Kansas Athletics, Incorporated and Subsidiary

Independent Auditor's Report and Consolidated Financial Statements

June 30, 2018 and 2017

BKD LLP
CPAs & Advisors

Kansas Athletics, Incorporated and Subsidiary
June 30, 2018 and 2017

Contents

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CPAs & Advisors

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Independent Auditor's Report

Board of Directors, Audit Committee
and Management
Kansas Athletics, Incorporated and Subsidiary
Lawrence, Kansas

We have audited the accompanying consolidated financial statements of Kansas Athletics, Incorporated and Subsidiary (the Corporation), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended and the consolidated statement of functional expenses for the year ended June 30, 2018, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kansas Athletics, Incorporated and Subsidiary as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As described in Note 14 to the consolidated financial statements, in 2018, the Corporation adopted ASU 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. In addition, as described in Note 15, the 2017 consolidated financial statements were restated to appropriately account for the net asset restrictions relating to certain contributions receivable. Our opinion is not modified with respect to these matters.

BKD, LLP

Kansas City, Missouri
September 17, 2018

Kansas Athletics, Incorporated and Subsidiary

Consolidated Statements of Financial Position

June 30, 2018 and 2017

	2018	2017 (As Restated)
Assets		
Cash	$ 9,428,409	$ 8,042,438
Tickets and accounts receivable, net of allowance; 2018 - $231,229; 2017 - $85,813	7,228,247	3,890,314
Contributions receivable, net of allowance; 2018 - $782,912; 2017 - $733,983	66,631,723	19,007,321
Investments	54,418,923	52,183,096
Other assets	2,986,666	1,728,199
Property and equipment, net of accumulated depreciation; 2018 - $92,449,463; 2017 - $83,179,637	92,201,946	94,630,677
Total assets	$ 232,895,914	$ 179,482,045
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 9,116,086	$ 4,165,343
Accrued expenses	5,307,527	8,289,414
Advance ticket sales	9,868,625	10,209,308
Deferred revenue	2,515,060	3,027,861
Long-term debt	35,602,922	36,012,216
Other liabilities	2,338,172	2,765,265
Total liabilities	64,748,392	64,469,407
Net Assets		
Without donor restrictions	58,300,865	63,744,629
With donor restrictions	109,846,657	51,268,009
Total net assets	168,147,522	115,012,638
Total liabilities and net assets	$ 232,895,914	$ 179,482,045

Kansas Athletics, Incorporated and Subsidiary

Consolidated Statement of Activities

Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenues, Gains and Other Support			
NCAA and conference distributions	$ 32,695,636	$ -	$ 32,695,636
Contributions and grants	21,521,989	6,027,862	27,549,851
Ticket sales and handling fees	20,581,056		20,581,056
Sponsorship and royalties	16,513,684		16,513,684
Direct institutional support	1,502,799		1,502,799
Realized investment income	110,721	1,485,592	1,596,313
Other operating revenue	3,971,849		3,971,849
Net assets released from restrictions for operations	6,343,938	(6,343,938)	-
Total operating revenues, gains and other support	103,241,672	1,169,516	104,411,188
Operating Expenses			
Salaries and benefits	40,825,687		40,825,687
Grants-in-aid	14,891,635		14,891,635
Team travel	6,952,129		6,952,129
Team operating expense	8,487,822		8,487,822
Student athlete training and development	2,042,087		2,042,087
Game operating expenses	2,882,681		2,882,681
Guarantees paid to visiting teams	1,556,968		1,556,968
Facilities and equipment	5,032,894		5,032,894
General administration and other	16,803,643		16,803,643
Depreciation and amortization	5,375,033		5,375,033
Total operating expenses	104,850,579	-	104,850,579
Operating Income (Loss)	(1,608,907)	1,169,516	(439,391)
Other Income (Expense)			
Contributions restricted for capital projects		58,649,291	58,649,291
Unrealized investment income	68,014	1,291,172	1,359,186
Interest expense	(1,379,691)		(1,379,691)
Depreciation on donor-funded property and equipment	(3,942,795)		(3,942,795)
Net loss from Jayhawk Tennis Center	(323,812)		(323,812)
Bad debt expense on contributions restricted for capital projects		(303,409)	(303,409)
Transfer of assets to the University	(484,495)		(484,495)
Net assets released from restrictions for capital projects	2,227,922	(2,227,922)	-
Other income (expense)	(3,834,857)	57,409,132	53,574,275
Change in Net Assets	(5,443,764)	58,578,648	53,134,884
Net Assets, Beginning of Year	63,744,629	51,268,009	115,012,638
Net Assets, End of Year	$ 58,300,865	$ 109,846,657	$ 168,147,522

Kansas Athletics, Incorporated and Subsidiary
Consolidated Statement of Activities
Year Ended June 30, 2017 *(as restated)*

