
Other	17,259,410	18,440,275
External investment pools		
KUEA Short-term Investment Program	40,483,957	39,105,486
KUEA Long-term Investment Program	65,129,147	65,908,737
	<u>\$ 269,713,553</u>	<u>\$ 252,163,275</u>

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2019 and 2018

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

	<u>2019</u>	<u>2018</u>
KU Lawrence and Edwards Campuses	\$ 65,833,175	\$ 65,598,684
Kansas Athletics, Inc.	55,236,043	54,418,923
KU Campus Development Corporation	-	1,184,538
KU Center for Research, Inc.	65,564,791	54,565,965
KU Memorial Corporation	3,289,147	4,376,542
KU Medical Center	5,400,393	5,625,077
KU Medical Center Research Institute	74,390,004	66,393,546
	<u>\$ 269,713,553</u>	<u>\$ 252,163,275</u>

### INVESTMENT POLICY

State statutes govern KU's investment policies. For investments related to KU's Kansas Development Finance Authority (K DFA) 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
- 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 SKILL Act projects and bonds
- High grade commercial paper that does not exceed 270 days to maturity
- High grade corporate bonds that does not exceed two years in maturity

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.

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



# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2019 and 2018

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

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

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

The Executive Committee, as well as the Finance and Audit Committee of KUCR, oversees KUCR investments. 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 Executive Committee of KUMCRI oversee the KUMCRI's investment policy. Per KUMCRI investment policy, investments are actively managed in collaboration with investment industry professionals with direct ownership of the financial investments held by the KUMCRI or within a mutual fund. Financial advisors are selected by the Executive Committee and approved by the Board of Directors. Approved financial advisors make regular presentations to the Executive Committee, and overall performance is reviewed at each Executive Committee and Board of Directors meeting. KUMCRI investment policy also sets investment quality standards for specific investments (i.e. U.S. Treasury and Agency Obligations; including Callable, Non- Callable, Step-Ups, Mortgage-Backed Securities and Collateralized Mortgage Obligations; also, Certificates of Deposit, Secured Municipal Bonds, Corporate Debt Securities; rated A- or better by two rating agencies, and Money Market Funds).

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2019 and 2018

### 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, 2019:

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	\$ 6,316,043	\$ 55,884	\$ 95,891	\$ 80,999	\$ 6,083,269
US Agency obligations	1,020,394	16,138	862,447	-	141,809
Municipal bonds	2,612,214	751,268	265,000	1,595,946	-
Corporate bonds	3,441,087	215,280	2,635,402	446,457	143,948
Collateralized mortgage obligations	58,334,097	428	1,605,557	3,762,915	52,965,197
Repurchase agreements	3,171,339	3,171,339	-	-	-
Guaranteed investment contracts	1,419,475	-	-	-	1,419,475
Other	12,901,693	5,989,028	6,667,641	245,024	-
External investment pools					
KUEA Short-term Investment Program	40,483,957	40,483,957	-	-	-
	129,700,299	50,683,322	12,131,938	6,131,341	60,753,698
Investments not subject to maturity dates:					
Domestic stock	4,832,354				
Foreign Stock	431,968				
Mutual funds	64,015,418				
Limited liability companies	1,246,650				
Other	4,357,717				
External investment pools					
KUEA Long-term Investment Program*	65,129,147				
	140,013,254				
	<u>\$ 269,713,553</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, 2019 and 2018

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				
	137,240,222				
	<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.

### 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, 2019, 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	\$ 1,183,684	0.4%
AA+/AA/AA-	Aa1/Aa2/Aa3	8,306,003	3.1%
A+/A/A-	A1/A2/A3	3,511,130	1.3%
BBB+/BBB/BBB-	Baa1/Baa2/Baa3	2,442,757	0.9%
BB+/BB/BB-	Ba1/Ba2/Ba3	183,660	0.1%
Not Rated		254,086,319	94.2%
		<u>\$ 269,713,553</u>	<u>100.0%</u>

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2019 and 2018

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As of June 30, 2018, KU held the following investments as rated by Standard and Poor's and/or Moody's:

<u>S&amp;P Credit Rating</u>	<u>Moody's Credit Rating</u>	<u>Fair Value</u>	<u>% of Total</u>
AAA	Aaa	\$ 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>

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, 2019 and 2018 was \$1,246,650 and \$1,746,261, 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 \$269,713,553 and \$252,163,275 as of June 30, 2019 and 2018, respectively, KU Endowment administers \$105,613,104 and \$105,014,223, respectively.

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2019 and 2018

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KU investments also include \$5,745,875 and \$5,801,127 of investments administered by U.S. Trust Bank of America Private Wealth Management as of June 30, 2019 and 2018, respectively, and \$19,493,668 and \$19,216,259 of investments administered by Frost Wealth Advisors as of June 30, 2019 and 2018, respectively. These investments consist of three accounts: 1) the Gertrude S. Pearson Trust, 2) the Elizabeth M. Watkins Trust for Watkins and Miller Scholarship Halls, and 3) the Elizabeth M. Watkins Trust for Watkins Hospital.

