

Kansas Athletics, Incorporated and Subsidiary

Independent Auditor's Report and Consolidated Financial Statements

June 30, 2019 and 2018



Kansas Athletics, Incorporated and Subsidiary
June 30, 2019 and 2018

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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, 2019 and 2018, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, 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.

Board of Directors, Audit Committee
and Management
Kansas Athletics, Incorporated and Subsidiary
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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, 2019 and 2018, 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 2 and Note 15, respectively to the consolidated financial statements, in 2019, the Corporation adopted the Accounting Standards Update 2014-09 (*Topic 606*), *Revenue from Contracts with Customers* and ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. Our opinion is not modified with respect to these matters.

BKD, LLP

Kansas City, Missouri
September 20, 2019

Kansas Athletics, Incorporated and Subsidiary
Consolidated Statements of Financial Position
June 30, 2019 and 2018

Assets	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 19,492,338	\$ 9,428,409
Accounts receivable, net of allowance; 2019 - \$96,361; 2018 - \$144,303	1,528,716	4,435,124
Contributions receivable, net of allowance; 2019 - \$1,208,555; 2018 - \$782,912	63,030,894	66,631,723
Investments	55,236,043	54,418,923
Other assets	4,512,325	2,986,666
Property and equipment, net of accumulated depreciation; 2019 - \$101,550,567; 2018 - \$92,449,463	<u>113,042,075</u>	<u>92,201,946</u>
Total assets	<u><u>\$ 256,842,391</u></u>	<u><u>\$ 230,102,791</u></u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 9,085,488	\$ 9,116,086
Accrued expenses	9,537,546	5,307,527
Advance ticket sales	11,777,850	7,075,502
Deferred revenue	2,044,889	2,515,060
Line-of-credit (revolving agreement)	17,739,161	-
Long-term debt	33,411,234	35,602,922
Other liabilities	<u>1,683,778</u>	<u>2,338,172</u>
Total liabilities	<u>85,279,946</u>	<u>61,955,269</u>
Net Assets		
Without donor restrictions	69,182,191	58,300,865
With donor restrictions	<u>102,380,254</u>	<u>109,846,657</u>
Total net assets	<u>171,562,445</u>	<u>168,147,522</u>
Total liabilities and net assets	<u><u>\$ 256,842,391</u></u>	<u><u>\$ 230,102,791</u></u>

Kansas Athletics, Incorporated and Subsidiary
Consolidated Statement of Activities
Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenues, Gains and Other Support			
NCAA and conference distributions	\$ 37,685,768	\$ -	\$ 37,685,768
Contributions and grants	21,602,281	12,435,988	34,038,269
Ticket sales and handling fees	19,391,717		19,391,717
Sponsorship, media and royalties	17,157,824		17,157,824
Direct institutional support	1,448,795		1,448,795
Realized investment income	201,898	1,640,274	1,842,172
Other operating revenue	3,553,774		3,553,774
Change in donor classification		5,840,653	5,840,653
Net assets released from restrictions for operations	13,666,877	(13,666,877)	-
	<u>114,708,934</u>	<u>6,250,038</u>	<u>120,958,972</u>
Operating Expenses			
Salaries and benefits	46,309,392		46,309,392
Grants-in-aid	16,019,452		16,019,452
Team travel	7,001,782		7,001,782
Team operating expense	8,288,633		8,288,633
Student athlete training and development	2,035,654		2,035,654
Game operating expenses	2,256,074		2,256,074
Guarantees paid to visiting teams	1,469,391		1,469,391
Facilities and equipment	4,535,482		4,535,482
General administration and other	17,168,261		17,168,261
Depreciation and amortization	5,339,913		5,339,913
	<u>110,424,034</u>	<u>-</u>	<u>110,424,034</u>
	<u>4,284,900</u>	<u>6,250,038</u>	<u>10,534,938</u>
Operating Income			
Other Income (Expense)			
Contributions restricted for capital projects		4,118,095	4,118,095
Unrealized investment income	37,340	178,554	215,894
Interest expense	(1,283,526)		(1,283,526)
Depreciation on donor-funded property and equipment	(4,033,925)		(4,033,925)
Net loss from Jayhawk Tennis Center	(277,014)		(277,014)
Bad debt expense on contributions restricted for capital projects		(18,886)	(18,886)
Change in donor classification		(5,840,653)	(5,840,653)
Net assets released from restrictions for capital projects	12,153,551	(12,153,551)	-
	<u>6,596,426</u>	<u>(13,716,441)</u>	<u>(7,120,015)</u>
	<u>10,881,326</u>	<u>(7,466,403)</u>	<u>3,414,923</u>
Change in Net Assets			
Net Assets, Beginning of Year	<u>58,300,865</u>	<u>109,846,657</u>	<u>168,147,522</u>
Net Assets, End of Year	<u>\$ 69,182,191</u>	<u>\$ 102,380,254</u>	<u>\$ 171,562,445</u>