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenues, Gains and Other Support			
NCAA and conference distributions	$ 32,353,799	$ -	$ 32,353,799
Contributions and grants	18,413,528	4,545,312	22,958,840
Ticket sales and handling fees	19,715,675		19,715,675
Sponsorship and royalties	11,868,530		11,868,530
Direct institutional support	1,537,591		1,537,591
Realized investment income	71,506	1,430,569	1,502,075
Other operating revenue	4,043,759		4,043,759
Net assets released from restrictions for operations	6,893,129	(6,893,129)	-
Total operating revenues, gains and other support	94,897,517	(917,248)	93,980,269
Operating Expenses			
Salaries and benefits	36,122,972		36,122,972
Grants-in-aid	13,817,364		13,817,364
Team travel	6,310,105		6,310,105
Team operating expense	7,712,502		7,712,502
Student athlete training and development	1,920,563		1,920,563
Game operating expenses	2,003,368		2,003,368
Guarantees paid to visiting teams	1,430,317		1,430,317
Facilities and equipment	4,026,503		4,026,503
General administration and other	16,326,036		16,326,036
Depreciation and amortization	5,310,156		5,310,156
Total operating expenses	94,979,886	-	94,979,886
Operating Loss	(82,369)	(917,248)	(999,617)
Other Income (Expense)			
Contributions restricted for capital projects		6,271,385	6,271,385
Unrealized investment income	70,881	1,801,511	1,872,392
Interest expense	(1,400,678)		(1,400,678)
Depreciation on donor-funded property and equipment	(4,143,511)		(4,143,511)
Net loss from Jayhawk Tennis Center	(238,404)		(238,404)
Bad debt expense on contributions restricted for capital projects		(125,051)	(125,051)
Transfer of assets to the University	(492,678)		(492,678)
Net assets released from restrictions for capital projects	5,459,640	(5,459,640)	-
Other income (expense)	(744,750)	2,488,205	1,743,455
Change in Net Assets	(827,119)	1,570,957	743,838
Net Assets, Beginning of Year, As Previously Reported	54,112,900	60,155,900	114,268,800
Adjustment Applicable to Prior Years	10,458,848	(10,458,848)	-
Net Assets, Beginning of Year, As Adjusted	64,571,748	49,697,052	114,268,800
Net Assets, End of Year	$ 63,744,629	$ 51,268,009	$ 115,012,638

Kansas Athletics, Incorporated and Subsidiary

Consolidated Statement of Functional Expenses

Year Ended June 30, 2018

	Football	Men's Basketball	Other Sports	Total Program Services	Management and General	Fundraising	Total Expenses
Operating Expenses							
Salaries and benefits	$ 9,573,363	$ 9,227,105	$ 12,443,167	$ 31,243,635	$ 7,506,812	$ 2,075,240	$ 40,825,687
Grant-in-aid	6,625,214	860,641	6,853,224	14,339,079	517,614	34,942	14,891,635
Team travel	1,290,291	2,130,888	3,530,950	6,952,129	-	-	6,952,129
Team operating expense	3,821,035	1,303,942	2,866,045	7,991,022	496,800	-	8,487,822
Student athlete training and development	557,184	305,765	1,179,138	2,042,087	-	-	2,042,087
Game operating expenses	1,069,688	1,333,718	479,275	2,882,681	-	-	2,882,681
Guarantees paid to visiting teams	615,000	590,000	351,968	1,556,968	-	-	1,556,968
Facilities and equipment	856,080	202,707	3,337,657	4,396,444	592,201	44,249	5,032,894
General administration and other	1,816,098	1,225,754	3,393,751	6,435,603	7,333,059	3,034,981	16,803,643
Depreciation and amortization	1,429,759	1,333,008	2,262,889	5,025,656	48,375	301,002	5,375,033
Total operating expenses	27,653,712	18,513,528	36,698,064	82,865,304	16,494,861	5,490,414	104,850,579
Other Expenses							
Interest expense	526,186	389,955	373,248	1,289,389	90,302	-	1,379,691
Depreciation on donor-funded property	913,151	2,220,188	809,456	3,942,795	-	-	3,942,795
Bad debt expense on contributions restricted for capital projects	151,037	41,901	100,246	293,184	10,225	-	303,409
Total other expenses	1,590,374	2,652,044	1,282,950	5,525,368	100,527	-	5,625,895
Total expenses	$ 29,244,086	$ 21,165,572	$ 37,981,014	$ 88,390,672	$ 16,595,388	$ 5,490,414	$ 110,476,474