The Gertrude S. Pearson Trust had a reported market value of \$19,493,668 and \$19,216,259 at June 30, 2019 and 2018, respectively.

The Elizabeth M. Watkins Trust for Watkins and Miller Scholarship Halls had a reported market value of \$3,710,243 and \$3,740,448 at June 30, 2019 and 2018, respectively.

The Elizabeth M. Watkins Trust for Watkins Hospital had a reported market value of \$2,035,632 and \$2,060,679 at June 30, 2019 and 2018, respectively.

KU did not have any other investments which exceeded 5 percent of the investment portfolio at June 30, 2019 and 2018.

The remaining investments as of June 30, 2019 and 2018 of \$138,860,906 and \$122,131,666, respectively, are invested in a combination of short-term and long-term investments, primarily U.S. Agency obligations and corporate obligations which no individual issuer exceeded 5 percent of the total investment portfolio.

### NOTE 4 – FAIR VALUE

Fair value is based on an exit price, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As not all financial instruments are actively traded, various valuation methods may be used to estimate fair value. These methods rely on observable market data and where observable market data is not available, the best information available. Significant judgment may be required to interpret the data and select the assumptions used in the valuation estimates, particularly when observable market data is not available.

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

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

*Level 2* – Inputs include significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or, other inputs that are observable or can be corroborated by observable market data.

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2019 and 2018

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

### *Fixed maturities:*

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

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

### *Equity securities and mutual funds*

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

### *Repurchase agreements*

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

### *Other investments*

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2019 and 2018

As of June 30, 2019, 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)
<b>Fixed Maturity Securities:</b>				
US treasury obligations	\$ 6,316,043	\$ 6,316,043	\$ -	\$ -
US agency obligations	1,020,394	-	1,020,394	-
Municipal bond	2,612,214	-	2,612,214	-
Corporate bonds	3,441,087	-	3,441,087	-
Collateralized mortgage obligations	58,334,097	-	58,334,097	-
Total fixed maturity securities	<u>71,723,835</u>	<u>6,316,043</u>	<u>65,407,792</u>	<u>-</u>
<b>Equity Securities:</b>				
Consumer discretionary	1,180,737	1,180,737	-	-
Energy	160,260	160,260	-	-
Financials	1,041,083	1,041,083	-	-
Healthcare	573,672	573,672	-	-
Industrials	717,575	717,575	-	-
Information technology	1,230,517	1,230,517	-	-
Materials	138,712	138,712	-	-
Telecommunications services	106,344	106,344	-	-
Utilities	24,560	24,560	-	-
Other	90,862	90,862	-	-
Total equity securities	<u>5,264,322</u>	<u>5,264,322</u>	<u>-</u>	<u>-</u>
Repurchase agreements	3,171,339	3,171,339	-	-
Guaranteed investment contracts	1,419,475	-	1,419,475	-
Mutual funds	64,015,418	64,015,418	-	-
Other	17,259,410	3,299,610	11,318,458	2,641,342
<b>External investment pools:</b>				
KUEA Short-term Investment Program	40,483,957	-	40,483,957	-
KUEA Long-term Investment Program	65,129,147	-	65,129,147	-
Total investments by fair value level	<u>\$ 268,466,903</u>	<u>\$ 82,066,732</u>	<u>\$ 183,758,829</u>	<u>\$ 2,641,342</u>
<b>Investments with no determinable fair value:</b>				
Limited liability company	\$ 1,246,650			

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2019 and 2018

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)
<b>Fixed Maturity Securities:</b>				
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>
<b>Equity Securities:</b>				
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
<b>External investment pools:</b>				
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
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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. Certain investments may convert to having a readily determinable fair value, such as after an initial public offering. No impairment losses were recognized during the years ended June 30, 2019 or 2018. At June 30, 2019 and 2018, limited partnership investments totaled \$1,246,650 and \$1,746,261, respectively.



# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2019 and 2018

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### NOTE 5 – ACCOUNTS RECEIVABLE

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

	<u>2019</u>	<u>2018</u>
Tuition and Fees	\$ 24,367,037	\$ 21,109,919
Auxiliary	7,740,435	13,191,437
Grants and Contracts	45,459,091	46,887,821
Other	<u>38,565,787</u>	<u>26,371,026</u>
	116,132,350	107,560,203
Less:		
Allowance for uncollectible amounts	<u>(4,668,893)</u>	<u>(4,579,664)</u>
	<u>\$ 111,463,457</u>	<u>\$ 102,980,539</u>

### NOTE 6 – PLEDGES RECEIVABLE

Pledges receivable consist of the following unconditional promises to give:

