2006 Annual Financial Report

THE UNIVERSITY OF KANSAS

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THE UNIVERSITY OF KANSAS
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis provides an overview of the financial performance of the University of Kansas based on currently known facts, decisions, and conditions and is designed to assist readers in understanding the accompanying financial statements. These financial statements are prepared in accordance with Government Accounting Standards Board (GASB) principles, with the exception of GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units. The University has made the decision not to include the Kansas University Endowment Association within the University's unaudited financial statements. This discussion – along with the financial statements and related footnote disclosures – has been prepared by management and should be read in conjunction with the statements and footnotes. The financial statements, footnotes, and this discussion are the responsibility of management.

STATEMENT OF NET ASSETS

The Statement of Net Assets presents the assets, liabilities, and net assets of the University at a point in time (at the end of the fiscal year). Its purpose is to present a financial snapshot of the University. The Statement of Net Assets includes all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector institutions. Under the accrual basis of accounting all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

Net assets are divided into three categories:

1. **Invested in capital assets, net of debt**, indicates the university's equity in property, plant, and equipment owned by the University.
2. **Restricted net assets** are 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 assets are available for expenditure by the University 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 assets** are available to the University for any lawful purpose of the institution.

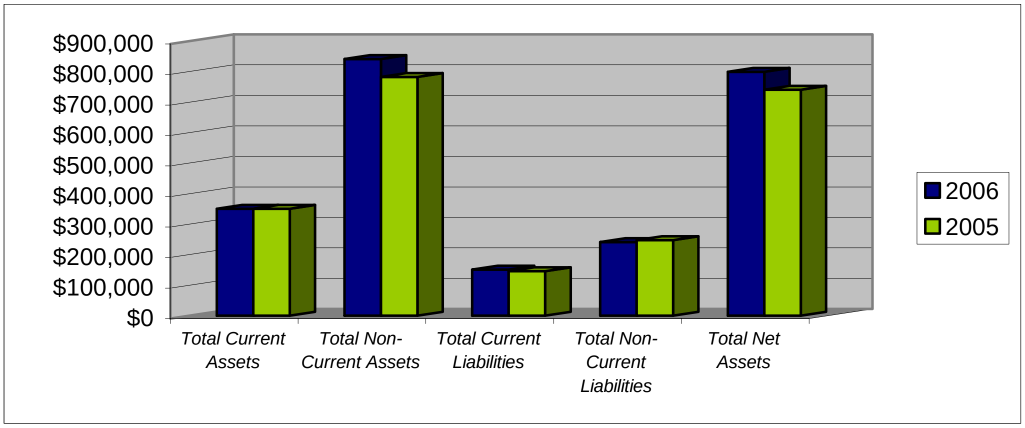
Total assets at June 30, 2006 were $1,191.6 million, an increase of $58.6 million (5%). Capital net assets comprised 61%, or $723.5 million of the assets.

Total liabilities were $391.9 million at June 30, 2006, a decrease of $1.1 million (0.3%) compared to $393.0 million at June 30, 2005. Long-term liabilities comprised 62%, or $241.1 million of the liabilities.

Total net assets at June 30, 2006 were $799.7 million, a $59.7 million increase over the prior year, or an 8% increase in net assets. The breakout of net assets is shown below:

Capital Assets, net of related debt…………..	$483,829,967
Restricted net assets ………………………...	173,389,271
Unrestricted net assets ………………………	142,478,526
Total net assets………………………..	**$799,697,764**

The composition of current and non-current assets and liabilities and net assets is displayed below for both the 2006 and 2005 fiscal year-ends (in thousands):



STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

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

Revenues

Total revenues increased by $80.4 million, from $935.3 million to $1,015.7 million, an overall increase of 9%.

Operating revenues at the University as of June 30, 2006 increased by 12% over the previous fiscal year. The following is a brief summary of the significant changes:

- Student tuition and fee revenues, after scholarship allowances, were $184.4 million in 2006, compared to $160.2 million in 2005, an overall increase of 15%. This increase is a direct result of a tuition increase approved by the Kansas Board of Regents for fiscal year 2006. The goal of the tuition increase, which was the result of collaboration between University Administration and University students, was to provide additional funds to the University to enhance student education. The tuition increase is the fourth year of a five year plan submitted to the Board of Regents and is composed of two components: a maintenance increase and an enhancement increase. The maintenance component is scheduled to increase at the rate of inflation, estimated by using the Higher Education Price Index (HEPI). The maintenance component for fiscal year 2006 also included a $6.00 per semester credit hour increase for non-resident tuition. The enhancement component increased all categories of tuition, resident/non-resident, graduate/undergraduate, by $16.50 per semester credit hour, or approximately $500 per year for a full-time student. The increased revenue is being used to improve the University in many ways. Funds will be targeted for technology, new faculty positions, salary increases, operating expenses, new staff and programs, and other investments to enhance the University.
- Medical service revenue, net, increased $11.6 million (12%) from the previous fiscal year. The increase is a result of increased patient volume. Two component units of the University, the Kansas University Physicians Inc. (KUPI) and Kansas University HealthPartners, Inc. generate medical service revenue. KUPI was incorporated in 1995 as a not-for-profit organization. KUPI operates at the University of Kansas Medical Center (KUMC) under a contract with the University. KUPI contracts with the various clinical foundations at KUMC who provide physician and other health care services to patients. Revenues generated for these professional physician services are received by KUPI who incurs expenses associated with delivering these services. KUPI also reimburses the clinical departments for physician services. KU HealthPartners, Inc. is a non-profit corporation affiliated with the KUMC. KU HealthPartners provides clinical services that are non-physician in nature to individuals and other

entities. KU HealthPartners provides professional clinical services from physical therapists, occupational therapists, hearing and speech pathologists, nurse practitioners, and other ancillary non-physician health care specialists. KU HealthPartners contracts with the School of Nursing and the School of Allied Health for the health care professionals who provide specific clinical services.

- State and local grants and contracts increased by 31% from $23.6 million to $31.0 million in 2006. Overall research revenues increased 6%. The split between federal, state and private grants varies year to year based upon the types of grant awards. In 2006, the University earned research revenues on several large state grants including $2.6 million for Kansas Reading and Math Assessment, $1.5 million for SIM Teacher Training Project and $1.0 million in various projects supported by the Kansas Technology Enterprise Corporation (KTEC).
- Auxiliary Enterprises – Housing revenues decreased by $8.2 million (33%) as all revenues related to dining services ran through the Kansas Unions in 2006. In the Fall of 2004, dining services in the Department of Student Housing and the Kansas Unions were merged and are now operated by the Campus Dining unit within the Kansas Unions. The final transition for this merger was to have all operating revenues and expenses flow through the Kansas Unions rather than through Housing starting in fiscal year 2006. Therefore this dramatic decrease was expected. Additionally Hashinger Hall was closed for renovations starting in May 2005. The $12.6 million renovation project is scheduled for completion in August 2006.
- Auxiliary Enterprises – Athletics revenues increased by $21.5 million (49%) to $65.1 million in 2006. The increase can be attributed to three significant transactions. First, Kansas Athletics, Inc. received a $12.0 million contribution towards its new football facility ($4.0 million cash; $8.0 million pledged). Second, KAI signed a new regional television contract with ESPN, which more than doubled its contract revenue. Finally, the University restructured its trademark/licensing process so that the revenues are first received by KAI and then distributed to the University.
- Auxiliary Enterprises – Student Unions increased $10.1 million (45%). As noted above the majority of this increase is related to dining services running entirely through the Kansas Unions rather than through Housing. Most of the remaining increase is related to $1.3 million additional computer and textbook sales in the bookstore.

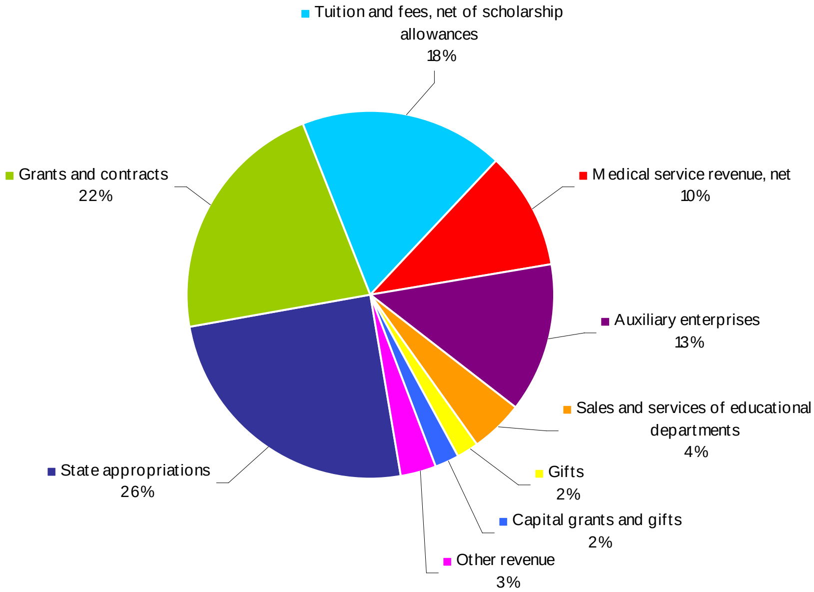
Total non-operating revenues were up 4% from the prior year from $279.1 million to $289.8 million. The following is a brief summary of the significant changes:

- State appropriations, the largest single source of revenue at the University, increased from $240.7 million to $252.3 million, or 5%. State appropriations for fiscal year 2006 were initially budgeted to increase by 4%. The additional increase in funding received during fiscal year 2006 is related to funding of the 27th pay period. Every eleven years due to the State's bi-weekly payroll process, all state agencies including the University incur 27 pay periods instead of 26 pay periods. In fiscal year 2006, the State provided additional appropriations to the University to cover a portion of this additional pay period.
- Investment income increased $2.5 million (18%) in 2006. The majority of the increase was related to a higher level of revenue bond project and reserve funds invested due to recent revenue bond issuances.
- Other non-operating revenues (expenses) decreased from $3.6 million to $0.2 million in 2006, a decrease of 94%. The decrease was primarily attributed to a $4.0 million payment received by the University in connection with a royalty buyout agreement executed between the University and another entity in July 2004. Within the buyout agreement, the University received $4.0 million and 2,000,000 shares of Preferred Stock in the other entity. The University did not receive any significant non-operating revenues in fiscal year 2006.