See Notes to Consolidated Financial Statements

Kansas Athletics, Incorporated and Subsidiary
Consolidated Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017 (As Restated)
Operating Activities		
Change in net assets	$ 53,134,884	$ 743,838
Items not requiring (providing) operating activities cash flows		
Net realized and unrealized gains on investments	(1,982,778)	(2,958,101)
Depreciation	9,317,828	9,453,667
Amortization of bond issuance costs	(78,527)	(82,022)
Transfer of assets to the University	484,495	492,678
Loss on disposition of property and equipment	-	1,126,286
Contributions received restricted for capital projects	(58,649,291)	(6,271,385)
Contributions received restricted for long-term investment	(1,600,736)	(213,584)
Changes in		
Tickets and accounts receivable	(3,337,933)	1,172,471
Contributions receivable	3,381,801	690,628
Other assets	(1,258,467)	(247,702)
Accounts payable, accrued expenses and other liabilities	1,657,015	1,497,829
Advance ticket sales	(340,683)	(4,779,095)
Deferred revenue	(512,801)	(514,666)
Net cash provided by operating activities	214,807	110,842
Investing Activities		
Contributions to investments held by Kansas University Endowment Association	(38,846,827)	(28,733,504)
Withdrawals from investments held by Kansas University Endowment Association	38,600,881	31,467,265
Deposits to investments held by trustee under bond indenture	(2,953,016)	(2,943,552)
Withdrawals from investments held by trustee under bond indenture	2,945,913	2,943,112
Proceeds from disposition of property and equipment	-	6,000
Purchase of property and equipment	(5,407,169)	(6,278,278)
Net cash used in investing activities	(5,660,218)	(3,538,957)
Financing Activities		
Proceeds from contributions restricted for capital projects	7,560,803	5,845,279
Proceeds from contributions restricted for long-term investments	1,683,021	307,759
Principal payments on long-term debt	(2,412,442)	(4,210,479)
Net cash provided by financing activities	6,831,382	1,942,559
Increase (Decrease) in Cash	1,385,971	(1,485,556)
Cash, Beginning of Year	8,042,438	9,527,994
Cash, End of Year	$ 9,428,409	$ 8,042,438
Supplemental Cash Flows Information		
Interest paid	$ 1,375,419	$ 1,482,705
Property and equipment purchases in accounts payable	71,728	186,980
Capital lease obligations incurred for equipment	2,081,675	-

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Kansas Athletics, Incorporated and Subsidiary (the Corporation), a Kansas not-for-profit corporation, operates under the administrative jurisdiction of the University of Kansas (the University) and is subject to all regulations and administrative policies of the University. The Corporation operates the varsity intercollegiate athletic program at the University in facilities that are owned by the University. The primary source of revenues and support for the program are athletic event ticket sales, conference revenue distributions and contributions.

Jayhawk Tennis Center, LLC (Jayhawk Tennis Center), a Kansas limited liability corporation, operates to manage the indoor and outdoor tennis facility utilized by the student athletes of the University of Kansas and the community of the city of Lawrence, Kansas. The primary sources of revenues for the facility are member dues, court time, lessons, clinics, facility rental and pro shop revenue.

Principles of Consolidation

The consolidated financial statements include the accounts of Kansas Athletics, Incorporated and its wholly owned subsidiary, Jayhawk Tennis Center, LLC (collectively, the Corporation). All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues, expenses gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Operating Measure

The Corporation reports an operating income (loss) in the consolidated statements of activities which includes all revenues and expenses associated with operating the University's intercollegiate athletic program. The measure of operations excludes amounts related to donor-funded property and equipment, including contributions restricted for capital projects, depreciation expense on donor-funded property and equipment and bad debt expense on contributions restricted for capital projects. Other items excluded from the operating measure include unrealized investment income, interest expense, net loss from Jayhawk Tennis Center and transfer of assets to the University.

Accounts Receivable

Accounts receivable are stated at the amount the Corporation expects to collect from balances outstanding. The Corporation provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Accounts receivable are ordinarily due 30 days after the issuance of the invoice. Accounts past due more than 90 days are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer.

Contributions Receivable

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue. The Corporation provides an allowance for uncollectible contributions, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

Investments and Net Investment Return

The Corporation has the following two categories of investments:

Investments Held by Kansas University Endowment Association

Investments in pooled funds held by Kansas University Endowment Association (KU Endowment) are valued at the proportional value of the overall fund which estimates fair value. Investment earnings are allocated monthly on a prorated basis representative of the Corporation's overall percentage of ownership in the applicable pooled funds. Investments in cash and real estate held by KU Endowment are recorded at the lower of cost or fair value.

Investments Held by Trustee under Bond Indenture

Investments held under bond indenture consist of money market funds, which are carried at fair value, and a guaranteed investment contract, which is recorded at the lower of cost or fair value.

Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments, less investment expenses.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets with donor restrictions and then released from restriction. Other investment return is reflected in the consolidated statements of activities with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Buildings and leasehold improvements	39 years
Improvements to State property	25 years
Furniture and fixtures	5-7 years

Long-lived Asset Impairment

The Corporation evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized for the years ended June 30, 2018 or 2017.

Advance Ticket Sales and Ticket Sales

Advance ticket sales represent tickets sold for future athletic events. Revenue is recognized in the year the athletic event is held.

Deferred Revenue and Sponsorships and Royalties

Revenues from long-term multimedia and merchandise agreements are recognized on a straight-line basis. Amounts received in excess of straight-line revenues are deferred and recognized over the periods in which the fees relate.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions. Net assets with donor restrictions are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

NCAA and Conference Distributions

The athletic programs operate as a member of the Big 12 Conference, which generates revenues for its members by selling broadcast rights for its competitions, conducting championship events for all of its sports and other activities. The conference distributes these revenues to its members in the year these events occur and therefore the Corporation recognizes these distributions in the year received.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as revenue and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as revenue and net assets with donor restrictions. When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as revenue with donor restrictions and then released from restriction.

In-kind Contributions

The Corporation receives in-kind contributions of supplies and services from donors and others. It is the policy of the Corporation to record, as contribution revenue in the consolidated financial statements, the estimated fair value of these supplies and services received, and also to record a like amount of expense to reflect the immediate consumption of these supplies and services. Revenue and expense related to in-kind services are only recorded when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated. For the years ended June 30, 2018 and 2017, $1,307,015 and $1,293,895, respectively, of in-kind supplies and services was received and consumed by the Corporation.

Functional Allocation of Expenses

The consolidated statement of functional expenses presents the natural classification detail of expenses by function. Certain costs have been allocated among the program, management and general and fundraising categories based on square footage, number of student athletes, estimates of time and other methods. The total expenses by function for 2017 was:

Program	$ 81,713,639
Management and General	15,660,678
Fundraising	3,274,809
	$ 100,649,126

Income Taxes

The Corporation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Corporation is subject to federal income tax on any unrelated business taxable income. The Corporation is not subject to state income taxes.

The Corporation applies the provisions of ASC 740, *Income Taxes*, with respect to certain uncertain tax positions. ASC 740 requires that all tax positions be evaluated using a recognition threshold and measurement of a tax position taken in a tax return. Differences between positions taken in a tax return and amounts recognized in the consolidated financial statements are recorded as adjustments to income taxes payable or receivable, or adjustments to deferred taxes, or both. ASC 740 also requires expanded disclosures at the end of each annual reporting period. No amounts have been recorded at June 30, 2018 and 2017 with respect to uncertain tax positions.

Taxes Collected from Customers and Remitted to Governmental Authorities

Taxes collected from customers and remitted to governmental authorities are presented in the accompanying consolidated statements of activities on a net basis.

Transfers Between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the period ending date.

Reclassifications

During 2018, the Corporation's consolidated statement of financial position was converted to an unclassified presentation and the consolidated statement of activities was reformatted to distinguish between operating and non-operating activities. In addition, line items within the consolidated statement of activities were restructured to enhance the presentation and provide more meaningful information to the users of the financial statements. The 2017 consolidated financial statements have been updated to conform to the 2018 consolidated financial statement presentation. These reclassifications had no effect on net assets.

Subsequent Events

Subsequent events have been evaluated through September 17, 2018, which is the date the consolidated financial statements were issued.

Note 2: Contributions Receivable

Contributions receivable at June 30, 2018 and 2017, consisted of the following unconditional promises to give discounted at a rate of 4 percent:

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

Note 3: Investments and Fair Value Measurements

Investments at June 30, 2018 and 2017 consisted of the following:

	2018	2017
Held by Kansas University Endowment Association		
Cash	$ 13,869,747	$ 14,751,042
Long-term investment pool	35,445,313	32,274,768
Bond fund	1,312,307	1,340,373
Real estate	797,612	830,072
	51,424,979	49,196,255
Held by Trustee Under Bond Indenture		
Money market mutual funds	1,574,469	1,567,364
Guaranteed investment contract	1,419,475	1,419,477
	2,993,944	2,986,841
Total investments	$ 54,418,923	$ 52,183,096

Investments Held by Kansas University Endowment Association

The KU Endowment holds various investments for the Corporation. The majority of these investments originated from donor contributions and were given to KU Endowment for the benefit of the Corporation's operations and activities. In order to ensure observance of limitations and restrictions that donors may have placed on the use of these resources, KU Endowment manages the resources as separate fund accounts, according to their nature and purpose; however, these separate accounts have been combined into appropriate accounting classifications in the accompanying consolidated financial statements.