	<u>2019</u>	<u>2018</u>
Due in less than one year	\$ 30,291,134	\$ 26,488,445
Due in one to five years	35,402,757	43,429,248
Due in greater than five years	<u>-</u>	<u>21,000</u>
	65,693,891	69,938,693
Less		
Unamortized discount	1,454,442	2,524,058
Allowance for uncollectible amounts	<u>1,208,555</u>	<u>782,912</u>
	<u>\$ 63,030,894</u>	<u>\$ 66,631,723</u>

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

	<u>2019</u>	<u>2018</u>
Pledges receivable - current	\$ 29,082,579	\$ 23,181,475
Pledges receivable - non-current	<u>33,948,315</u>	<u>43,450,248</u>
	<u>\$ 63,030,894</u>	<u>\$ 66,631,723</u>

### NOTE 7 – INVENTORIES

Inventories consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
Bookstore	\$ 2,237,979	\$ 2,378,758
Food service	203,754	246,516
Physical plant	2,173,130	2,409,346
Professional and scientific supplies	441,205	420,267
Other	<u>2,084,758</u>	<u>1,546,551</u>
	<u>\$ 7,140,826</u>	<u>\$ 7,001,438</u>

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2019 and 2018

### NOTE 8 – LOANS TO STUDENTS

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

	<u>2019</u>	<u>2018</u>
Federal Perkins Loan Program	\$ 16,319,740	\$ 19,272,443
Kansas Medical Scholarships	14,715,881	13,064,940
Other	<u>5,749,296</u>	<u>5,419,255</u>
	<b>36,784,917</b>	<b>37,756,638</b>
Less:		
Allowance for uncollectible amounts	<u>(126,062)</u>	<u>(148,429)</u>
	<b><u>\$ 36,658,855</u></b>	<b><u>\$ 37,608,209</u></b>

Student loans made through the Federal Perkins Loan Program provide 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.

The Kansas Medical Scholarships provide for a portion of the balances to be forgiven upon performance of certain requirements by the student subsequent to graduation.

### NOTE 9 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2019 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
<u>Non-depreciable capital assets</u>				
Land	\$ 34,009,936	\$ -	\$ (72,000)	\$ 33,937,936
Land improvements	165,607	-	-	165,607
Construction in progress	33,478,197	68,815,152	(39,432,715)	62,860,634
Software	5,163,758	-	-	5,163,758
Works of Art	23,699,090	446,451	(107,356)	24,038,185
Total non-depreciable capital assets	<u>96,516,588</u>	<u>69,261,603</u>	<u>(39,612,071)</u>	<u>126,166,120</u>
<u>Depreciable capital assets</u>				
Buildings	2,279,750,254	31,756,537	(4,037,471)	2,307,469,320
Leasehold Improvements	2,064,723	27,853	-	2,092,576
Infrastructure	178,952,527	4,679,743	-	183,632,270
Equipment	327,896,615	14,629,625	(18,043,598)	324,482,642
Vehicles	28,398,455	1,687,742	(763,715)	29,322,482
Total depreciable capital assets	<u>2,817,062,574</u>	<u>52,781,500</u>	<u>(22,844,784)</u>	<u>2,846,999,290</u>
Total capital asset cost	<u>2,913,579,162</u>	<u>122,043,103</u>	<u>(62,456,855)</u>	<u>2,973,165,410</u>
<u>Accumulated depreciation</u>				
Buildings	826,130,929	82,344,179	(636,759)	907,838,349
Leasehold Improvements	402,900	185,745	-	588,645
Infrastructure	54,584,691	6,175,037	-	60,759,728
Equipment	244,611,110	21,531,117	(15,894,197)	250,248,030
Vehicles	21,587,684	3,426,995	(611,966)	24,402,713
Total accumulated depreciation	<u>1,147,317,314</u>	<u>113,663,073</u>	<u>(17,142,922)</u>	<u>1,243,837,465</u>
Capital assets, net	<u>\$ 1,766,261,848</u>	<u>\$ 8,380,030</u>	<u>\$ (45,313,933)</u>	<u>\$ 1,729,327,945</u>

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2019 and 2018

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>

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 did not capital any interest during the year ended June 30, 2019. KU capitalized \$11,690,940 in interest during the years ended June 30, 2018.

### NOTE 10 – ASSET RETIREMENT OBLIGATION

KU measures its asset retirement obligations (AROs) based on the best estimates of the current value of costs associated with future retirement activities that are legally required when retiring certain assets. KU measures its estimate based on recent historical cost for similar retirement activities, costs estimates provided by vendors, and other inputs based on a review of similar transactions internally and at other institutions.

KU does not have any legally required funding and assurance provisions associated with the identified AROs.