Other revenues included the following:

- Capital appropriations and capital gifts decreased from $26.4 million to $22.0 million, or 16%. The level of capital appropriations and capital gifts varies from year to year based upon the source of funding used for capital projects. The majority of capital construction activity in 2006 was primarily funded via revenue bonds rather than private donations.

The composition of these revenues is displayed in the following graph:



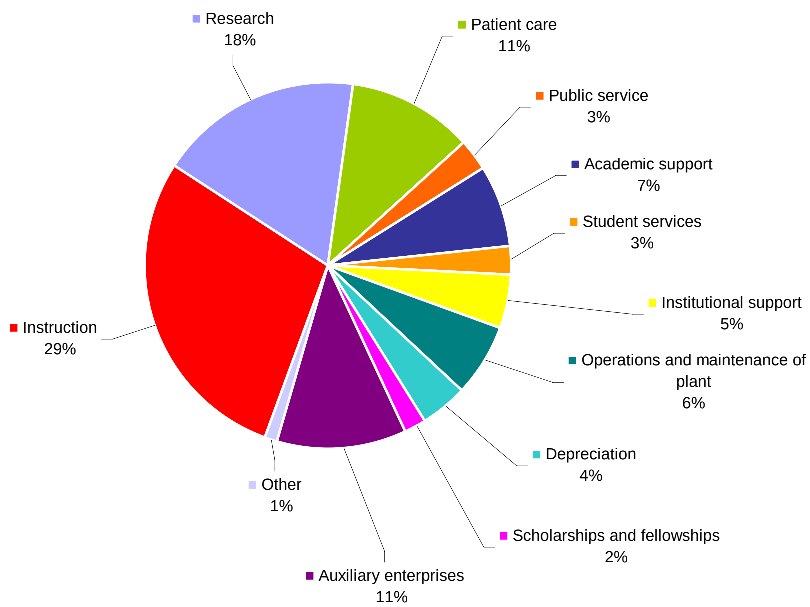
Expenses

Operating expenses were $946.3 million for the 2006 fiscal year. This was an increase over the prior year of $64.8 million, or 7%. The following is a brief summary of the significant changes:

- Patient care increased $11.9 million (13%) to $105.3 million in 2006 due to increased patient volume at KUMC.
- Public service increased by 24% in 2006 to $28.0 million. Public service expenses include funds expended for activities beneficial to individuals and groups external to the University. Activities include programs provided through the University's Continuing Education department, various public lecture series, KANU public radio programs, and various medical clinics. The increase in expenses can be primarily attributed to an increase in public service grants administered by the KU Center for Research (KUCR) during 2006.
- Depreciation increased $4.9 million (14%) from the previous year. This increase is directly related to the significant investment in capital construction in both 2005 and 2006. The most significant addition was the University's new $40.4 million Multidisciplinary Research Building, which was depreciated for half a year in fiscal year 2006.
- Auxiliary Enterprises – Housing decreased $7.5 million (35%) to $14.2 million in 2006. As noted above the majority of this increase is related to dining services running entirely through the Kansas Unions rather than through Housing.
- Auxiliary Enterprises – Athletics increased by 26% in 2006 to $46.1 million. The increase is the result of several factors including additional scholarship aid provided to all sports, additional out-of-state travel for football and basketball teams primarily related to tournaments and post season play, new staff positions, and performance bonuses for coaches.
- Auxiliary Enterprises – Student Unions increased $11.2 million (55%). As noted above the majority of this increase is related to dining services running entirely through the Kansas Unions rather than through Housing. A portion of the remaining increase in operating expenses is related to the increase in computer and textbook sales within the Kansas Unions bookstore. As sales increased, associated inventory costs also increased. Finally, the Kansas Unions also incurred budgeted general operating expenses increases related to payroll and travel.

Non-operating expenses are represented primarily by interest expense. Interest expense increased by 10% from the prior year from $8.8 million in 2005 to $9.7 million in 2006 as the result of the increased debt the University has incurred over the past few years.

The composition of total expenses, including operating and non-operating is displayed below:



Extraordinary Items

As noted above under "other non-operating revenues (expenses)", the University executed a royalty buyout agreement with another entity in July 2004. In connection with the buyout agreement, the University received $4,000,000 and 2,000,000 shares of Preferred Stock in the other entity. The University did not have any special and/or extraordinary items in 2006.

Endowment Expenses Paid On Behalf of University

The Kansas University Endowment Association (KUEA), an independent, not-for-profit organization whose primary mission is to raise funds for the University, provides direct and indirect support to the University that is not entirely reflected in the University's Statement of Revenues, Expenses and Changes in Net Assets. Expense items paid on behalf of the University by KUEA include expenses such as scholarships and fellowships, salaries, construction, equipment, books, works of art, and travel. Total University support provided by KUEA equaled approximately $99.0 million and $103.9 million in 2006 and 2005, respectively.

The following support items totaling $33.8 million are reflected in the University's statements for 2006.

- **Capital Projects**. KUEA sponsored many capital projects throughout the year with a combined approximate value of $12.8 million. The majority of this year's capital gifts went towards various equipment purchases. Included in this year's equipment purchases was $2.7 million in research equipment purchases for the Biochemistry and Molecular Biology Department including a 'ProPic Spot Exclusion Robot.'
- **Salaries and other operating expenses**. KUEA reimbursed the University approximately $21.0 million for various faculty and staff member salaries, including the University's distinguished professors, and other minor operating expenses. The salary expense is reflected in the University's statements as it represents a more accurate reflection of the University's operating expenses. KUEA's reimbursement is reflected as a gift to the University within non-operating revenues.

Net Assets

Net assets increased by $59.7 million over the previous fiscal year. This significant increase in net assets can be attributed primarily to the continued high levels of investment in capital construction during 2006.

STATEMENT OF CASH FLOWS

The Statement of Cash Flows presents cash receipts and payments of the University during a period of time. Its purpose is to assess the University's ability to generate future net cash flows and meet its obligations as they come due. The following is a condensed statement of cash flows for the years ended June 30, 2006 and 2005:

CASH FLOWS FOR THE PERIOD
(in thousands of dollars)

	June 30, 2006	June 30, 2005
Net cash provided (used) by:		
Operating activities	$ (223,471)	$ (220,771)
Non-capital financing activities	271,358	279,363
Capital and related financing activities	(108,672)	15,110
Investing activities	61,755	(53,918)
Net increase in cash	970	19,784
Beginning cash and cash equivalent balances	163,886	144,102
Ending cash and cash equivalent balances	**$ 164,856**	**$ 163,886**

Cash flows from operating activities will always be negative since GASB requires state appropriations to be reported as cash flows from noncapital financing activities. Cash flows from capital financing activities include all plant funds and related long-term debt activities. Cash flows from investing activities show all uses of cash and cash equivalents to purchase investments, and all increases in cash and cash equivalents as a result of selling investments or earning income on cash and investments.

Cash used by operating activities increased $2.7 million (1%). This increase in the use of cash is the result of a combination of operating expenses increasing slightly more than the University's operating revenues (tuition and fees, grants and contracts, auxiliary income).

Cash flows from non-capital financing activities decreased by $8.0 million (3%). This decrease was primarily the result of the University's $15.7 million decrease in non-capital gifts in 2006, as well as the University's $4.0 million cash receipt related to the royalty buyout agreement executed in fiscal year 2005 noted above. The decrease was offset by the University's $11.6 million increase in state appropriations.

Cash flows from capital and related debt increased by $123.8 million. This increase was primarily the result of the completion of several large capital projects in 2006 in comparison to 2005, which had less capital asset purchases offset by the issuance of several revenue bonds (See Notes 10 and 11 to the financial statements for further details).

Cash used by investing activities decreased $115.7 million. The dramatic decrease in investment activity is directly related to the revenue bond issuances completed in 2005 ($110.4 million). In conjunction with the issuances, the University invested any required bond reserves as well as the portion of bond proceeds not immediately needed for construction activity. In 2006, the University only issued $9.8 million in revenue bonds; therefore the related investment purchase activity was significantly lower.