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, media 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)	-
	<u>103,241,672</u>	<u>1,169,516</u>	<u>104,411,188</u>
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
	<u>104,850,579</u>	<u>-</u>	<u>104,850,579</u>
	<u>(1,608,907)</u>	<u>1,169,516</u>	<u>(439,391)</u>
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)	-
	<u>(3,834,857)</u>	<u>57,409,132</u>	<u>53,574,275</u>
Change in Net Assets	<u>(5,443,764)</u>	<u>58,578,648</u>	<u>53,134,884</u>
Net Assets, Beginning of Year	<u>63,744,629</u>	<u>51,268,009</u>	<u>115,012,638</u>
Net Assets, End of Year	<u>\$ 58,300,865</u>	<u>\$ 109,846,657</u>	<u>\$ 168,147,522</u>

Kansas Athletics, Incorporated and Subsidiary
Consolidated Statement of Functional Expenses
Year Ended June 30, 2019

	Football	Men's Basketball	Other Sports	Total Program Services	Management and General	Fundraising	Total Expenses
Operating Expenses							
Salaries and benefits	\$ 12,095,094	\$ 9,411,451	\$ 12,769,055	\$ 34,275,600	\$ 9,899,791	\$ 2,134,001	\$ 46,309,392
Grants-in-aid	6,612,105	879,109	8,144,245	15,635,459	362,489	21,504	16,019,452
Team travel	1,585,528	1,601,479	3,814,775	7,001,782	-	-	7,001,782
Team operating expense	3,232,801	1,404,654	2,965,177	7,602,632	666,401	19,600	8,288,633
Student athlete training and development	601,828	324,694	1,109,132	2,035,654	-	-	2,035,654
Game operating expenses	809,067	1,096,931	350,076	2,256,074	-	-	2,256,074
Guarantees paid to visiting teams	600,000	570,000	299,391	1,469,391	-	-	1,469,391
Facilities and equipment	566,086	53,087	3,459,571	4,078,744	416,779	39,959	4,535,482
General administration and other	2,124,859	1,350,638	3,738,407	7,213,904	7,863,080	2,091,277	17,168,261
Depreciation and amortization	1,420,417	1,324,298	2,248,103	4,992,818	48,060	299,035	5,339,913
Total operating expenses	29,647,785	18,016,341	38,897,932	86,562,058	19,256,600	4,605,376	110,424,034
Other Expenses							
Interest expense	488,915	362,220	346,289	1,197,424	86,102	-	1,283,526
Depreciation on donor-funded property	1,331,195	1,972,589	730,141	4,033,925	-	-	4,033,925
Bad debt expense on contributions restricted for capital projects	14,306	81	4,372	18,759	127	-	18,886
Total other expenses	1,834,416	2,334,890	1,080,802	5,250,108	86,229	-	5,336,337
Total expenses	\$ 31,482,201	\$ 20,351,231	\$ 39,978,734	\$ 91,812,166	\$ 19,342,829	\$ 4,605,376	\$ 115,760,371

Kansas Athletics, Incorporated and Subsidiary
Consolidated Statement of Functional Expenses
Years 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
Grants-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
	<u>27,653,712</u>	<u>18,513,528</u>	<u>36,698,064</u>	<u>82,865,304</u>	<u>16,494,861</u>	<u>5,490,414</u>	<u>104,850,579</u>
Total operating expenses							
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
	<u>1,590,374</u>	<u>2,652,044</u>	<u>1,282,950</u>	<u>5,525,368</u>	<u>100,527</u>	<u>-</u>	<u>5,625,895</u>
Total other expenses							
Total expenses	<u>\$ 29,244,086</u>	<u>\$ 21,165,572</u>	<u>\$ 37,981,014</u>	<u>\$ 88,390,672</u>	<u>\$ 16,595,388</u>	<u>\$ 5,490,414</u>	<u>\$ 110,476,474</u>