Cash

The cash fund represents cash held at KU Endowment that is available for expenditure and operates similar to a noninterest-bearing checking account. KU Endowment commingles the Corporation's cash balance with other idle cash balances held for the benefit of the University, to produce a new investment yield in order to defray KU Endowment's administrative costs. The cash fund is recorded at cost.

Long-term Investment Pool

The majority of the Corporation's investments held at KU Endowment are managed in the Long-Term Investment Portfolio (LTIP). The LTIP invests in equity securities, mutual funds, common trust funds, fixed income securities and alternative investments. These investments are recorded at fair value and investment earnings are allocated on a market-value proportional basis.

Bond Fund

The bond fund is primarily invested in government bond index fund. Investments are recorded at fair value and investment earnings are allocated on a market-value basis.

Real Estate

Real estate represents property that is held by KU Endowment on behalf of the Corporation and is recorded at the lower of cost or fair value.

Investments Held by Trustee Under Bond Indenture

In connection with the Athletic Facilities Revenue Bonds discussed in *Note 6*, the Corporation is required to maintain funds in certain debt service reserve accounts pursuant to the bond agreements.

Fair Value Measurements and Disclosures

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

The following table presents the fair value measurements of assets recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2018 and 2017:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2018				
Investments held by the Kansas University Endowment Association				
Long-term investment pool	$ 35,445,313	$ -	$ 35,445,313	$ -
Bond fund	1,312,307	-	1,312,307	-
Investments held by trustee under bond indenture				
Money market mutual funds	1,574,469	1,574,469	-	-
June 30, 2017				
Investments held by the Kansas University Endowment Association				
Long-term investment pool	$ 32,274,768	$ -	$ 32,274,768	$ -
Bond fund	1,340,373	-	1,340,373	-
Investments held by trustee under bond indenture				
Money market mutual funds	1,567,364	1,567,364	-	-

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Note 4: Property and Equipment

Property and equipment at June 30, 2018 and 2017 consisted of:

	2018	2017
Buildings and leasehold improvements	$ 7,193,264	$ 6,822,022
Improvements to State property	156,543,960	155,332,844
Furniture and fixtures	15,731,128	15,076,237
Construction in progress	5,183,057	579,211
	184,651,409	177,810,314
Less accumulated depreciation	92,449,463	83,179,637
	$ 92,201,946	$ 94,630,677

Note 5: Line of Credit

During 2018, the Corporation obtained a $20,000,000 revolving bank line of credit expiring in May 2021 related to its football indoor practice facility construction project. At June 30, 2018, there was $0 borrowed against this line. The line is secured by contributions receivable and cash held at KU Endowment associated with the project. Interest on outstanding balances is payable monthly at LIBOR plus 1.13 percent (3.2 percent as of June 30, 2018).

Note 6: Long-term Debt

Long-term debt at June 30, 2018 and 2017 consisted of the following:

	2018	2017
Revenue bonds, KDFA Series 2014F (A)	$ 33,210,000	$ 34,830,000
Capital lease obligations (B)	1,708,600	343,770
Notes payable	34,822	110,426
	34,953,422	35,284,196
Add unamortized premium	1,177,440	1,319,785
Less unamortized debt issuance costs	(527,940)	(591,765)
	$ 35,602,922	$ 36,012,216

(A) The Athletic Facilities Revenue Bonds, Series 2014F, were issued by the Kansas Development Finance Authority during the year ended June 30, 2014 in the original amount of $39,430,000. These bonds were issued for the purpose of refinancing the Series 2004K bonds and Series 2008C bonds to take advantage of favorable interest rates and reduce the amount of debt outstanding. The entire amount of the unamortized premium and debt issuance costs included in the above schedule relate to the bonds.

The Corporation entered into a loan agreement with the Kansas Development Finance Authority for repayment of the Series 2014F bonds. These tax-exempt bonds are secured by future revenues of the Corporation. Principal payments are due annually, ending in 2033. Interest is payable at various rates ranging from 3.00 percent to 4.00 percent per annum.

The Corporation is required to continually maintain at least $2,951,113 in a debt service reserve account for the period of time for which principal and interest payments are required to be made on outstanding indebtedness. At June 30, 2018 and 2017, the Corporation had investments held by a trustee of $2,992,735 and $2,986,665, respectively, which were designated as the debt service reserve. Funds in this reserve account are invested as permitted by the bond trust indenture, the earnings from which are transferred out of this account and applied towards the principal and interest payments.

(B) Capital lease obligations for equipment with various expirations dates from July 2019 - 2023. Cost and accumulated depreciation at June 30, 2018 was $4,426,448 and $2,823,657, respectively, and at June 30, 2017, $2,821,477 and $2,456,566, respectively.