CAPITAL ASSETS

The University made significant investments in capital during the 2005-2006 fiscal year. Detailed information regarding capital asset additions, retirements, and depreciation is available in Note 8 to the financial statements.

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

- In 2004, the University received a 50% matching grant from the National Institute of Health to renovate several labs within Malott Hall at the Lawrence Campus. The newly remodeled labs are used as synthetic chemistry facilities and are primarily occupied by Medicinal Chemistry faculty members with the most pressing need for space for these types of activities. The final cost of the project was $2.8 million.

- In late December 2006, the University opened the doors to its new Multidisciplinary Research Building (MRB) located at the Lawrence Campus. Among the initial occupants of the MRB are the KU Bioinformatics Program and components of bioanalytical chemistry, drug discovery, stable isotope geology, and nanoscience. Ultimately, about 200 people will use the 106,000-square-foot MRB at any time, including 20 faculty, nearly 170 students and post-docs, and a core technical support staff. The $40.4 million project includes laboratory spaces on the outside of the building wrapped around a shared core of research equipment and facilities, including bio-safety level 3 labs, a mass spectrometry lab, and "clean" rooms. The project was funded via revenue bonds issued by the Kansas Development Finance Authority on behalf of the University of Kansas Center for Research (KUCR) and secured with a pledge of KUCR revenues.

- In April 2006, the $5.8 million Library Annex at the Lawrence Campus was completed. The new Library Annex has a capacity of 1.6 million volumes. It is designed on the high-density model pioneered by Harvard University and adopted subsequently by more than 50 other research libraries including those at Cornell and the universities of Indiana, Illinois, and Missouri. The 7,877 square-foot storage area includes 9,000 shelves in units 35-feet tall, 4 1/2-feet long and 3-feet wide. Under the high-density model, the transfer of low-use library materials to the Library Annex increases the space available for users in the main campus library buildings and provides conservation-level environmental controls for books and journals, archives and manuscripts, and rare and fragile materials.

- The Medical Center completed its $12.3 million energy conservation measures. The project was the result of an investment grade energy audit of the campus for the purpose of identifying energy conservation projects. The project was completed by Chevron Energy Corporation and was funded via revenue bonds.

Additionally, the University was involved in several construction projects that were under construction or in planning and design phases at year-end:

- Hashinger Hall closed for renovations in May 2005, the day after commencement. Hashinger is the fourth residential hall located at the Lawrence Campus to be renovated in recent years. The renovation project, funded via revenue bond proceeds of $11.8 million and Student Housing revenue funds, is estimated to have a final cost of approximately $12.6 million. Also known as the Residence Center for the Creative Arts, Hashinger has a performing-arts focus and after renovations will offer expanded studio, rehearsal and performance space for artists as well as updated suites and dorm rooms. Incorporated into its food service area, the renovated residence hall will also have a coffee house including space for open mic nights. Hashinger is scheduled to reopen in August 2006.

- In 2004, the University engaged CHANCE Management Advisors to analyze existing conditions and demand, and make a recommendation to satisfy parking needs at the Lawrence Campus for the next ten years. Their report, which was completed in March 2005, identified a current deficit of approximately 1,800 parking spaces and a projected deficit of 2,825 to 3,000 spaces in the next 10 years. To satisfy the current demand, they recommended construction of a 1,500 stall "Park and Ride" lot on the Lawrence West Campus. The estimated cost of the project is $10.5 million including the 1,500 space parking lot, lighting, associated access roads, improvements to intersections with city streets, and water retention. Construction is scheduled to be completed in August 2006. The project is funded via revenue bonds issued in 2006.

- On April 23, 2003, the University of Kansas Student Senate enacted a student fee effective with the Fall Semester of 2003 to finance part of the cost of a Multicultural Resource Center (MRC) at the Lawrence campus. The center will act as a hub for diversity programs focusing on multicultural education and issues for the campus community. The new center will be a three story, 19,600 gross square foot addition to the main Kansas Union. The top level will include areas for reception, a lounge, a small conference room and workroom, a resource room and four offices. A multi-purpose room with space for 50-60 participants will be used for classroom, diversity programs, presentations, and cultural events. The facility also includes a lobby for a student study location. Office space for staff and student workspace will be designed to provide a facility that supports a student centered environment. The facility will be accessible from Jayhawk Boulevard and from the existing building. The lower two levels of the building will include two floors of 4,200 gross square foot of space to be finished space for the Union expansion. The upper level of these floors will be for office expansion for Business and Human Resources; the lower level will be used for expansion space for bookstore operations. The $5.3 million project is expected to be completed in April 2007.

- In an effort to develop new office space as well as better classroom space within the center of Lawrence Campus, the University has committed $3.7 million to enclosing a two-story open exterior terrace on the southwest corner of Wescoe Hall. A new structural floor slab will be constructed so that two floors of offices and support areas can be created to house approximately 60 faculty members and additional student assistants. The project is funded with tuition enhancement funds. Construction is estimated to be completed in July 2007.

- In February 2004, the family of the late Gilbert and Betty Booth committed more than $4 million for a Hall of Athletics at Allen Field House. The Hall of Athletics is an addition on the east side of Allen Field House and features memorabilia spanning more than a century of KU athletics programs, a ticket office and a store. The addition opened up to the public on January 22, 2006, and is expected to be transferred from KAI to the University in fiscal year 2007 after the payment of all remaining invoices.

- Construction continued on the new biomedical research building at the Medical Center. As of June 30, 2006, nearly $42.0 million had been spent on construction. The five-story building will feature state-of-the art equipment, administrative areas, support space, and laboratories that can be configured into flexible suites that can accommodate current and future research requirements. It will house scientists in research programs such as neuroscience, reproductive biology, and proteomics. Each research group in the facility will have between 15,000 and 20,000 square feet of office, research-support, and laboratory space. The building will include laboratories for researchers in biochemistry, molecular biology, toxicology, and pharmacology. It also will have patient interview space for the schools of allied health and nursing. Researchers will integrate information from the study of proteomics; genes and chromosomes, or genomics; and biological systems. The research also will focus on female reproduction and applied neuroscience to answer questions about diseases such as infertility, Alzheimer's disease, Parkinson's disease, stroke, epilepsy, deafness, and communication disorders. The total construction cost of the project is estimated to be in excess of $57 million. Funding has been provided by the issuance of revenue bonds as well as private donations. Construction is expected to be completed by January 2007.

- Construction is also continuing on a third parking garage at the Medical Center. As of June 30, 2006, more than $6.5 million had been spent on construction costs. The completed project cost is estimated at $12.5 million and is scheduled to be completed by end of January 2007. Funding for the project is a combination of revenue bonds secured by future parking revenues as well as private donations.

DEBT ADMINISTRATION

At June 30, 2006, the University had $222.6 million in debt outstanding. In 2006, the University issued new debt in the amount of $9.8 million to finance a portion of the cost to construct and equip a new "Park and Ride" lot as well as to refund in advance a portion of the 1999D bond series ($1.9 million).

In 2005, the University issued new debt in the amount of $13.0 million to finance a portion of the cost to renovate its fourth residence hall; $45.6 million to finance the cost to construct, furnish, and equip the University's new Multidisciplinary Research Building through the KU Center for Research; $17.8 million for the purpose of refinancing and defeasing its series 1998A revenue bonds through Kansas Athletics, Inc.; and $30.4 million to finance the continued construction of the new biomedical research facility at KUMC ($27.1 million) as well as the construction of a third parking garage ($3.3 million) also at KUMC.

The University paid $17.4 million in principal and interest payments related to all outstanding revenue bonds in 2006.

Moody's Investor Service currently rates the University "Aa2". More detailed information about the University's revenue bonds is available in Notes 10 and 11 to the financial statements.

ECONOMIC OUTLOOK

Over the upcoming year, State of Kansas revenues are expected to achieve moderate growth with state general fund collections for fiscal year 2007 estimated to increase by approximately 4% above fiscal year 2006 receipts. Fiscal year 2006 as well as budgeted fiscal year 2007 saw improvements in appropriations for the State Universities with increased block grants and the final two years of faculty salary funding for Senate Bill 345. Fiscal year 2006 did have a least one unique economic twist for both the State and University. Due to the State's bi-weekly payroll process, all state agencies, including the University, incurred a 27th pay period in fiscal year 2006. Funding for this additional pay period was provided by the state general fund with the expectation that the University will reimburse the State over a set period of time. Pressing issues with K-12 education and one-time funding mechanisms used to balance the budget in the past few years will continue to prevent significant increases in State funding for higher education without significant new sources of funds. The near term for State funding appears to be one of steady state with marginal increases. Appropriations for fiscal year 2007 are currently set at $261 million, an increase of 3% from fiscal year 2006.

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

Overall, the financial position of the University continues to be strong. Enrollment for the academic 2006-2007 year is expected to be consistent with prior years. The fifth and final year of a five-year plan to double undergraduate resident tuition is providing a significant infusion of new tuition funds to help advance the University. The University also continues to move forward towards its goal of increasing federally funded research. A number of major awards and the completed construction of the new Multidisciplinary Research Building in fiscal year 2006 and the estimated completion of the Biomedical Research Building in fiscal year 2007 will help continue the University's progress in this area.