Kansas Athletics, Incorporated and Subsidiary
Consolidated Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
		<i>(As adjusted)</i>
Operating Activities		
Change in net assets	\$ 3,414,923	\$ 53,134,884
Items not requiring (providing) operating activities cash flows		
Net realized and unrealized gains on investments	(835,522)	(1,982,778)
Depreciation	9,373,838	9,317,828
Amortization of bond issuance costs	60,856	(78,527)
Transfer of assets to the University	-	484,495
Loss on disposition of property and equipment	68,575	-
Contributions received restricted for capital projects	(4,118,095)	(58,649,291)
Contributions received restricted for long-term investment	(976,632)	(1,600,736)
Changes in		
Accounts receivable	2,906,408	(3,337,933)
Contributions receivable	(3,156,479)	3,381,801
Other assets	(1,525,659)	(1,258,467)
Accounts payable, accrued expenses and other liabilities	3,254,043	1,657,015
Advance ticket sales	4,702,348	(340,683)
Deferred revenue	(470,171)	(512,801)
	<u>12,698,433</u>	<u>214,807</u>
Investing Activities		
Additions to investments held by Kansas University		
Endowment Association	(57,021,213)	(39,728,122)
Withdrawals from investments held by Kansas University		
Endowment Association	58,312,498	38,600,881
Deposits to investments held by trustee under bond indenture	(2,948,675)	(2,953,016)
Withdrawals from investments held by trustee under bond indenture	3,038,887	2,945,913
Purchase of property and equipment	(29,991,558)	(5,407,169)
	<u>(28,610,061)</u>	<u>(6,541,513)</u>
Financing Activities		
Proceeds from contributions restricted for capital projects	11,315,688	7,560,803
Proceeds from contributions restricted for long-term investments	536,347	1,683,021
Proceeds from line of credit	17,739,161	-
Principal payments on long-term debt	(2,252,544)	(2,412,442)
	<u>27,338,652</u>	<u>6,831,382</u>
Increase in Cash, Cash Equivalents and Cash Held in Investments	11,427,024	504,676
Cash, Cash Equivalents and Cash Held in Investments, Beginning of Year	<u>23,298,156</u>	<u>22,793,480</u>
Cash, Cash Equivalents and Cash Held in Investments, End of Year	<u>\$ 34,725,180</u>	<u>\$ 23,298,156</u>

Kansas Athletics, Incorporated and Subsidiary
Consolidated Statements of Cash Flows (Continued)
Years Ended June 30, 2019 and 2018

	2019	2018
Reconciliation of Cash, Cash Equivalents and Cash Held in Investments to the Statements of Financial Position		
Cash and cash equivalents	\$ 19,492,338	\$ 9,428,409
Investments	15,232,842	13,869,747
Total cash, cash equivalents and cash held in investments shown in the statements of cash flows	\$ 34,725,180	\$ 23,298,156
Supplemental Cash Flows Information		
Interest paid	\$ 1,593,133	\$ 1,375,419
Property and equipment purchases in accounts payable	362,712	71,728
Capital lease obligations incurred for equipment	-	2,081,675

Kansas Athletics, Incorporated and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

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.

Cash Equivalents

The Corporation considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2019, cash equivalents consisted primarily of money market accounts.

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

Kansas Athletics, Incorporated and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

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 of consideration from customers of which the Corporation has an unconditional right to receive plus any accrued and unpaid interest. 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.

Kansas Athletics, Incorporated and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

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, 2019 or 2018.

Advance Ticket Sales and Ticket Sales

Advance ticket sales represent payments received for tickets to 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.

Kansas Athletics, Incorporated and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

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 consolidated statements 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, 2019 and 2018, \$1,340,402 and \$1,307,015, respectively, of in-kind supplies and services was received and consumed by the Corporation.

Kansas Athletics, Incorporated and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2019 and 2018

Functional Allocation of Expenses

The consolidated statements of functional expenses present 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.