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2019 and 2018

The following summary provides a general description of the major AROs reported at June 30, 2019 as well as reference to the legal requirements that generated the ARO and the average remaining useful life of the associated tangible capital asset:

Description	Legal Requirements	Average Remaining Useful Life (in years)	ARO Measured
Decontamination of biosafety cabinets	Biosafety practices & guidelines	12	\$ 228,000
Decontamination of fume hoods	Biosafety practices & guidelines	6.81	1,420,500
Disposal and fill-in of storage tanks	EPA & KDHE UST Regulations	1.45	275,000
Disposal of x-ray & radiation devices	EPA RoHS rules	1.81	59,000
Total asset retirement obligation			<u>\$ 1,982,500</u>

The following summary provides a general description of the major AROs reported at June 30, 2018 as well as reference to the legal requirements that generated the ARO and the average remaining useful life of the associated tangible capital asset:

Description	Legal Requirements	Average Remaining Useful Life (in years)	ARO Measured
Decontamination of biosafety cabinets	Biosafety practices & guidelines	13	\$ 228,000
Decontamination of fume hoods	Biosafety practices & guidelines	7.44	1,420,500
Disposal and fill-in of storage tanks	EPA & KDHE UST Regulations	1.55	275,000
Disposal of x-ray & radiation devices	EPA RoHS rules	2.19	59,000
Total asset retirement obligation			<u>\$ 1,982,500</u>

Deferred outflows of resources related to AROs at June 30, 2019 and 2018 totaled \$783,715 and \$904,785, respectively. The expected future expense recognition associated with deferred outflows of resources related to AROs over the next five years and thereafter is as follows:

Year Ending June 30:	Total
2020	\$ 72,470
2021	72,045
2022	69,120
2023	66,820
2024	63,520
Thereafter	439,740
	<u>\$ 783,715</u>

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2019 and 2018

### NOTE 11 - CHANGES IN NON-CURRENT LIABILITIES

Non-current liability activity for the year ended June 30, 2019 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Accrued compensated absences	\$ 42,899,588	\$ 29,139,221	\$ (27,432,535)	\$ 44,606,274	\$ 35,398,814
Accrued other post-employment benefits	6,186,629	613,908	(1,135,036)	5,665,501	-
Accrued pension liability	78,007,342	5,789,160	(12,613,910)	71,182,592	-
Capital leases payable	24,672,358	1,233,279	(5,618,915)	20,286,722	5,718,543
Notes payable	8,005,938	19,989,161	(4,473,321)	23,521,778	1,392,229
Revenue bonds payable	756,054,439	-	(31,224,439)	724,830,000	30,965,000
Other long-term liabilities	79,557,606	1,761,817	(4,488,823)	76,830,600	10,875,085
Total	\$ 995,383,900	\$ 58,526,546	\$ (86,986,979)	\$ 966,923,467	\$ 84,349,671

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	-
Accrued pension liability	79,504,833	7,903,102	(9,400,593)	78,007,342	-
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	17,557,275	(8,984,498)	83,247,804	11,795,601
Total	\$ 991,069,888	\$ 78,383,145	\$ (70,378,935)	\$ 999,074,098	\$ 85,520,257

### NOTE 12 – 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, 2019 and 2018, KU established a liability of \$17,856,174 and \$17,557,276, respectively, 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 13 - REVENUE BONDS OUTSTANDING

Revenue bonds payable consist of the following:

	Principal Outstanding at June 30, 2019	Principal Outstanding at June 30, 2018
<b>KU Lawrence and Edwards Campuses</b>		
<b>Series 2017A</b> - Kansas Development Finance Authority Revenue Bonds (University of Kansas Projects: EEEEC, Corbin Hall, Refunding 2006B and 2007E Series) \$47,085,000. Issued 1/18/17 with final maturity of 5/1/42. Principal is due in annual installments ranging from \$1,380,000 to \$2,615,000 beginning in 5/1/17 with interest ranging from 3.0% to 5.0% payable semi- annually. At the time of issuance, Moody's Investor Service assigned a rating of Aa2.	\$ 41,015,000	\$ 43,510,000

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2019 and 2018

	Principal Outstanding at June 30, 2019	Principal Outstanding at June 30, 2018
<p><b>Series 2014C</b> - Kansas Development Finance Authority Revenue Bonds (University of Kansas Projects: McCollum Residence Hall replacement and refunding of a portion of the Series 2005E-1 Series) \$55,310,000. Issued 6/19/14 with final maturity of 5/01/39. Principal is due in annual installments ranging from \$35,000 to \$2,625,000 beginning in 5/1/15 with interest ranging from 3.5% to 5.0% payable semi-annually. At the time of issuance, Standard &amp; Poor's assigned a rating of AA and Moody's Investor Service assigned a rating of Aa2.</p>	\$ 48,610,000	\$ 50,505,000
<p><b>Series 2013G-1</b> - 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>	66,160,000	68,365,000
<p><b>Series 2012D</b> - 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 &amp; Poor's assigned a rating of AA and Moody's Investor Service assigned a rating of Aa1.</p>	-	195,000
<p><b>Series 2011C</b> - 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 &amp; Poor's assigned a rating of AA and Moody's Investor Service assigned a rating of Aa1.</p>	10,290,000	10,720,000
<p><b>Series 2010M-2</b> - 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 &amp; Poor's.</p>	10,850,000	12,225,000
<p><b>Series 2010K-1</b> - 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 &amp; Poor's.</p>	2,025,000	2,490,000