Aggregate annual maturities of long-term debt and payments on capital lease obligations at June 30, 2018 are:

	Long-term Debt (Excluding Leases)	Capital Lease Obligations
2019	$ 1,710,348	$ 456,387
2020	1,764,566	448,753
2021	1,829,908	448,753
2022	1,900,000	448,753
2023	1,970,000	26,243
Thereafter	24,070,000	-
	$ 33,244,822	1,828,889
Less amount representing interest		120,289
Present value of future minimum lease payments		$ 1,708,600

Note 7: Net Assets With Donor Restrictions

Net assets with donor restrictions at June 30, 2018 and 2017 were restricted for the following purposes or periods:

	2018	2017 (As Restated)
Subject to expenditure for specified purpose		
Student-athlete scholarships	$ 3,341,021	$ 3,192,287
Capital projects	8,850,920	4,672,240
Other programs	1,900,575	1,474,407
Contributions receivable restricted by donors for		
Student-athlete scholarships	1,284,017	1,252,604
Capital projects	55,725,056	4,804,248
Other programs	1,998,480	2,221,574
	73,100,069	17,617,360
Subject to the passage of time		
Contributions receivable that are not restricted by donors, but which are unavailable for expenditure until due	232,492	176,929
Endowments, subject to KU Endowment spending policy and appropriation		
Student-athlete scholarships	33,609,323	30,519,136
Team operational support	1,844,327	1,162,866
General use	606,454	1,255,441
Other programs	226,489	226,489
Contributions receivable restricted by donors for endowment	227,503	309,788
	36,514,096	33,473,720
Total net assets with donor restrictions	$ 109,846,657	$ 51,268,009

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2018	2017
Satisfaction of purpose restrictions		
Student-athlete scholarships	$ 4,509,916	$ 4,073,340
Capital projects	2,227,922	5,459,640
Other	318,591	1,328,063
Expiration of time restrictions	95,173	202,690
Appropriation of endowment assets for expenditure		
Student-athlete scholarships	1,374,918	1,268,171
Other	45,340	20,865
	$ 8,571,860	$ 12,352,769

Note 8: Endowment

The Corporation's endowment consists of numerous individual donor-restricted funds established for a variety of purposes. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Corporation's governing body is subject to the Uniform Prudent Management of Institutional Funds Act as adopted in the state of Kansas (UPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net asset are time restricted until the governing body appropriates such amounts for expenditures. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net asset without donor restrictions. The governing body of the Corporation has interpreted UPMIFA as not requiring the maintenance of the purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Corporation considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Corporation has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with UPMIFA, the Corporation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the Corporation and the fund
3. General economic conditions
4. Possible effect of inflation and deflation

5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Corporation
7. Investment policies of the Corporation

The composition of the donor-restricted endowment fund at June 30, 2018 and 2017 was:

	2018	2017
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	$ 19,323,219	$ 17,722,484
Accumulated investment gains	17,190,877	15,751,236
	$ 36,514,096	$ 33,473,720

Changes in endowment net assets with donor restrictions for the years ended June 30, 2018 and 2017 were:

Endowment net assets, July 1, 2016	$ 31,405,820
Investment return, net	2,995,728
Contributions	361,208
Appropriation of endowment assets for expenditure	(1,289,036)
Endowment net assets, June 30, 2017	33,473,720
Investment return, net	2,545,165
Contributions	1,915,469
Appropriation of endowment assets for expenditure	(1,420,258)
	3,040,376
Endowment net assets, June 30, 2018	$ 36,514,096

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Corporation is required to retain as a fund of perpetual duration pursuant to donor stipulation or UPMIFA. At June 30, 2018 and 2017, no funds were reported in net assets with donor restrictions in which the fair value of assets fell below the level the Corporation is required to maintain.

KU Endowment has adopted investment and spending policies for the management of its Long-term Investment Portfolio (LTIP), which includes the endowment assets. The objective of these policies is to provide a predictable stream of funding to programs supported by the endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the Corporation must hold in perpetuity or for donor-specified periods.

To preserve the endowment's value for future years, the LTIP is managed to achieve a total return that will cover both current spending and inflation. The objectives of the LTIP are to: 1) utilize an asset mix that will provide both diversification and long-term growth and 2) to provide a reasonable rate of spendable income to benefit University faculty members, staff and students. Actual returns in any given year may vary from this amount.

Funds participating in the LTIP receive regular distributions that are available for immediate spending to meet the Corporation's needs. In keeping with its objectives for the portfolio, KU Endowment has developed a calculation that determines the percentage of the portfolio that can be spent on a regular basis. The percentage, or spending rate, is reviewed annually by KU Endowment and is subject to modification to account for changes in market and economic conditions as well as the University needs.