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, 2019 and 2018 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.

Revisions

Certain immaterial revisions have been made to the 2018 consolidated financial statements for advance ticket sales for future seasons. These revisions decreased accounts receivable and advance ticket sales on the consolidated statements of financial position by \$2,793,123 and had no impact on the consolidated statements of activities.

Kansas Athletics, Incorporated and Subsidiary

Notes to Consolidated Financial Statements

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Note 2: Revenue from Contracts with Customers

Change in Accounting Principle

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which replaces existing revenue recognition guidance. The new standard requires companies to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amount to which the Corporation expects to be entitled is calculated as the transaction price and recorded as revenue in exchange for providing goods or services. In addition, Topic 606 requires disclosures of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Corporation adopted this standard on July 1, 2018, using a modified retrospective approach. Comparative prior period information has been adjusted to remove accounts receivable and advance ticket sales for the following year games. The Corporation has applied the new standard to all contracts.

The Corporation's adoption of Topic 606 did not result in a change to the timing of revenue recognition.

Ticket Sales Revenue

Revenue from contracts with purchasers of tickets to the Corporation's home athletic contests is reported at the amount that reflects the consideration to which the Corporation expects to be entitled in exchange for allowing admittance into such home athletic contests. Revenue is recognized as performance obligations are satisfied, in the period during which the athletic contests are held. Generally, the Corporation begins taking orders during a fiscal year for season tickets for future year home athletic seasons, and payments received towards these orders are reflected as Advance Ticket Sales in the consolidated statements of financial position.

Sponsorship, Media and Royalties Revenue

Revenues from sponsorships, media and royalties consists primarily of four multi-year contracts for which the Corporation has a single performance obligation to grant certain rights on an annual basis in exchange for cash and noncash consideration. For these contracts, the noncash amounts are recognized annually as the goods and/or services are received. For two of the contracts, the cash amounts vary by year but are recognized on a straight-line basis, and amounts received which are more or less than the straight-line amounts are reflected as deferred revenue or contract asset, respectively. For these contracts, revenue recognized for the year ended June 30, 2019 was \$12,048,434 and a contract asset included in other assets totaled \$3,007,589 and \$1,768,170 as of June 30, 2019 and 2018, respectively. For the other two contracts, the cash amounts are a flat amount each year or based on sales for each year and revenue is recognized in the year received. For all of the above contracts, the Corporation's performance obligations are deemed to be satisfied on an annual basis.

Kansas Athletics, Incorporated and Subsidiary

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Two of the contracts noted above have clauses for variable consideration if certain thresholds or criteria are met. As of June 30, 2019 and 2018, the criteria has not been met.

NCAA and Conference Distributions

Revenues resulting from the Corporation's participation in the Big 12 Conference is recognized annually as received. The Corporation's performance obligation is to participate in the Conference throughout the life of the contract and abide by its rules. The Conference conducts activities on behalf of all conference members and makes annual cash distributions to its members based on allocation methods outlined in the contract. The Corporation's performance obligations are deemed to be satisfied on an annual basis, and distributions for each year are recognized in the period received.

Additionally, the Corporation received a bonus payment in 2012 as a member of the Conference at that time of \$5,343,750 related to telecasting rights. The contract terms end on June 30, 2025 and if terminated before that time, the Corporation has to repay the bonus pro-rata. The Corporation is recognizing the revenue evenly over the contract period at \$411,058 per year and the difference between the cash received at the beginning of the contract and cumulative revenue recognized is shown as deferred revenue and totaled \$2,044,889 and \$2,515,060 as of June 30, 2019 and 2018, respectively.

Performance Obligations and Transaction Price Allocated to Remaining Performance Obligations

Because all of its performance obligations for ticket sales revenue and NCAA and Conference Distributions relate to contracts with a duration of less than one year, the Organization has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period, of where there were none at June 30, 2019 and 2018.

The Corporation has contracts that are unsatisfied or partially unsatisfied as of June 30, 2019 and 2018, in the amounts of \$3,007,589 and \$1,768,170, respectively, related to sponsorships, media and royalties. As of June 30, 2019, the Corporation expects to recognize these amounts as revenue over the remaining contract life of 12 years.