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2019 and 2018

	Principal Outstanding at June 30, 2019	Principal Outstanding at June 30, 2018
<p><b>Series 2010B</b> - 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 &amp; Poor's.</p>	\$ 11,950,000	\$ 13,270,000
<p><b>Series 2010A</b> - Kansas Development Finance Authority Revenue Bonds (University of Kansas Housing System Projects: Jayhawker Renovation, current refunding of 1998D Series and advance refunding 2002A-1 Series) \$23,700,000. Principal due in annual installments of \$610,000 to \$2,030,000 beginning 11/1/10. Issued 1/28/10 with final maturity on 11/1/29 with interest ranging from 2.0% to 4.1% payable semi-annually. At the time of issuance, Standard &amp; Poor's assigned a rating of AA and Moody's Investor Service assigned a rating of Aa2.</p>	15,550,000	16,755,000
<p><b>Series 2009M</b> - Kansas Development Finance Authority Revenue Bonds (State of Kansas Project – Pharmacy) \$31,650,000. Due in annual installments of \$1,115,000 to \$2,350,000. Issued 8/13/09 with final maturity on 11/1/29. Interest ranging from 3.0% to 6.3% payable semi-annually. A rating of Aa2 was assigned by Moody's Investor Service and AA by Standard &amp; Poor's.</p>	16,855,000	18,350,000
<p><b>Series 2008L</b> - Kansas Development Finance Authority Revenue Bonds (University of Kansas – School of Pharmacy Project) \$21,070,000. Due in annual installments of \$560,000 to \$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
<b>KU Medical Center</b>		
<p><b>Series 2017A</b> - 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>	19,465,000	19,955,000
<p><b>Series 2016C</b> - 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 &amp; Poor's assigned a rating of AA and Moody's Investor Service assigned a rating of A1.</p>	42,740,000	44,050,000

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2019 and 2018

	Principal Outstanding at June 30, 2019	Principal Outstanding at June 30, 2018
<p><b>Series 2014C</b> - 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 &amp; Poor's assigned a rating of AA and Moody's Investor Service assigned a rating of Aa2.</p>	\$ 900,000	\$ 1,055,000
<p><b>Series 2014B</b> - 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
<p><b>Series 2013G-2</b> - 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 &amp; Poor's assigned a rating of AA and Moody's Investor Service assigned a rating of Aa1.</p>	-	675,000
<p><b>Series 2012D-2.2</b> - 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 &amp; Poor's assigned a rating of AA and Moody's Investor Services assigned a rating of Aa1.</p>	5,240,000	5,245,000
<p><b>Series 2012D-2.1</b> - 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 &amp; Poor's assigned a rating of AA and Moody's Investor Services assigned a rating of Aa1.</p>	29,705,000	32,080,000
<p><b>Series 2010P-2</b> - 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 &amp; Poor's.</p>	10,515,000	11,255,000



# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2019 and 2018

	Principal Outstanding at June 30, 2019	Principal Outstanding at June 30, 2018
<p><b>Series 2010K-2</b> - 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 &amp; Poor's.</p>	\$ 6,095,000	\$ 6,380,000
<b>KU Medical Center Research Institute</b>		
<p><b>Series 2010N</b> - 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 &amp; Poor's issued a rating of AA and Moody's Investor Service issued a rating of Aa1.</p>	12,680,000	13,590,000
<b>Kansas Athletics, Inc.</b>		
<p><b>Series 2014F</b> - 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 &amp; Poor's assigned a rating of A and Moody's Investors Service assigned a rating of A1.</p>	31,520,000	33,210,000
<b>KU Center for Research, Inc.</b>		
<p><b>Series 2014E</b> - 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 &amp; Poor's assigned a rating of AA and Moody's Investor Service assigned a rating of Aa2.</p>	8,520,000	9,350,000
<p><b>Series 2012E</b> - 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 &amp; Poor's assigned a rating of AA and Moody's Investor Service assigned a rating of Aa1.</p>	13,620,000	16,035,000

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2019 and 2018

	Principal Outstanding at June 30, 2019	Principal Outstanding at June 30, 2018
<b>KU Campus Development Corporation</b>		
<b>Series 2016</b> - Public Financial Authority Lease Development Revenue Bonds <b>(KU Campus Develop Corporation - Central District Development Project)</b> \$326,945,000. Principal is due in annual installment of \$1,620,000 to \$20,445,000 beginning 3/1/18. Issued 1/7/16 with final maturity on 3/1/46 and interest ranging from 4.0% to 5.0% payable semi-annually. At the time of issuance, Moody's Investor Service assigned a rating of Aa2.	\$ 320,525,000	\$ 325,325,000
Total	<u>\$ 724,830,000</u>	<u>\$ 756,054,439</u>