Financial Statements

THE UNIVERSITY OF KANSAS
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2006 AND 2005

	2006	2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ **158,081,832**	$ 156,547,374
Investments	**108,005,522**	130,060,380
Accounts receivable, net	**59,612,049**	43,442,636
Pledges receivable, net	**8,041,572**	4,803,421
Loans to students, net	**4,701,874**	4,111,244
Inventories	**7,091,840**	7,283,094
Prepaid expenses and other assets	**4,762,024**	4,186,526
Total current assets	**350,296,713**	350,434,675
Non-current assets:		
Restricted cash and cash equivalents	**6,773,683**	7,338,412
Accounts receivable, net	**43,514**	110,770
Pledges receivable, net	**9,456,466**	5,959,930
Endowment investments	**68,409,187**	62,781,454
Other investments	**13,977,223**	43,663,233
Loans to students, net	**15,899,511**	17,904,052
Prepaid expenses and other assets	**3,193,968**	3,161,585
Capital assets, net	**723,520,033**	641,663,165
Total non-current assets	**841,273,585**	782,582,601
Total assets	**1,191,570,298**	1,133,017,276
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	**47,565,787**	57,760,775
Due to Foundations	**13,971,838**	10,402,048
Deferred revenue	**41,759,620**	38,445,517
Deposits held in custody for others	**10,579,043**	7,083,130
Accrued compensated absences – current portion	**22,977,438**	21,868,454
Capital leases payable - current portion	**3,038,428**	4,529,391
Revenue bonds payable - current portion	**10,715,000**	5,440,000
Other liabilities	**126,140**	90,551
Total current liabilities	**150,733,294**	145,619,866
Non-current liabilities:		
Accrued compensated absences	**2,619,469**	5,013,136
Capital leases payable	**25,601,286**	26,429,790
Revenue bonds payable	**211,910,000**	214,755,000
Other non-current liabilities	**1,008,485**	1,170,326
Total non-current liabilities	**241,139,240**	247,368,252
Total liabilities	**391,872,534**	392,988,118
NET ASSETS		
Invested in capital assets, net of related debt	**483,829,967**	432,915,933
Restricted for:		
Nonexpendable	**68,569,993**	60,693,458
Expendable:		
Scholarships, research, instruction and other	**22,814,516**	17,368,666
Loans	**21,011,322**	20,496,260
Capital projects	**50,638,310**	61,673,284
Debt service	**10,355,130**	8,760,918
Unrestricted	**142,478,526**	138,120,639
Total net assets	$ **799,697,764**	$ 740,029,158

See accompanying notes to financial statements.

The University Of Kansas
Statement Of Revenues, Expenses, And Changes In Net Assets
For The Years Ended June 30, 2006 and 2005

	2006	2005
OPERATING REVENUES		
Tuition and fees (net of scholarship allowances of $14,463,587 in ’06 and $12,610,160 in ‘05)	**$ 184,436,491**	$ 160,216,624
Net Patient service revenue	**93,618,793**	86,287,422
Foundation, contractual and hospital fee assessments	**11,227,093**	6,927,006
Federal grants and contracts	**168,672,394**	167,089,318
State and local grants and contracts	**30,956,595**	23,649,613
Nongovernmental grants and contracts	**24,088,624**	21,083,654
Sales and services of educational departments	**43,301,811**	41,326,670
Auxiliary enterprises:		
Housing	**16,787,084**	25,007,416
Athletics	**65,059,281**	43,541,529
Parking	**6,491,798**	5,533,413
Student unions	**32,486,700**	22,383,433
University health services	**7,669,914**	7,578,725
Other auxiliary enterprises	**3,941,751**	4,060,285
Other operating revenues	**14,073,130**	13,604,742
Total operating revenues	**702,811,459**	628,289,850
OPERATING EXPENSES		
Instruction	**272,825,592**	262,773,823
Research	**173,513,325**	164,523,803
Patient care	**105,268,405**	93,378,843
Public service	**28,011,426**	22,530,157
Academic support	**68,274,358**	64,011,152
Student services	**24,797,402**	23,141,745
Institutional support	**44,738,767**	42,846,951
Operations and maintenance of plant	**60,233,801**	55,558,428
Depreciation	**41,415,254**	36,480,274
Scholarships and fellowships	**18,680,480**	19,047,784
Auxiliary enterprises:		
Housing	**14,190,439**	21,666,865
Athletics	**46,137,243**	36,655,982
Parking	**3,910,655**	3,815,984
Student unions	**31,619,614**	20,462,959
University health services	**7,487,436**	7,973,438
Other auxiliary enterprises	**4,277,568**	5,046,113
Other operating expenses	**916,991**	1,588,410
Total operating expenses	**946,298,756**	881,502,711
Operating income (loss)	**(243,487,297)**	(253,212,861)
NON-OPERATING REVENUES (EXPENSES)		
State appropriations	**252,310,718**	240,669,047
Gifts	**21,265,503**	21,348,659
Investment income	**16,031,320**	13,575,119
Interest expense	**(9,708,130)**	(8,838,581)
Other non-operating revenues (expenses)	**200,938**	3,554,333
Net non-operating revenues (expenses)	**280,100,349**	270,308,577
Income before other revenues, expenses, gains, or losses	**36,613,052**	17,095,716
Capital appropriations	**3,757,835**	4,018,479
Capital grants and gifts (expense)	**18,290,427**	22,354,048
Additions to permanent endowments	**1,007,292**	1,476,250
Increase (decrease) in net assets	**59,668,606**	44,944,493
NET ASSETS		
Net assets - beginning of year	**740,029,158**	695,084,665
Net assets - end of year	**$ 799,697,764**	$ 740,029,158

See accompanying notes to financial statements

The University Of Kansas
Statement Of Cash Flows
For The Years Ended June 30, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	**$ 184,121,366**	$ 159,986,459
Sales and services of educational activities	**45,337,988**	42,386,114
Patient services revenue, net	**99,231,182**	90,428,315
Auxiliary enterprises:		
Housing	**2,412,705**	3,192,116
Athletics	**16,936,566**	2,819,781
Parking	**2,539,166**	1,730,220
Student unions	**1,092,315**	1,988,559
University health services	**252,539**	(309,374)
Other auxiliary enterprises	**(142,685)**	(902,300)
Grants and contracts	**223,938,407**	230,714,764
Payments to suppliers	**(190,821,163)**	(199,420,159)
Payments to utilities	**(22,767,473)**	(18,913,399)
Compensation and benefits	**(527,226,604)**	(483,931,649)
Payments to Foundations under PSA's	**(49,975,224)**	(43,663,910)
Payments for scholarships and fellowships	**(18,438,073)**	(12,827,269)
Loans issued to students and employees	**(4,301,383)**	(5,156,199)
Collection of loans to students and employees	**5,261,920**	4,652,542
Other receipts (payments)	**9,077,089**	6,454,360
Net cash provided (used) by operating activities	**(223,471,362)**	(220,771,029)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	**252,310,718**	240,669,047
Gifts	**18,815,092**	34,518,584
Agency transactions	**64,204**	164,200
Federal family education loan receipts	**94,342,159**	89,167,347
Federal family education loan disbursements	**(94,270,756)**	(89,155,990)
Other	**96,973**	4,000,000
Net cash provided by noncapital financing activities	**271,358,390**	279,363,188
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from capital debt	**9,790,000**	110,395,000
Capital appropriations	**3,757,835**	4,018,479
Purchases of capital assets	**(99,285,929)**	(57,900,368)
Proceeds from sale of capital assets	**210,668**	120,746
Principal paid on capital debt and leases	**(12,094,224)**	(32,135,402)
Interest paid on capital debt and leases	**(10,987,355)**	(7,821,568)
Other	**(62,943)**	(1,567,107)
Net cash used by capital financing activities	**(108,671,948)**	15,109,780
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	**70,577,474**	87,186,643
Interest on investments	**10,776,857**	6,710,414
Purchase of investments	**(19,599,682)**	(147,814,975)
Net cash provided by investing activities	**61,754,649**	(53,917,918)
Net increase (decrease) in cash	**969,729**	19,784,021
Cash - beginning of the year	**163,885,786**	144,101,765
Cash - end of year	**$ 164,855,515**	$ 163,885,786

Statement Of Cash Flows

For The Years Ended June 30, 2006 and 2005

(Continued)

	2006	2005
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income	**$ (243,487,297)**	$ (253,212,861)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Non-cash revenue	**(9,183)**	(10,369,180)
Depreciation expense	**41,415,254**	36,480,274
Other non-cash expenses	**-**	99,298
Changes in assets and liabilities:		
Accounts receivables, net	**(12,688,606)**	(1,840,433)
Pledges receivable, net	**(6,734,687)**	3,456,286
Loans to students, net	**1,413,911**	(299,074)
Inventories	**191,254**	1,918
Prepaid expenses and other assets	**(523,213)**	(295,379)
Accounts payable and accrued liabilities	**(8,020,095)**	(3,516,296)
Due to Foundations	**3,569,790**	(1,097,195)
Deferred revenue	**2,686,193**	8,306,491
Accrued compensated absences	**(1,284,683)**	1,515,122
Net cash provided (used) by operating activities:	**$ (223,471,362)**	$ (220,771,029)
Non-cash Investing, Capital and Financing Activities		
Capital Leases (Initial Year):		
Fair Market Value	**$ 3,800,000**	$ 2,679,762
Current Year Cash Payments		
Gifts-In-Kind	**18,290,427**	22,354,048
Net Change in Unrealized Gains and Losses	**5,820,493**	8,320,605

See accompanying notes to financial statements

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, with the exception of GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units. The University has made the decision not to include the Kansas University Endowment Association within the University's financial statements. The financial statements have not been audited.