Amounts that are available from the LTIP for the Corporation's needs are based on a constant growth spending policy, where spending is adjusted annually by inflation, as measured by the Consumer Price Index (CPI-U). Under the constant growth spending policy, the target rate from the LTIP for current expenditure by the Corporation is 4.6 percent of the market value. To avoid potential under-distributions or unsustainable over-distributions relative to the current market value in any given year, the constant growth spending policy is subject to a 3.76 percent floor and a 5.44 percent cap of the trailing four-quarter average market value.

Note 9: Liquidity and Availability

The Corporation operates with a balanced budget approved by its board of directors, and regularly monitors its liquidity levels to ensure sufficiency to meet its operating needs.

Liquidity generated from annual ticket sales and other contractual arrangements are maintained in accounts at financial institutions and are invested where appropriate.

Liquidity generated from donor contributions are included in the investments held by KU Endowment. Contributions without donor restrictions, contributions restricted for annual scholarships and contributions restricted for team operating support are considered to be available for operating expenditure. Annual distributions from donor-established endowments held at KU Endowment, as described in *Note 8*, are also considered available for operating expenditure.

The Corporation's financial assets as of June 30, 2018, and the portion of those assets available for general expenditure within one year thereafter, include the following:

	Financial Assets	Available Liquidity
Cash	$ 9,428,409	$ 9,428,409
Tickets and accounts receivable, net	7,228,247	7,228,247
Contributions receivable, net	66,631,723	8,445,181
Investments	54,418,923	5,147,137
	$ 137,707,302	$ 30,248,974

Note 10: Related Party Transactions

The Corporation conducts a significant portion of its business with the University and entities under the administrative jurisdiction of the University.

The Corporation utilizes facilities owned by the University in order to generate a portion of its revenues. Construction costs associated with University owned facilities that are incurred by the Corporation is accumulated as construction in progress and transferred to the University as determined by management. The Corporation transferred assets to the University totaling $484,495 and $492,678 during the years ended June 30, 2018 and 2017, respectively, related to construction of University facilities.

The University has reported certain salaries, fringe benefits and other expenses paid for the benefit of the athletic program. Such amounts paid by the University for Intercollegiate Athletics as of June 30, 2018 and 2017 were $1,502,799 and $1,537,591, respectively, and are recorded as revenue and expense within the accompanying consolidated statements of activities.

The Corporation pays the University for tuition, meals and housing for student athletes. Amounts paid to the University for tuition, meals and housing were $7,571,813, $1,727,314 and $1,630,390 in 2018, respectively, and $7,193,435, $2,127,364 and $1,604,362 in 2017, respectively, and is included in the grants-in-aid expense on the consolidated statements of activities.

Total trade payables due to the University and related entities were $4,439,640 and $2,592,781 at June 30, 2018 and 2017, respectively, and are included in accounts payable. Total trade receivables due from the University and related entities were $13,135 and $16,032 at June 30, 2018 and 2017, respectively, and are included in accounts receivable.

The Corporation entered into an agreement in June 2016 which assigned, to KU Endowment, certain contributions receivable sufficient to satisfy 1) a McCarthy Scholarship Apartments construction period advance and 2) annual interest payments on this advance at a rate of prime plus 1 percent until the advance is fully paid off by collection of the assigned receivables. Total advances payable due to KU Endowment at June 30, 2018 and 2017 were $1,373,662 and $1,541,114, respectively, and are included in other liabilities on the consolidated statements of financial position. The Corporation paid KU Endowment principal and interest relating to this advance of $175,800 and $77,893 in 2018, respectively, and $1,514,890 and $102,544 in 2017, respectively.

Investment management fees paid to KU Endowment during 2018 and 2017 were $290,008 and $279,792, respectively.

Note 11: Operating Leases

Noncancellable operating leases for facilities and equipment expire in various years through 2044. Future minimum lease payments under operating leases are:

Year Ending June 30,	Amount
2019	$ 2,451,332
2020	2,363,515
2021	2,355,019
2022	2,307,337
2023	2,258,485
Thereafter	47,030,653
	$ 58,766,341

Rental expense for all operating leases was $2,511,602 and $2,539,989 for the years ended June 30, 2018 and 2017, respectively.

Note 12: Retirement Benefit Plans

The Corporation has a defined contribution pension plan for employees who meet certain length of service requirements. The Corporation contributes 8.50 percent and the employee contributes 5.50 percent of the employee's annual salary. The Corporation's expense related to this plan was $1,537,944 and $1,501,636 for the years ended June 30, 2018 and 2017, respectively.

Note 13: Significant Estimates, Concentrations and Contingencies

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Cash

At June 30, 2018 and 2017, the Corporation's cash accounts exceeded federally insured limits by approximately $8,300,000 and $8,200,000, respectively.

Contributions Receivable and Contributions Revenue

Significant estimates for contributions receivable are described in *Note 1*. Approximately 71 percent of contributions receivable and 58 percent of contribution revenue was from one donor in 2018. There were no concentrations of contributions receivable or contribution revenue in 2017.