### NOTE 14 - REVENUE BONDS MATURITY SCHEDULE

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

Year Ending June 30:	Principal	Interest	Total
2020	\$ 30,965,000	\$ 32,491,558	\$ 63,456,558
2021	31,485,000	31,101,777	62,586,777
2022	32,595,000	29,681,261	62,276,261
2023	34,170,000	28,151,395	62,321,395
2024	35,195,000	26,679,511	61,874,511
2025-2029	163,720,000	111,329,370	275,049,370
2030-2034	127,485,000	80,489,818	207,974,818
2035-2039	128,220,000	51,559,479	179,779,479
2040-2044	101,085,000	24,134,328	125,219,328
2045-2049	39,910,000	3,017,750	42,927,750
	<u>\$ 724,830,000</u>	<u>\$ 418,636,247</u>	<u>\$ 1,143,466,247</u>

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 years ended June 30, 2019 and 2018, KU did not refund any bonds.

As of June 30, 2019 and 2018, KU had no outstanding amount of defeased issuances held in irrevocable trusts.

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2019 and 2018

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### NOTE 15 - LEASE OBLIGATIONS

KU is obligated for the purchase of certain equipment funded through the issuance of blanket financing agreements in the amount of \$20,286,722 and \$24,672,358 as of June 30, 2019 and 2018, respectively. Payments to liquidate these obligations are scheduled as follows:

Year Ending June 30:	Total
2020	\$ 6,159,342
2021	6,138,165
2022	5,725,251
2023	1,995,795
2024	828,267
2025 and thereafter	553,529
	<u>21,400,349</u>
Less: Capital lease interest	(1,113,627)
	<u>\$ 20,286,722</u>

As of June 30, the cost and accumulated depreciation on related assets was:

	<u>2019</u>	<u>2018</u>
Cost	\$ 40,473,507	\$ 39,217,427
Accumulated Depreciation	(12,511,977)	(9,163,948)
Net Book Value	<u>\$ 27,961,530</u>	<u>\$ 30,053,479</u>

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, 2019 and 2018 is \$4,766,466 and \$6,017,464, respectively.

### NOTE 16 – NOTES PAYABLE

KU Unions had a loan agreement to a bank with an outstanding balance of \$75,186 as of June 30, 2018. The loan was repaid in full as of June 30, 2019. The loan bears interest at a fixed rate of 2.88%, matured in October 2018, and was secured by the equipment purchased.

KU Unions had a line of credit with a bank in the amount of \$1,500,000. As of June 30, 2019, there was no balance outstanding on the line of credit. As of June 30, 2018, the outstanding balance on the line of credit was \$1,500,000. The line of credit carried a variable interest rate, which was 5.0% at June 30, 2018, and expired in January 2019. The line of credit was secured by accounts receivable, inventory and equipment.

During 2019, KU Unions negotiated a new line of credit with a bank in the amount of \$2,500,000. As of June 30, 2019, there was no outstanding balance on the line of credit. The line of credit carries a variable interest rate, which was 5.5% at June 30, 2019, and expires in January 2020. 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 \$14,475 and \$34,822 as of June 30, 2019 and 2018, respectively. The note bears at 3.34%, matures in August 2019, and is secured by property and equipment.

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2019 and 2018

Athletics has a line of credit with a bank in the amount of \$20,000,000. As of June 30, 2019, there was a \$17,739,161 borrowed against this line. 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 3.6% and 3.2% as of June 30, 2019 and 2018, respectively. 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, 2019 and 2018, the outstanding balance on the note was \$5,768,142 and \$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
2020	\$ 1,392,230
2021	19,167,761
2022	1,466,403
2023	1,495,384
	<u>\$ 23,521,778</u>

### NOTE 17– 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, 2019 are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Unamortized loss on bond refunding	\$ 4,259,045	\$ -	\$ (644,020)	\$ 3,615,025	\$ 597,141

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	\$ 4,923,549	\$ -	\$ (664,504)	\$ 4,259,045	\$ 644,648

### NOTE 18– PENSION PLAN

#### GENERAL INFORMATION ABOUT THE PENSION PLAN

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

*Benefits provided.* KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Benefits are established by statute and may only be changed by the 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”.

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2019 and 2018

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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.

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, 2018 are as follows:

	Actuarial employer rate	Statutory employer capped rate
State employees	9.62 %	12.01 %
Police and fire fighters	20.09	20.09

Contributions to the pension plan from KU were \$7,046,807 and \$6,344,163 for the years ended June 30, 2019 and 2018, respectively.