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 and expenses during the reporting period. Actual results could differ from those estimates.

Organization. The University of Kansas (the "University") is a comprehensive institution providing undergraduate, graduate, and professional education in a variety of academic programs. The University is a Public Doctoral/Research University - Extensive and is accredited by the North Central Association of Colleges and Schools. The University 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, the University is included in the audited financial report of the State of Kansas.

The University conducts education, research, public service, and related activities at four campuses: the campus in Lawrence, Kansas, the medical center campuses in Kansas City, Kansas and Wichita, Kansas, and the Edwards Campus in Overland Park, Kansas.

For fall 2005, the Lawrence and Edwards campuses had an undergraduate enrollment of 20,908 and a graduate/first professional enrollment of 6,026. The Medical Center had an undergraduate enrollment of 483 and a graduate/first professional (including medical residents, fellows and trainees) enrollment of 2,207.

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

The financial activity and balances of the Kansas University Endowment Association, the Kansas University Alumni Association, and the University of Kansas Hospital Authority are not included in the financial statements of the University as they are legally separate entities and the University does not appoint a voting majority of their governing bodies.

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 Assets, and 2) balances on the Statement of Net Assets.

Basis of Accounting. For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University'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.

The University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University has elected to not apply FASB pronouncements issued after the applicable date.

Cash Equivalents. For purposes of the Statement of Cash Flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. At certain times, some of the University's component units maintain cash balances in excess of FDIC limits. Management has evaluated the financial stability of these financial institutions and feels the risk to the component units is minimal.

Investments. The University 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*. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the Statement of Revenues, Expenses, and Changes in Net Assets.

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 the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

Inventories. Inventories are carried at cost.

Prepaid Expenses. Prepaid expenses consist primarily of deferred charges related to revenue bond issuances as well as deferred summer school expenses.

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, the University's capitalization policy includes all items with a unit cost $5,000 or more, and an estimated useful life greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized if the related project cost exceeds $100,000. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, 25 years for land improvements, 8 years for equipment, and 5 years for vehicles. Depreciation for buildings and infrastructure is computed using a componentized building and infrastructure depreciation study. Note – The estimated useful lives used by the blended component units for equipment and building improvements, ranging from 5 to 15 years, vary slightly from the University's policy. The financial impact of the variation is considered to be immaterial to the financials statements as a whole.

Costs incurred during construction of long-lived assets are recorded as construction in progress and are not depreciated until placed in service. The University capitalized $572,106 and $120,264 in interest during 2006 and 2005, respectively.

Deferred Revenues. Deferred 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. Deferred 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 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 Assets, and as an expense in the Statement of Revenues, Expenses, and Changes in Net Assets.

Deposits Held In Custody For Others. Deposits held in custody for others consist primarily of student organizations' moneys administered by the University.

Noncurrent Liabilities. Noncurrent liabilities include principal amounts of revenue bonds payable, capital lease obligations with contractual maturities greater than one year, and estimated amounts for accrued compensated absences that will not be paid within the next fiscal year.

Net Assets. The University's net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the University'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 "invested in capital assets, net of related debt."

Restricted net assets – expendable: Restricted expendable net assets include resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Restricted net assets – nonexpendable: Restricted nonexpendable net assets consist 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.

Unrestricted net assets: Unrestricted net assets represent 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 the University, and may be used at the discretion of the governing board 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 the University 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 the University's exempt purpose is subject to income taxes under Internal Revenue Code Section 511(a)(2)(B).

Classification of Revenues. The University has classified its revenues as either operating or nonoperating 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.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable 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 Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, 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 nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University 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 2005 financial statements to conform to the 2006 financial statement presentation. These reclassifications had no effect on the change in net assets.

NOTE 2 – DEPOSITS

SUMMARY OF CARRYING VALUES

The carrying values of deposits and investments shown below are included in the Statement of Net Assets as follows:

		2006		2005
Carrying value:				
Deposits	**$**	**149,044,902**	$	147,025,675
Investments		**206,202,545**		253,365,178
	$	**355,247,447**	$	400,390,853
Included in the following Statement of Net Assets line items:				
Cash and cash equivalents	**$**	**158,081,832**	$	156,547,374
Investments		**108,005,522**		130,060,380
Restricted cash and cash equivalents (non-current)		**6,773,683**		7,338,412
Endowment investments (non-current)		**68,409,187**		62,781,454
Other investments (non-current)		**13,977,223**		43,663,233
	$	**355,247,447**	$	400,390,853

At June 30, 2006, the University carried deposits as shown below:

Investment Type		Fair Value
Cash deposits with State Treasury	$	127,687,063
Cash deposits with financial institutions		14,418,608
Certificates of deposit		5,648,054
Money market funds		1,291,177
	$	149,044,902

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

		2006		2005
University of Kansas Lawrence and Edwards Campuses	**$**	**89,626,684**	$	81,105,444
University of Kansas Medical Center		**56,877,118**		58,374,631
University of Kansas Center for Research, Inc. *		**(4,931,472)**		1,278,676
Kansas Athletics, Inc.		**5,680,634**		4,095,734
University of Kansas Memorial Corporation		**1,791,938**		2,171,190
	$	**149,044,902**	$	147,025,675

* The University of Kansas Center for Research, Inc. utilizes an overnight repurchase agreement for its bank deposits to maximize investment return. At June 30, 2006 and 2005, the overnight repurchase agreement amounted to $12,245,043 and $13,217,712, respectively, and its carrying value is included in the investments above. The repurchase agreement balance is included in “cash and cash equivalents” on the Statement of Net Assets at year-end. The negative book balance is primarily the result of an outstanding payroll reimbursement check payable to the University as of June 30, 2006.

State law requires the University (Lawrence Campus, Edwards Campus, and the Medical Center campuses) 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 the University’s imprest fund, organizational safekeeping, revenue bond project and reserve funds, and any funds held by external entities on behalf of the University.

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.

The majority of University deposit balances not maintained by the state treasurer are covered by FDIC or collateralized. The University does not have a formal deposit policy regarding custodial credit risk. However, management has evaluated the financial stability of the financial institutions involved and feels the custodial credit risk is minimal.

NOTE 3 - INVESTMENTS

At June 30, 2006, the University carried investments as shown below:

Investment Type	Fair Value
US Treasury obligations	$ 1,427,695
US Agency obligations	32,319,676
Corporate bonds	1,255,290
Fixed mutual funds	243,723
Domestic stock	5,139,822
Foreign stock	599,342
Convertible preferred stock	143,967
Preferred stock	557,640
Equity mutual funds	4,183,903
Limited liability companies	654,398
Other	9,762
Repurchase agreements	14,184,293
Guaranteed investment contracts	25,233,209
Pooled Money Investment Board (PMIB)	9,660,973
External investment pools	
KUEA Cash Management Pool	10,004,801
KUEA Long-term Investment Program	100,584,051
	$ 206,202,545

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

	2006	2005
University of Kansas Lawrence and Edwards Campuses	**$ 72,342,689**	$ 73,584,610
University of Kansas Medical Center	**40,439,848**	65,463,242
University of Kansas Center for Research, Inc.	**39,773,457**	66,143,615
Kansas Athletics, Inc.	**52,716,088**	46,986,544
University of Kansas Memorial Corporation	**930,463**	1,187,167
	$ 206,202,545	$ 253,365,178

INVESTMENT POLICY

State statutes govern Lawrence and Edwards Campuses and Medical Center investment policies. For investments related to the University's revenue bonds, state statutes permit cash balances to be invested as permitted by bond documents and bond covenants. The Kansas Development Finance Authority (KDFA) manages the University's revenue bond investments. Allowable investments include:

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

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

- Direct obligations of, or obligations that are insured as to principal and interest by, the U.S. Government or any direct agency thereof, with maturities up to four years
- Obligations and securities of United States sponsored enterprises that under federal law may be accepted as security for public funds. Moneys available for investments shall not be invested in mortgage-backed securities of such enterprises, which include the Government National Mortgage Association
- Repurchase agreements with Kansas banks or with primary government securities dealers
- Interfund loans to various State agencies as mandated by the Kansas Legislature limited to not more than the lesser of 10 percent or $80,000,000 of total investments
- Certain Kansas agency and IMPACT Act projects and bonds
- Linked deposit loans for agricultural production not to exceed $55,000,000
- High grade commercial paper

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

The KUEA Cash Management Pool is designed for short-term, highly liquid investing needs. Amounts invested in the cash management pool are expendable on demand. Investment in the cash management pool may be transacted on a daily basis and represents a means of investing idle cash balances to produce net investment yield for the investing fund. Net investment yield realized by the cash management pool is allocated to participating funds, as determined by KUEA, after consideration of interest-bearing checking account rates and administrative costs of KUEA. The payout rate was 1% to 2% for participating funds during the fiscal years ended June 30, 2006 and 2005, on an annualized basis.

The KUEA 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 KUEA 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 KUEA's established spending policy.