Accounting Policies and Practical Expedients Elected

The Corporation is applying an accounting policy election, which allows an entity to exclude from revenue any amounts collected from customers on behalf of third parties, such as sales taxes and other similar taxes we collect concurrent with revenue-producing activities. Therefore, revenue is presented net of sales taxes and similar revenue-based taxes.

Kansas Athletics, Incorporated and Subsidiary
Notes to Consolidated Financial Statements
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Disaggregation of Revenue

The composition of revenue based on type of revenue and timing of revenue recognition for the years ended June 30, 2019 and 2018, are as follows:

	<u>2019</u>	<u>2018</u>
Sponsorship, media and royalties		
Non-cash sponsorships	\$ 2,800,000	\$ 2,700,000
Media rights	7,250,397	7,055,802
Royalties from trademark and licensing	1,064,570	1,175,739
Sponsorship	6,042,857	5,582,143
NCAA and conference distributions	37,274,710	32,284,578
Bonus payment	411,058	411,058
Ticket sales and handling fees	<u>19,391,717</u>	<u>20,581,056</u>
 Total	 <u>\$ 74,235,309</u>	 <u>\$ 69,790,376</u>
	 <u>2019</u>	 <u>2018</u>
Timing of revenue and recognition		
Services transferred over time	\$ 52,043,592	\$ 46,509,320
Services/sales at point in time	<u>22,191,717</u>	<u>23,281,056</u>
 Total	 <u>\$ 74,235,309</u>	 <u>\$ 69,790,376</u>

Kansas Athletics, Incorporated and Subsidiary
Notes to Consolidated Financial Statements
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Note 3: Contributions Receivable

Contributions receivable at June 30, 2019 and 2018, consisted of the following unconditional promises to give discounted at a rate of 4 percent:

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

Note 4: Investments and Fair Value Measurements

Investments at June 30, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Held by Kansas University Endowment Association		
Cash	\$ 15,232,842	\$ 13,869,747
Long-term investment pool	34,837,289	35,445,313
Bond fund	1,366,626	1,312,307
Real estate	<u>796,576</u>	<u>797,612</u>
	<u>52,233,333</u>	<u>51,424,979</u>
Held by Trustee Under Bond Indenture		
Money market mutual funds	1,583,235	1,574,469
Guaranteed investment contract	<u>1,419,475</u>	<u>1,419,475</u>
	<u>3,002,710</u>	<u>2,993,944</u>
Total investments	<u><u>\$ 55,236,043</u></u>	<u><u>\$ 54,418,923</u></u>

Kansas Athletics, Incorporated and Subsidiary
Notes to Consolidated Financial Statements
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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 a 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 7*, the Corporation is required to maintain funds in certain debt service reserve accounts pursuant to the bond agreements.

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Notes to Consolidated Financial Statements
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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, 2019 and 2018:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2019				
Investments held by the Kansas University Endowment Association				
Long-term investment pool	\$ 34,837,289	\$ -	\$ 34,837,289	\$ -
Bond fund	1,366,626	-	1,366,626	-
Investments held by trustee under bond indenture				
Money market mutual funds	1,583,235	1,583,235	-	-
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	-	-

Kansas Athletics, Incorporated and Subsidiary
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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 5: Property and Equipment

Property and equipment at June 30, 2019 and 2018 consisted of:

	2019	2018
Buildings and leasehold improvements	\$ 7,221,117	\$ 7,193,264
Improvements to State property	182,076,239	156,543,960
Furniture and fixtures	16,431,456	15,731,128
Construction in progress	8,863,830	5,183,057
	214,592,642	184,651,409
Less accumulated depreciation	101,550,567	92,449,463
	\$113,042,075	\$ 92,201,946

Note 6: Line of Credit

The Corporation has 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, 2019 and 2018, there was \$17,739,161 and \$0 borrowed against this line, respectively. 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 (3.6 and 3.2 percent as of June 30, 2019 and 2018, respectively).