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

At June 30, 2019 and 2018, KU reported a liability of \$71,182,592 and \$78,007,342, respectively, for its proportionate share of the net pension liability. The net pension liability as of June 30, 2019 was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017, which was rolled forward to June 30, 2018. 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, 2018. The contributions used exclude contributions made for prior service, excess benefits and irregular payments.

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2019 and 2018

At the June 30, 2018 measurement date, KU's proportion made to the State/School subgroup was 0.97%, which was a decrease of 0.08% from its proportion measured as of June 30, 2017. At the June 30, 2018 measurement date, KU's proportion made to the Police and Fire subgroup was 0.85%, which was an increase of 0.03% from its proportion measured as of June 30, 2017.

For the years ended June 30, 2019 and 2018, KU recognized pension expense of \$1,595,992 and \$5,040,191, respectively. At June 30, 2019 and 2018, KU reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 499,198	\$ 2,773,138	\$ 372,819	\$ 3,553,646
Net difference between projected and actual earnings on pension plan investments	1,293,519	-	1,793,284	-
Change in proportion	1,649,352	10,404,759	1,975,689	9,415,047
Change of assumptions	2,801,326	76,993	3,857,640	127,519
Contributions subsequent to measurement date	7,046,807	-	6,344,163	-
	<u>\$ 13,290,202</u>	<u>\$ 13,254,890</u>	<u>\$ 14,343,595</u>	<u>\$ 13,096,212</u>

KU reported \$7,046,807 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, 2020.

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
2020	\$ (1,829,366)
2021	(1,366,043)
2022	(2,524,307)
2023	(1,050,484)
2024	(241,295)
	<u>\$ (7,011,495)</u>

*Actuarial assumptions.* The total pension liability was determined by an actuarial valuation as of December 31, 2017, which was rolled forward to June 30, 2018. 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.

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2019 and 2018

The actuarial assumptions used in the December 31, 2017 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. 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	\$ 96,504,949	\$ 71,182,592	\$ 49,793,682

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

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2019 and 2018

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### NOTE 19 - 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 \$39,146,301 and \$38,726,559 during fiscal years 2019 and 2018, 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 \$2,215,867 and \$2,308,374 to their individual plans during fiscal years 2019 and 2018, respectively.

### NOTE 20 – 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, 2019, the following members were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	84
Active employees	1,080
	1,164



# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2019 and 2018

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

KU's total OPEB liability of \$5,665,501 was measured as of June 30, 2018 and was determined by an actuarial valuation as of December 31, 2017, which was rolled forward to June 30, 2018.

*Actuarial assumptions and other inputs.* The total OPEB liability in the December 31, 2017 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	3.87%
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-2018.

The actuarial assumptions used in the June 30, 2018 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, 2017 KPERS pension valuation.

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

	<u>2019</u>	<u>2018</u>
Balance at beginning of year	\$ 6,186,629	\$ 7,524,662
Changes for the year:		
Service cost	206,666	218,496
Interest	208,155	198,471
Differences between expected and actual experience	301,151	-
Effect of assumption changes or inputs	(68,956)	(185,433)
Benefit payments	<u>(1,168,144)</u>	<u>(1,569,567)</u>
Net changes	<u>(521,128)</u>	<u>(1,338,033)</u>
Balance at end of year	<u>\$ 5,665,501</u>	<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 3.58% on June 30, 2017 to 3.87% on June 30, 2018.

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2019 and 2018

*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 3.87%, 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 (2.87%) or 1-percentage-point higher (4.87%) than the current rate:

	1% Decrease (2.87%)	Current Discount Rate (3.87%)	1% Increase (4.87%)
Proportionate share of the net pension liability	\$ 5,908,205	\$ 5,665,501	\$ 5,437,913

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.

For the year ended June 30, 2019 and 2018, KU recognized OPEB expense of \$720,333 and \$397,811, respectively. At June 30, 2019 and 2018, KU reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 270,072	\$ -	\$ -	\$ -
Change of assumptions	-	208,961	-	166,277
Contributions subsequent to measurement date	1,168,144	-	821,885	-
	<u>\$ 1,438,216</u>	<u>\$ 208,961</u>	<u>\$ 821,885</u>	<u>\$ 166,277</u>

The deferred outflow of resources related to the benefit payments subsequent to the measurement date totaling \$1,168,144 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, 2020. Other amounts reported as deferred outflows of sources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30:	Total
2020	\$ 4,807
2021	4,807
2022	4,807
2023	4,807
2024	4,807
Thereafter	37,076
	<u>\$ 61,111</u>

### NOTE 21 - COMMITMENTS AND CONTINGENT LIABILITIES

At June 30, 2019 and 2018, KU had outstanding commitments under construction contracts totaling \$27,339,643 and \$45,732,285, 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, 2019.

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2019 and 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.