The Executive Committee of KUCR oversees KUCR investments. Per KUCR investment policy, investments are limited to money market funds, U.S. Treasury obligations (Bills, Notes, Bonds), U.S. Government Agency obligations, corporate obligations rated 'A-' or better, and stocks sold on major international exchanges such as NYSE, ASE, and NASDAQ. Asset allocation targets are reviewed quarterly by a standing Investment Committee appointed by the Executive Committee.

KAI investment policy limits investments to money market accounts, certificates of deposit, U.S. Treasury obligations (Bills, Notes, Bonds), and investments with KUEA.

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

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

INTEREST RATE RISK

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University 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. The University has historically held its fixed income securities until maturity, thus limiting the University's interest rate risk exposure.

For revenue bond investments managed by KDFA, due to the tax-exempt status of the bonds, it is generally the practice of KDFA and University 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, KDFA generally invests to maximize the interest rate and set a term of investment based on estimated expenditures, which is generally 3 – 5 years.

The University had the following investments and maturities at June 30, 2006:

		Investment Maturities (in years)			
Investment Type	*Fair Value*	*Less than 1*	*1-5*	*6-10*	*More than 10*
Investments with Maturity Date:					
US Treasury obligations	$ 1,427,695	$ 350,388	$ 313,383	$ 763,924	$ -
US Agency obligations	32,319,676	6,904,302	14,055,441	1,329,707	10,030,226
Corporate bonds	1,255,290	-	1,255,290	-	-
Repurchase agreements	14,184,293	12,245,043	-	1,117,000	822,250
Guaranteed investment contracts	25,233,209	20,927,080	-	-	4,306,129
Pooled Money Investment Board	9,660,973	7,900,740	-	-	1,760,233
External investment pools					
KUEA Cash Management Pool	10,004,801	10,004,801			
	94,085,937	58,332,354	15,624,114	3,210,631	16,918,838
Investments not subject to maturity dates:					
Fixed mutual funds	243,723				
Domestic stock	5,139,822				
Foreign stock	599,342				
Convertible preferred stock	143,967				
Preferred stock	557,640				
Equity mutual funds	4,183,903				
Limited liability companies	654,398				
Other	9,762				
External investment pools					
KUEA Long-term investment program**	100,584,051				
	112,116,608				
Total	$ 206,202,545				

** KUEA's Long-term investment program is invested in approximately 80% equities (no maturity date). Of the remaining 20% of fixed income investments, approximately 8% are invested fixed income mutual funds.

CREDIT RISK

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligations. The University 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, 2006, the University held the following investments as rated by Standard and Poor's and/or Moody's:

Credit Quality Rating	Fair Value	% of Total
AAA/Govt	$ 37,233,366	18.1%
AAA	622,567	0.3%
AA	880,721	0.4%
A	3,899,069	1.9%
BBB	403,589	0.2%
BB	118,623	0.1%
B	1,408,904	0.7%
C	14,515	0.0%
Not Rated	161,621,191	78.3%
	$ 206,202,545	100.0%

The investments included in the "Not Rated" category include investments in KUEA's Long-term Investment Program (external investment pool not required to be rated), the State's Pooled Money Investment Board (PMIB), as well as the University's bond related guaranteed investment contracts and repurchase agreements managed by KDFA.

CUSTODIAL CREDIT RISK

The custodial credit risk for investments is the risk that, in the event of the failure of the counter party, the University 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. The University'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 the University's name.

The investment policies of the University and its component units do not formally address custodial credit risk. Nonetheless, the University's custodial credit risk is estimated to be minimal due to several factors. First, investments in external investment pools and in open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form. As noted above, the majority of the University's investments are invested within KUEA's Cash Management Pool and Long-term Investment Program. 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 Kansas University Medical Center Research Institute has made minimal investments directly in limited partnerships, which would have some custodial risk. The balance of these investments as of June 30, 2006 was $654,398.

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. The University 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 feels the credit risk is minimal.

Of the University of Kansas' total investments of $206.2 million and $253.4 million as of June 30, 2006 and 2005, respectively; the University of Kansas Endowment Association administers $110.6 million and $101.5 million, respectively. The Kansas Development Finance Authority invests $30.5 million and $65.4 million of the total as of June 30, 2006 and 2005, respectively. These monies represent bond proceeds and reserve requirements.

The University investments also include $13.1 million and $12.3 million of investments administered by outside trustees as of June 30, 2006 and 2005, 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 $7,681,885 at June 30, 2006 and $7,026,252 at June 30, 2005. The trustee is Bank of America.
>
> The Elizabeth M. Watkins Trust for Watkins and Miller Scholarship Halls had a reported market value of $3,498,441 at June 30, 2006 and $3,376,670 at June 30, 2005. The trustee is Bank of America.
>
> The Elizabeth M. Watkins Trust for Watkins Hospital had a reported market value of $1,956,778 at June 30, 2006 and $1,856,211 at June 30, 2005. The trustee is Bank of America.

The remaining investments consist of $52.0 million and $74.2 million invested in a combination of short-term and long-term investments, primarily US Agency obligations.

NOTE 4 – ACCOUNTS RECEIVABLE

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

	2006	2005
Tuition and Fees	$ **6,254,621**	$ 2,070,790
Auxiliary	**26,195,798**	20,453,367
Grants and Contracts	**22,646,813**	16,567,296
Other	**4,558,331**	4,461,953
	$ **59,655,563**	$ 43,553,406

NOTE 5 – PLEDGES RECEIVABLE

Pledges receivable consist of the following unconditional promises to give:

	2006	2005
Due in less than one year	**$ 8,409,800**	$ 4,973,421
Due in one to five years	**11,003,045**	6,990,144
	19,412,845	11,963,565
Less		
Unamortized discount	**1,064,807**	700,214
Allowance for uncollectible amounts	**850,000**	500,000
	$ 17,498,038	$ 10,763,351

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

	2006	2005
Pledges receivable - current	**$ 8,041,572**	$ 4,803,421
Pledges receivable - non-current	**9,456,466**	5,959,930
	$ 17,498,038	$ 10,763,351

NOTE 6 – INVENTORIES

Inventories consisted of the following at June 30:

	2006	2005
Bookstore	$ **2,787,936**	$ 2,873,905
Food Service	**166,826**	196,912
Physical Plant	**2,168,799**	2,196,620
Professional and Scientific Supplies	**837,071**	948,231
Office Supplies	**650,038**	674,490
Other	**481,170**	392,936
	$ **7,091,840**	$ 7,283,094

NOTE 7 – LOANS TO STUDENTS

Student loans made through the Federal Perkins Loan Program comprise substantially all of the loans to students at June 30, 2006 and 2005. The Program provides for cancellation of a loan at rates of 10% to 30% per year up to a maximum of 100% if the participant complies with certain provisions. The federal government reimburses the University for amounts cancelled under these provisions.

As the University determines that loans are uncollectible and not eligible for reimbursement by the federal government, the loans are written off and assigned to the U.S. Department of Education. The University has provided an allowance for uncollectible loans, which, in management's opinion, is sufficient to absorb loans that will ultimately be written off. At June 30, 2006 and 2005, the allowance for uncollectible loans was estimated to be $433,822 and $464,475, respectively.

NOTE 8 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Land	$ 7,714,695	$ 50	$ -	$ 7,714,745
Land improvements	104,647	16,211	300	120,558
Works of Art	14,978,115	384,415	-	15,362,530
Infrastructure	39,194,269	1,752,226	-	40,946,495
Buildings	620,842,375	64,252,596	32,902	685,062,069
Equipment	68,695,558	5,193,153	5,074,805	68,813,906
Vehicles	9,640,469	288,618	169,187	9,759,900
Total	761,170,128	71,887,269	5,277,194	827,780,203
Less accumulated depreciation:				
Infrastructure	13,465,350	1,543,349	-	15,008,699
Buildings	231,440,678	18,629,098	4,509	250,065,267
Equipment	43,934,798	5,829,788	4,457,565	45,307,021
Vehicles	8,880,088	341,034	169,187	9,051,935
Total accumulated depreciation	297,720,914	26,343,269	4,631,261	319,432,922
Capital assets, net	$ 463,449,214	$ 45,544,000	$ 645,933	508,347,281
University of Kansas Medical Center				154,300,949
University of Kansas Center for Research, Inc.				18,500,612
University of Kansas Athletic Corporation				16,313,218
University of Kansas Memorial Corporation				6,763,895
University of Kansas Lawrence and Edwards Campuses Construction In Progress				19,294,078
				$ 723,520,033

The University elected not to capitalize its library book collections. These collections adhere to the University'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.