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Notes to Consolidated Financial Statements
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Note 7: Long-term Debt

Long-term debt at June 30, 2019 and 2018 consisted of the following:

	2019	2018
Revenue bonds, KDFA Series 2014F (A)	\$ 31,520,000	\$ 33,210,000
Capital lease obligations (B)	1,302,127	1,708,600
Notes payable	14,475	34,822
	32,836,602	34,953,422
Add unamortized premium	1,041,716	1,177,440
Less unamortized debt issuance costs	(467,084)	(527,940)
	\$ 33,411,234	\$ 35,602,922

- (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, 2019 and 2018, the Corporation had investments held by a trustee of \$3,002,710 and \$2,993,944, 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, 2019 was \$4,452,248 and \$2,937,849, respectively, and at June 30, 2018, \$4,426,448 and \$2,823,657, respectively.

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Aggregate annual maturities of long-term debt and payments on capital lease obligations at June 30, 2019 are:

	Long-term Debt (Excluding Leases)	Capital Lease Obligations
2020	\$ 1,764,567	\$ 448,753
2021	1,829,908	448,753
2022	1,900,000	448,753
2023	1,970,000	26,242
2024	2,025,000	-
Thereafter	22,045,000	-
	<u>\$ 31,534,475</u>	<u>1,372,501</u>
Less amount representing interest		<u>70,374</u>
Present value of future minimum lease payments		<u>\$ 1,302,127</u>

Kansas Athletics, Incorporated and Subsidiary
Notes to Consolidated Financial Statements
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Note 8: Net Assets With Donor Restrictions

Net assets with donor restrictions at June 30, 2019 and 2018 were restricted for the following purposes or periods:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose		
Student-athlete scholarships	\$ 2,650,445	\$ 3,341,021
Capital projects	8,434,539	8,850,920
Team operational support	1,754,389	1,559,436
Other programs	356,200	341,139
Contributions receivable restricted by donors for		
Student-athlete scholarships	885,692	1,284,017
Capital projects	43,748,393	55,725,056
Team operational support	4,795,267	-
Other programs	1,499,469	1,998,480
	<u>64,124,394</u>	<u>73,100,069</u>
Subject to the passage of time		
Contributions receivable that are not restricted by donors, but which are unavailable for expenditure until due	<u>412,772</u>	<u>232,492</u>
Endowments, subject to KU Endowment spending policy and appropriation		
Student-athlete scholarships	34,804,315	33,492,829
Team operational support	1,316,678	1,314,843
General use	609,154	606,454
Other programs	900,159	872,467
Contributions receivable restricted by donors for endowment	<u>212,782</u>	<u>227,503</u>
	<u>37,843,088</u>	<u>36,514,096</u>
Total net assets with donor restrictions	<u><u>\$ 102,380,254</u></u>	<u><u>\$ 109,846,657</u></u>

Kansas Athletics, Incorporated and Subsidiary
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Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2019	2018
Satisfaction of purpose restrictions		
Student-athlete scholarships	\$ 4,089,171	\$ 4,519,466
Capital projects	12,153,551	2,227,922
Team operational support	7,766,251	122,554
Other	276,320	186,487
Expiration of time restrictions	145,398	95,173
Appropriation of endowment assets for expenditure		
Student-athlete scholarships	1,361,833	1,365,367
Team operational support	24,222	53,671
Other	3,682	1,220
	\$ 25,820,428	\$ 8,571,860

Note 9: 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 assets 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

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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, 2019 and 2018 was:

	2019	2018
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ 20,299,851	\$ 19,323,219
Accumulated investment gains	17,543,237	17,190,877
	\$ 37,843,088	\$ 36,514,096

Changes in endowment net assets with donor restrictions for the years ended June 30, 2019 and 2018 were:

Endowment net assets, July 1, 2017	\$ 33,473,720
Investment return, net	2,545,165
Contributions	1,915,469
Appropriation of endowment assets for expenditure	(1,420,258)
Endowment net assets, June 30, 2018	36,514,096
Investment return, net	1,539,767
Contributions	1,178,962
Appropriation of endowment assets for expenditure	(1,389,737)
	1,328,992
Endowment net assets, June 30, 2019	\$ 37,843,088

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, 2019 and 2018, 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.

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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 10: 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 9*, are also considered available for operating expenditure.