### NOTE 22 – NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

KU's operating expenses by functional and natural classification for 2019 are as follows:

Functional Classification	Natural Classification					Total
	Compensation & Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation	
Instruction	\$ 392,742,125	\$ -	\$ 278,736	\$ 36,112,871	\$ -	\$ 429,133,732
Research	181,115,713	-	-	83,469,027	-	264,584,740
Public service	26,704,194	-	7,142	28,520,517	-	55,231,853
Academic support	48,336,119	-	-	16,962,480	-	65,298,599
Student services	31,446,799	-	716,208	8,986,688	-	41,149,695
Institutional support	29,154,697	-	-	30,454,978	-	59,609,675
Operations and maintenance of plant	53,652,000	-	20,736,183	13,627,251	-	88,015,434
Depreciation	-	-	-	-	113,663,073	113,663,073
Scholarships and fellowships	-	16,532,918	-	-	-	16,532,918
Auxiliary enterprises:						
Housing	4,850,648	-	3,525,316	10,305,535	-	18,681,499
Athletics	45,939,940	-	1,846,605	55,982,505	-	103,769,050
Parking	7,048,265	-	329,094	4,591,691	-	11,969,050
Student unions	16,053,007	-	1,151,398	15,976,669	-	33,181,074
University health services	5,952,530	-	-	2,385,928	-	8,338,458
Other auxiliary enterprises	3,073,858	-	-	1,771,740	-	4,845,598
Other	314,261	-	909	407,506	-	722,676
<b>Total</b>	<b>\$ 846,384,156</b>	<b>\$ 16,532,918</b>	<b>\$ 28,591,591</b>	<b>\$ 309,555,386</b>	<b>\$ 113,663,073</b>	<b>\$ 1,314,727,124</b>

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	\$ 396,557,492	\$ -	\$ 284,992	\$ 29,061,457	\$ -	\$ 425,903,941
Research	181,711,845	-	-	85,072,848	-	266,784,693
Public service	25,168,927	-	8,593	21,909,391	-	47,086,911
Academic support	50,093,157	-	-	15,683,860	-	65,777,017
Student services	29,056,741	-	270,225	8,845,425	-	38,172,391
Institutional support	33,888,492	-	-	29,704,160	-	63,592,652
Operations and maintenance of plant	55,755,566	-	24,497,583	10,617,465	-	90,870,614
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	12,279,475	-	19,752,579
Athletics	40,825,687	-	2,130,931	51,060,761	-	94,017,379
Parking	4,766,939	-	263,869	2,632,532	-	7,663,340
Student unions	16,152,372	-	1,131,282	16,766,600	-	34,050,254
University health services	6,027,012	-	171	2,447,784	-	8,474,967
Other auxiliary enterprises	1,657,458	-	13,770	3,478,595	-	5,149,823
Other	1,895,024	-	-	756,161	-	2,651,185
<b>Total</b>	<b>\$ 847,896,817</b>	<b>\$ 18,935,345</b>	<b>\$ 31,734,415</b>	<b>\$ 290,316,514</b>	<b>\$ 104,229,330</b>	<b>\$ 1,293,112,421</b>

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2019 and 2018

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### NOTE 23 – 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, 2019 and 2018, these amounts totaled \$8,327,499 and \$7,936,933, 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, 2019 and 2018, KU held \$821,741 and \$859,160, respectively, 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, 2019 and 2018, KU held \$518,895 and \$614,386, respectively, on behalf of these other organizations.

### NOTE 24 – 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 two categories: with donor restrictions and without donor restrictions. Funds without donor restrictions represent assets and contributions that are available for the broad benefit of KU but are not otherwise restricted by donors. Funds with donor restrictions represent assets and contributions with a donor-imposed restriction that permits the organization to use or expend the donated assets and income as specified, and the restriction is satisfied either by the passage of time or by accounts of the organization.

KU Endowment's complete Audit Report is available at:

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

### NOTE 25 – RESTATEMENTS

#### NEW ACCOUNTING STANDARDS

Effective July 1, 2018, KU's component units implemented the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2014-09, *Revenues from Contracts with Customers (Topic 606)*. As a result of the adoption of this standard, accounts receivable was increased by \$634,222, deferred revenues were increased by \$97,676, and net assets were increased \$536,546 as of July 1, 2018.

# NOTES TO THE FINANCIAL STATEMENTS

## For the Years Ended June 30, 2019 and 2018

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Effective July 1, 2017, KU implemented GASB Statement No. 75, which 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.

Effective July 1, 2017, KU implemented GASB Statement No. 83, *Certain Asset Retirement Obligations*, which resulted in a \$437,230 increase to deferred outflows of resources, a \$1,429,000 increase to accounts payable liability and a \$991,770 decrease to net position as of July 1, 2017.

### **NOTE 25 – SUBSEQUENT EVENT**

In July 2019, the State of Kansas issued \$69.0 million of revenue bonds (Series 2019F). A portion of the proceeds of the bonds were used to refund \$15.3 million outstanding principal of the Series 2009M School of Pharmacy bonds.