NOTE 9 - CHANGES IN LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Revenue bonds payable	$ 220,195,000	$ 9,790,000	$ 7,360,000	$ 222,625,000	$ 10,715,000
Lease obligations	30,959,181	5,926,247	8,245,714	28,639,714	3,038,428
Compensated absences	26,881,590	25,591,288	26,875,971	25,596,907	22,977,438
Other long-term liabilities	1,260,877	-	126,252	1,134,625	126,140
Total long-term liabilities	$ 279,296,648	$ 41,307,535	$ 42,607,937	$ 277,996,246	$ 36,857,006

NOTE 10 - REVENUE BONDS OUTSTANDING

Revenue bonds payable consist of the following:

	Principal Outstanding at 6/30/06
Kansas Development Finance Authority Refunding Revenue Bonds – Series C, 1997 (The Board of Regents – **University of Kansas Regents Center Refunding Project**) $3,255,000. Due in annual installments of $170,000 to $245,000. Issued 3/15/97 with a final maturity on 12/1/10. Interest ranging from 4.70% to 5.30% payable semi-annually. At the time of issuance a rating was not applied for with respect to these bonds, and no insurance was purchased. The underlying revenue stream was assigned an A1 post sale rating by Moody's Investor Service.	$ 1,375,000
Kansas Development Finance Authority Revenue Bonds - Series D, 1998 (The Board of Regents - **University of Kansas Housing System Renovation Project - Lewis Hall**) $4,290,000. Due in annual installments of $100,000 to $690,000. Issued 3/1/98 with a final maturity on 5/1/23. Interest ranging from 3.70% to 5.05% payable semi-annually. A rating of Aa3 was assigned by Moody's Investor Service. The bonds were upgraded to Aaa with the addition of an insurance policy issued by MBIA Insurance Corporation.	3,470,000
Kansas Development Finance Authority Revenue Bonds - Series H, 1998 (The Board of Regents - **University of Kansas Continuing Education Building Purchase Project**) $2,320,000. Due in annual installments of $105,000 to $420,000. Issued 6/1/98 with a final maturity on 4/1/13. Interest ranging from 3.75% to 4.80% payable semi-annually. A rating of A2 was assigned by Moody's Investor Service, and no insurance was purchased. Moody's upgraded the bonds rating to A1 as of 7/23/04.	1,375,000
Kansas Development Finance Authority Revenue Bonds – Series C, 1999 (The Board of Regents – **University of Kansas Child Care Facility Construction Project**) $3,085,000. Due in annual installments of $100,000 to $470,000. Issued 6/1/99 with a final maturity on 5/1/19. Interest ranging from 4.00% to 5.10% payable semi-annually. A rating of A1 was assigned by Moody's Investor Service. The bonds were upgraded to Aaa with the addition of an insurance policy issued by Ambac Assurance Corporation.	2,435,000

	Principal Outstanding at 6/30/06
Kansas Development Finance Authority Revenue Bonds – Series D, 1999 (The Board of Regents – **University of Kansas - Parking Garage #2 Construction Project**) $11,170,000. Due in annual installments of $560,000 to $2,085,000. Issued 5/1/99 with final maturity on 4/1/14. Interest ranging from 4.00% to 4.75% payable semi-annually. A rating of Aa3 was assigned by Moody's Investor Service, and no insurance was purchased.	$ 5,610,000
Kansas Development Finance Authority Refunding Revenue Bonds - Series 2001 G-4 (The Board of Regents – **University of Kansas - Lawrence Campus Parking Facilities**) $2,825,000. Due in annual installments of $335,000 to $700,000. Issued 6/15/01 with final maturity on 4/1/08. Interest ranging from 4.25% to 5.00% payable semi-annually. A rating of Aaa was assigned by Moody's Investor Service based upon an insurance policy issued by Ambac Assurance Corporation. The underlying revenue stream was assigned an Aa3 post sale rating by Moody's Investor Service.	1,095,000
Kansas Development Finance Authority Revenue Bonds – Series 2001 T-2 (The Board of Regents – **University of Kansas Student Union Renovation and Expansion Project**) $4,435,000. Due in annual installments of $300,000 to $540,000. Issued 8/1/01 with final maturity on 4/1/13. Interest ranging from 3.10% to 4.75% payable semi-annually. A rating of AAA was assigned by Standard & Poor's based upon an insurance policy issued by Ambac Assurance Corporation. The underlying revenue stream was assigned an Aa3 post sale rating by Moody's Investor Service.	2,870,000
Kansas Development Finance Authority Revenue Bonds - Series 2002 A-1 (The Board of Regents – **University of Kansas Housing System Renovation Project - Ellsworth Hall**) $11,230,000. Due in annual installments of $45,000 to $1,280,000. Issued 4/1/02 with final maturity on 5/1/27. Interest ranging from 3.50% to 5.00% payable semi-annually. A rating of AAA was assigned by Standard & Poor's based upon an insurance policy issued by Ambac Assurance Corporation. The underlying revenue stream was assigned an Aa3 post sale rating by Moody's Investor Service.	10,520,000
Kansas Development Finance Authority Revenue Bonds - Series 2002 A-2 (The Board of Regents – **University of Kansas Student Recreation and Fitness Center**) $15,330,000. Due in annual installments of $735,000 to $1,350,000. Issued 4/1/02 with final maturity on 5/1/17. Interest ranging from 3.50% to 5.00% payable semi-annually. A rating of AAA was assigned by Standard & Poor's based upon an insurance policy issued by Ambac Assurance Corporation. The underlying revenue stream was assigned an Aa3 post sale rating by Moody's Investor Service.	12,075,000
Kansas Development Finance Authority Revenue Bonds – Series 2002 K (The Board of Regents – **University of Kansas Edwards Campus Project**) $5,120,000. Due in annual installments of $65,000 to $540,000. Issued 11/1/02 with a final maturity on 12/1/22. The first principal payment is due 12/1/10. Interest ranging from 4.3%to 5.0% payable semi-annually. A rating of A was assigned by Moody's Investor Service, and no insurance was purchased. Moody's Investor Service upgraded the bonds rating to A1 as of 7/23/04.	5,120,000
Kansas Development Finance Authority Revenue Bonds – Series 2003 C (The Board of Regents – **Research and Development Facilities Projects**) $4,965,000. Due in annual installments of $450,000 to $1,890,000. Issued 2/1/03 with a final maturity on 10/1/10. Interest ranging from 3.3% to 5.0% payable semi-annually. A rating of AAA was assigned by Standard & Poor's based upon an insurance policy issued by Ambac Assurance Corporation.	2,625,000

	Principal Outstanding at 6/30/06
Kansas Development Finance Authority Revenue Bonds - Series 2005E-1 (The Board of Regents – **University of Kansas Housing System 1996E Templin Hall Refunding Project**) $3,065,000. Due in annual installments of $155,000 to $270,000. Issued 5/1/05 with a final maturity on 5/1/21. Interest ranging from 3.0% to 5.0% payable semi-annually. A rating of Aa3 was assigned by Moody's Investor Service. The bonds were upgraded to Aaa with the addition of an insurance policy issued by Ambac Assurance Corporation.	$ 3,065,000
Kansas Development Finance Authority Revenue Bonds - Series 2005E-1 (The Board of Regents – **University of Kansas Housing System Hashinger Hall Renovation**) $12,965,000. Due in annual installments of $125,000 to $2,015,000. Issued 5/1/05 with a final maturity on 5/1/30. Interest ranging from 3.0% to 4.5% payable semi-annually. A rating of Aa3 was assigned by Moody's Investor Service. The bonds were upgraded to Aaa with the addition of an insurance policy issued by Ambac Assurance Corporation.	12,965,000
Kansas Development Finance Authority Revenue Bonds - Series 2006B (Kansas Board of Regents – **University of Kansas Parking Facilities Project - Park & Ride**) $9,790,000. Due in annual installments of $140,000 to $1,450,000. Issued 4/1/06 with a final maturity on 4/1/21. Interest ranging from 3.5% to 4.13% payable semi-annually. A rating of Aa3 was assigned by Moody's Investor Service. The bonds were upgraded to Aaa with the addition of an insurance policy issued by XL Capital Assurance Inc.	9,790,000
Kansas Development Finance Authority Revenue Bonds – Series 1999 B (The Board of Regents – **University of Kansas Medical Center for Health in Aging**) $2,920,000. Due in annual installments of $90,000 to $440,000. Issued 4/1/99 with final maturity on 4/1/19. Interest ranging from 3.60% to 5.00% payable semi-annually. The bonds were rated at A- by Standard & Poor's at the time of issuance. The rating was upgraded to AAA with the purchase of insurance.	2,295,000
Kansas Development Finance Authority Revenue Bonds – Series 2001 T-1 (The Board of Regents – **University of Kansas Medical Center Research Support Facility**) $5,860,000. Due in annual installments of $180,000 to $880,000. Issued 4/1/01 with final maturity on 4/1/21. Interest ranging from 3.10% to 5.00% payable semi-annually. The bonds were rated at A- by Standard & Poor's at the time of issuance. The rating was upgraded to AAA with the purchase of insurance.	5,065,000
Kansas Development Finance Authority Revenue Bonds – Series 2003 C (The Board of Regents – **University of Kansas Medical Center Scientific Research and Development Facilities Projects**) $36,100,000. Due in annual installments ranging from $3,220,000 to $5,430,000. Issued 2/1/03 with a final maturity on 4/1/21. The first principal payment is due 10/1/16. Interest ranging from 2.13% to 5.01% payable semi-annually. The bonds were rated at AA by Standard & Poor's at the time of issuance. A rating of AAA was assigned by Standard & Poor's based upon an insurance policy issued by Ambac Assurance Corporation.	36,100,000
Kansas Development Finance Authority Revenue Bonds – Series 2003 J-1 (The Board of Regents – **University of Kansas Medical Center Energy Conservation Project**) $13,080,000. Due in annual installments ranging from $350,000 to $1,060,000. Issued 8/3/03 with a final maturity of 8/1/24. Interest ranging from 2.00% to 4.75% payable semi-annually. The bonds were rated at AA by Standard & Poor's and Aa2 by Moody's at the time of issuance. The rating was upgraded to AAA with the purchase of insurance.	12,200,000