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The Corporation's financial assets as of June 30, 2019 and 2018, and the portion of those assets available for general expenditure within one year thereafter, include the following:

	<u>2019</u>		<u>2018</u>	
	<u>Financial Assets</u>	<u>Available Liquidity</u>	<u>Financial Assets</u>	<u>Available Liquidity</u>
Cash and cash equivalents	\$ 19,492,338	\$ 19,492,338	\$ 9,428,409	\$ 9,428,409
Accounts receivable, net	1,528,716	1,528,716	4,435,124	4,435,124
Contributions receivable, net	63,030,894	14,599,122	66,631,723	8,445,181
Investments	55,236,043	4,996,449	54,418,923	5,147,137
	<u>\$ 139,287,991</u>	<u>\$ 40,616,625</u>	<u>\$ 134,914,179</u>	<u>\$27,455,851</u>

Note 11: 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 \$0 and \$484,495 during the years ended June 30, 2019 and 2018, 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, 2019 and 2018 were \$1,448,795 and \$1,502,799, 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 \$7,913,783, \$1,483,086 and \$2,237,688 in 2019, respectively, and \$7,571,813, \$1,727,314 and \$1,630,390 in 2018, 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 \$2,828,600 and \$4,439,640 at June 30, 2019 and 2018, respectively, and are included in accounts payable. Total trade receivables due from the University and related entities were \$114,843 and \$13,135 at June 30, 2019 and 2018, respectively, and are included in accounts receivable.

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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, 2019 and 2018 were \$746,140 and \$1,373,662, 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 \$627,500 and \$54,510 in 2019, respectively, and \$175,800 and \$77,893 in 2018, respectively.

Investment management fees paid to KU Endowment during 2019 and 2018 were \$313,890 and \$290,008, respectively.

Note 12: Operating Leases

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 2,454,563
2021	2,426,277
2022	2,371,496
2023	2,263,372
2024	2,230,703
Thereafter	<u>44,799,950</u>
	<u><u>\$ 56,546,361</u></u>

Rental expense for all operating leases was \$2,517,915 and \$2,511,602 for the years ended June 30, 2019 and 2018, respectively.

Note 13: 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 \$1,577,454 and \$1,537,944 for the years ended June 30, 2019 and 2018, respectively.

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Note 14: 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, 2019 and 2018, the Corporation's cash accounts exceeded federally insured limits by approximately \$16,500,000 and \$8,300,000, respectively.

Contributions Receivable and Contributions Revenue

Significant estimates for contributions receivable are described in *Note 1*. Approximately 61 percent of contributions receivable was from one donor in 2019. There were no concentrations of contribution revenue in 2019. Approximately 71 percent of contributions receivable and 58 percent of contribution revenue was from one donor in 2018.

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 4*.

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.

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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 15: Change in Account Principle

ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash

In 2019, the Corporation changed its method of accounting for cash held in investments by adopting the provisions of Accounting Standards Update No. 2016-18 (ASU 2016-18), *Statement of Cash Flows (Topic 230): Restricted Cash*. The new accounting guidance in ASU 2016-18 requires balances generally described as restricted cash or restricted cash equivalents to be included with cash and cash equivalents when reconciling beginning and end-of-period balances on the statements of cash flows. This change was applied retrospectively to all periods presented, which resulted in the following changes within the consolidated statements of cash flows: (1) decrease the amount presented as ‘additions to investments held by Kansas University Endowment Association’ for the year ended June 30, 2018, (2) change descriptions with “cash and cash equivalents” to “cash, cash equivalents and cash held in investments” and (3) include reconciliations of cash, cash equivalents and cash held in investments to the consolidated statements of cash flows.

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This change was applied retrospectively to all periods presented which resulted in the following changes within the 2018 consolidated financial statements.

	2018 As Previously Reported	2018 Adjustment	2018 As Adjusted
Consolidated Statements of Cash Flows			
Additions to investments held by			
Kansas University Endowment Association	\$ (38,846,827)	\$ (881,295)	\$ (39,728,122)
Net cash used in investing activities	(5,660,218)	(881,295)	(6,541,513)
Increase in cash, cash equivalents and cash held in investments	1,385,971	(881,295)	504,676
Cash, cash equivalents and cash held in investments, beginning of year	8,042,438	14,751,042	22,793,480
Cash, cash equivalents and cash held in investments, end of year	9,428,409	13,869,747	23,298,156

Note 16: Subsequent Events

Subsequent events have been evaluated through September 20, 2019, which is the date the consolidated financial statements were issued.

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Note 17: Future Changes in Accounting Principle

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.