Investments

The Corporation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying consolidated statements of financial position. Additional estimates and judgments relating to investments and fair value measurements are described in *Note 3*.

Property and Equipment

Significant estimates relating to property and equipment are described in *Note 1*.

University Bond Obligation

In July 2005, the Corporation entered into a contribution agreement with the University to fund certain expenses and bond obligations of the University in conjunction with renovations and additions to the University's student recreation center. The contribution agreement was pledged as security on the Kansas Development Finance Authority Revenue Bonds, Series 2007E issued by the Kansas Board of Regents on behalf of the University.

In 2014, the agreement was amended to relieve the Corporation of all future obligations. While the amendment does eliminate the Corporation's contractual obligation for future payments to the University, it does not modify the original security agreement on the Series 2007E bonds. Management believes that the possibility of future losses resulting from the security agreement is remote.

Litigation

The Corporation may be subject to claims and lawsuits that have been brought directly against the University but that indirectly involve activities of the Corporation. The University and the Corporation evaluate such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 14: Change in Accounting Principle

In 2018, the Corporation adopted ASU 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU is intended to improve the net asset classification requirements and the information presented in the consolidated financial statements and notes about an entity's liquidity and financial performance. The main provisions of the standard include: presentation of two classes of net assets versus the previously required three; enhanced disclosures for composition of net assets without donor restrictions, liquidity and availability of financial assets and expenses by both natural and functional classification. The Corporation also chose to present an operating measure in the consolidated statement of activities. These changes had no impact on previously reported total change in net assets. A summary of the beginning balance net asset reclassifications for the year ended June 30, 2017 are as follows:

	ASU 2016-14 Classifications		
	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Net assets, beginning of year, as previously reported			
Unrestricted	$ 54,112,900	$ -	$ 54,112,900
Temporarily restricted	-	42,647,001	42,647,001
Permanently restricted	-	17,508,899	17,508,899
Net assets, beginning of year, as reclassified	$ 54,112,900	$ 60,155,900	$ 114,268,800

Note 15: Restatement of Prior Year Financial Statements

During 2018, the Corporation retroactively changed its accounting for net asset restrictions relating to unrestricted contributions receivable from its annual campaign. Due to the nature of the contributions, the Corporation believes it is more appropriate to reflect such contributions as without donor restrictions as opposed to with donor restrictions. The contributions are intended to support the operations of the fiscal year the campaign occurs, therefore no implied time restriction exists on these contributions receivable. In addition, the Corporation had not properly reported the contribution revenue and releases related to these receivables in the consolidated statement of activities and therefore has restated the 2017 financial statements.

The impact of this change increased the net assets without donor restrictions as shown in the consolidated statement of financial position at June 30, 2017 by $10,242,179 and decreased the net assets with donor restrictions by the same amount. The restatement had no impact on the total change in net assets for 2017. The following consolidated statement of activities line items for fiscal year 2017 were affected by the restatement:

	As Previously Reported	Effect of Restatement	Other Reclassifications	As Restated
Consolidated Statement of Activities				
Contributions and grants - without donor restrictions	$ 18,919,409	$ (419,359)	$ (86,522)	$18,413,528
Contributions and grants - with donor restrictions	4,178,549	419,359	(52,596)	4,545,312
Net assets released from restrictions for operations and capital	12,150,079	202,690	-	12,352,769
Change in net assets - without donor restrictions	(610,450)	(216,669)	-	(827,119)
Change in net assets - with donor restrictions	1,354,288	216,669	-	1,570,957
Net assets without donor restrictions, beginning of year	54,112,900	10,458,848	-	64,571,748
Net assets with donor restrictions, beginning of year	60,155,900	(10,458,848)	-	49,697,052
Net assets without donor restrictions, end of year	53,502,450	10,242,179	-	63,744,629
Net assets with donor restrictions, end of year	61,510,188	(10,242,179)	-	51,268,009

Note 16: Future Changes in Accounting Principles

Revenue Recognition

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for annual periods beginning after December 15, 2017, for not-for-profits that are conduit debt obligors, and any interim periods within annual reporting periods that begin after December 15, 2018, for not-for-profits that are conduit debt obligors. The Corporation is in the process of evaluating the impact the amendment will have on the consolidated financial statements.

Accounting for Leases

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the statement of financial position as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2018 for not-for-profits that are conduit debt obligors, and any interim periods within annual reporting periods that begin after December 15, 2018 for not-for-profits that are conduit debt obligors. The Corporation is evaluating the impact the standard will have on the consolidated financial statements; however, the standard is expected to have a material impact on the consolidated financial statements due to the recognition of additional assets and liabilities for operating leases.