	Principal Outstanding at 6/30/06
Kansas Development Finance Authority Revenue Bonds – Series 2005D (The Board of Regents – **University of Kansas Medical Center Scientific Research and Development Facilities Projects**) $27,130,000. Due in annual installments ranging from $1,170,000 to $3,935,000. Issued 4/1/05 with a final maturity on 10/1/15. Interest ranging from 3.90% to 4.80% payable semi-annually. The bonds were rated at AA by Standard & Poor's at the time of issuance. The rating was upgraded to AAA with the purchase of insurance.	$ 27,130,000
Kansas Development Finance Authority Revenue Bonds – Series 2005E-2 (The Board of Regents – **University of Kansas Medical Center Parking Garage #3**) $3,330,000. Due in annual installments ranging from $120,000 to $225,000. Issued 5/1/05 with a final maturity on 5/1/25. Interest ranging from 3.00% to 5.00% payable semi-annually. The underlying revenue stream was assigned an A1 rating by Moody's Investor Service. The bonds were upgraded to Aaa with the addition of an insurance policy issued by Ambac Assurance Corporation.	3,330,000
Kansas Development Finance Authority Revenue Bonds – Series 2004K (The Board of Regents – **University of Kansas Athletic Corporation – Restructuring Project**) $17,830,000. Due in annual installments of $660,000 to $1,355,000. Issued 11/16/04 with final maturity on 6/1/2023. Interest ranging from 3.3% to 4.5% payable semi-annually. A rating of A was assigned by Standard & Poor's.	16,490,000
Kansas Development Finance Authority Revenue Bonds – Series 2005B (The Board of Regents – **University of Kansas Center for Research, Inc. Project (MRB)**) $45,625,000. Due in annual installments of $1,565,000 to $3,610,000. Issued 2/1/05 with a final maturity on 2/1/25. Interest ranging from 3.6% to 5.3% payable semi-annually. A rating of A1 was assigned by Moody's. The bonds were upgraded to Aaa with the purchase of a surety bond issued by MBIA Insurance Corporation.	45,625,000
Total	$ 222,625,000

NOTE 11 - REVENUE BONDS MATURITY SCHEDULE

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

Year Ending June 30:	Principal	Interest	Total
2007	$ 10,715,000	$ 10,276,275	$ 20,991,275
2008	9,810,000	9,804,829	19,614,829
2009	10,210,000	9,422,374	19,632,374
2010	10,635,000	9,006,645	19,641,645
2011	11,095,000	8,558,802	19,653,802
2012-2016	52,985,000	35,923,510	88,908,510
2017-2021	64,570,000	22,103,511	86,673,511
2022-2026	45,060,000	6,622,620	51,682,620
2027-2031	7,545,000	874,225	8,419,225
	$ 222,625,000	$ 112,592,791	$ 335,217,791

The University defeased a portion of 1999 D bond series through advance refunding during fiscal year 2006 and two separate bond series through advance refunding during fiscal year 2005. Accordingly, none of the series is reflected in the accompanying statements. The amount of bonds that have been defeased as of June 30, 2006 consists of the following:

Series	Outstanding at June 30, 2006
1998 A	$ 14,865,000
1999 D	1,920,000
2001 G-5	1,240,000
	$ 18,025,000

NOTE 12 - LEASE OBLIGATIONS

The University of Kansas is obligated for the purchase of certain equipment funded through the issuance of blanket financing agreements in the amount of $28,639,714 and $30,959,181 as of June 30, 2006 and 2005, respectively. Payments to liquidate these obligations are scheduled as follows:

Year Ending June 30:		Total
2007	$	3,038,428
2008		3,286,745
2009		2,589,618
2010		2,096,803
2011		2,343,430
2012 and thereafter		15,284,690
	$	28,639,714

Included in this balance is the $18.7 million Master Lease Purchase agreement between the University and the State for the University's Energy Performance Contract. The University's Energy Performance Contract consists of approximately 100 energy saving measures that are expected to result in annual utility and maintenance savings of $1.7 million. The projects are funded through a Master Lease Purchase Agreement between the State of Kansas and Citibank, N.A. The University is responsible for repaying the State for the 20-year term of the lease. Fiscal year 2006 was the first year of the 20-year term.

NOTE 13 - RETIREMENT PLANS

University employees participate in two separate retirement programs. University Support Staff employees participate in the "Kansas Public Employees Retirement System" (KPERS). This defined benefit program is funded through contributions by the University and the individual employees. The University contributed $3,027,550 and $2,591,810 during fiscal years 2006 and 2005, respectively, and individual employees contributed $2,248,673 and $2,100,490. Unclassified employees participate in the "Board of Regents Retirement Program". This defined contribution program is funded through contributions by the University and the individual employees. The University contributed $24,191,489 and $22,229,303 during fiscal years 2006 and 2005, respectively, and individual employees contributed $18,558,570 and $14,372,430.

Employees of Kansas Athletics, Inc., the University of Kansas Memorial Corporation, the University of Kansas Medical Center Research Institute, the Student Union Corporation of the University of Kansas Medical Center, and Kansas University Physicians, Inc. participate in defined contribution programs similar to the "Board of Regents Retirement Program". The Corporations contributed $3,196,079 and $2,967,393 to their individual plans during fiscal years 2006 and 2005, respectively.

NOTE 14 - COMMITMENTS AND CONTINGENT LIABILITIES

At June 30, 2006 and 2005 the University had outstanding commitments under construction contracts totaling $28,043,560 and $97,071,050, respectively.

The University is a defendant in several lawsuits. However, University officials are of the opinion, based on advice of in-house legal counsel, that the ultimate outcome of all litigation will not have a material effect on the future operations or financial position of the University.

The University maintains specific insurance coverage as allowed by the State of Kansas and as required by outstanding bond issues. To a large extent, the State follows a policy of self-insurance; therefore, most claims against the University require legislative approval (and potential funding) prior to settlement. The University is not aware of any significant outstanding claims as of June 30, 2006.

The State does not insure buildings and contents valued under $500,000 and does not insure State-owned automobiles for bodily injury and property damages. State buildings valued over $500,000 are insured against catastrophic loss with a $5,000,000 deductible per occurrence and a maximum annual liability of $100,000,000 per occurrence. On the morning of March 12, 2006, the University was struck by a microburst. Seventy-three buildings on campus sustained damage, mostly to roof systems. The total cost to repair all the damage is estimated at $6,700,000. Approximately $1,300,000 will be covered by insurance with the balance of $5,400,000 covered by the Federal Emergency Management Agency and state emergency funds.

In the normal course of operations, the University 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 15 – NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The University's operating expenses by functional and natural classification are as follows:

	Natural Classification					
Functional Classification	Compensation & Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation	**Total**
Instruction	$ 249,516,024	$	$ 137,608	$ 23,171,960	$	$ 272,825,592
Research	110,014,687		8,414	63,490,224		173,513,325
Patient care	28,861,442			76,406,963		105,268,405
Public service	15,255,898		1,758	12,753,770		28,011,426
Academic support	50,401,387		5,428	17,867,543		68,274,358
Student services	16,976,620		226,693	7,594,089		24,797,402
Institutional support	38,501,137			6,237,630		44,738,767
Operations and maintenance of plant	29,208,873		22,273,177	8,751,751		60,233,801
Depreciation					41,415,254	41,415,254
Scholarships and fellowships		18,680,480				18,680,480
Auxiliary enterprises:						
Housing	6,841,414		2,581,140	4,767,885		14,190,439
Athletics	17,806,734	6,571,291	77,298	21,681,920		46,137,243
Parking	1,696,464		243,831	1,970,360		3,910,655
Student unions	10,305,865		605,771	20,707,978		31,619,614
University health services	4,850,397		798	2,636,241		7,487,436
Other auxiliary enterprises	3,719,087			558,481		4,277,568
Other	861,739			55,252		916,991
	$ 584,817,768	**$ 25,251,771**	**$ 26,161,916**	**$ 268,652,047**	**$ 41,415,254**	**$ 946,298,756**

NOTE 16 – OTHER NON-OPERATING REVENUE

Through July 2004, the University had received certain royalty payments in connection with a License Agreement that was executed between the University and another entity. In July 2004, the University executed an agreement whereby the other entity bought out the Patent Rights covered by the License Agreement. In connection with the buyout agreement, the University received $4.0 million, which has been recorded as other non-operating revenue in fiscal year 2005.

NOTE 17 – SUBSEQUENT EVENT

On September 18, 2006 the KU Medical Center Student Union sold most of its inventory and equipment to Matthews Medical and Scientific Books, Inc. (Matthews). This granted Matthews the right to operate bookstores on the Medical Center Kansas City and Wichita campuses for a five-year period beginning September 18, 2006 with a three-year renewable option. Matthews will pay the KU Medical Center Student Union Corporation a minimum annual commission of $100,000 payable in quarterly installments. Additional commissions will commence if sales exceed $1,642,857.

As a result of the sale, the KU Medical Center Student Union Corporation reflected a $26,000 allowance for inventory obsolescence and a write-off of $24,483 of equipment on the financial statements.