

# **Kansas Athletics, Incorporated and Subsidiary**

Independent Auditor's Report and Consolidated Financial Statements

June 30, 2020 and 2019



**Kansas Athletics, Incorporated and Subsidiary**  
**June 30, 2020 and 2019**

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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, 2020 and 2019, 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, 2020 and 2019, 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.

*BKD, LLP*

Kansas City, Missouri  
September 24, 2020

**Kansas Athletics, Incorporated and Subsidiary**  
**Consolidated Statements of Financial Position**  
**June 30, 2020 and 2019**

	<b>2020</b>	<b>2019</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 15,850,157	\$ 19,492,338
Accounts receivable, net of allowance; 2020 - \$96,755; 2019 - \$96,361	2,042,368	1,528,716
Contributions receivable, net of allowance; 2020 - \$2,234,093; 2019 - \$1,208,555	51,748,462	63,030,894
Investments	54,602,765	55,236,043
Other assets	1,266,711	4,512,325
Property and equipment, net of accumulated depreciation; 2020 - \$111,361,816; 2019 - \$101,550,567	111,030,657	113,042,075
Total assets	\$ 236,541,120	\$ 256,842,391
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 5,150,020	\$ 9,085,488
Accrued expenses	9,672,253	9,537,546
Advance ticket sales	6,963,635	11,777,850
Deferred revenue	4,222,593	2,044,889
Line-of-credit (revolving agreement)	9,809,260	17,739,161
Long-term debt	31,139,378	33,411,234
Other liabilities	598,160	1,683,778
Total liabilities	67,555,299	85,279,946
<b>Net Assets</b>		
Without donor restrictions	77,756,984	69,182,191
With donor restrictions	91,228,837	102,380,254
Total net assets	168,985,821	171,562,445
Total liabilities and net assets	\$ 236,541,120	\$ 256,842,391

**Kansas Athletics, Incorporated and Subsidiary**  
**Consolidated Statement of Activities**  
**Year Ended June 30, 2020**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Operating Revenues, Gains and Other Support</b>			
NCAA and conference distributions	\$ 36,856,073	\$ -	\$ 36,856,073
Contributions and grants	18,786,015	5,082,455	23,868,470
Ticket sales and handling fees	20,213,366		20,213,366
Sponsorship, media and royalties	17,020,029		17,020,029
Direct institutional support	1,333,660		1,333,660
Realized investment income	275,265	1,682,343	1,957,608
Other operating revenue	3,281,427		3,281,427
Net assets released from restrictions for operations	6,412,170	(6,412,170)	-
	<u>104,178,005</u>	<u>352,628</u>	<u>104,530,633</u>
<b>Operating Expenses</b>			
Salaries and benefits	40,772,699		40,772,699
Grants-in-aid	13,769,556		13,769,556
Team travel	5,635,877		5,635,877
Team operating expense	7,272,104		7,272,104
Student athlete training and development	5,161,683		5,161,683
Game operating expenses	2,341,879		2,341,879
Guarantees paid to visiting teams	1,742,382		1,742,382
Facilities and equipment	3,862,038		3,862,038
General administration and other	18,034,485		18,034,485
Depreciation and amortization	5,210,583		5,210,583
	<u>103,803,286</u>	<u>-</u>	<u>103,803,286</u>
	<u>374,719</u>	<u>352,628</u>	<u>727,347</u>
<b>Operating Income</b>			
<b>Other Income (Expense)</b>			
Contributions restricted for capital projects		5,479,792	5,479,792
Unrealized investment loss	(17,358)	(2,128,776)	(2,146,134)
Interest expense	(1,464,895)		(1,464,895)
Depreciation on donor-funded property and equipment	(4,659,288)		(4,659,288)
Net loss from Jayhawk Tennis Center	(401,861)		(401,861)
Bad debt expense on contributions restricted for capital projects		(111,585)	(111,585)
Net assets released from restrictions for capital projects	14,743,476	(14,743,476)	-
	<u>8,200,074</u>	<u>(11,504,045)</u>	<u>(3,303,971)</u>
	<u>8,574,793</u>	<u>(11,151,417)</u>	<u>(2,576,624)</u>
<b>Change in Net Assets</b>			
<b>Net Assets, Beginning of Year</b>	<u>69,182,191</u>	<u>102,380,254</u>	<u>171,562,445</u>
<b>Net Assets, End of Year</b>	<u>\$ 77,756,984</u>	<u>\$ 91,228,837</u>	<u>\$ 168,985,821</u>

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

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Operating Revenues, Gains and Other Support</b>			
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	3,583,934		3,583,934
Change in donor classification		5,840,653	5,840,653
Net assets released from restrictions for operations	13,666,877	(13,666,877)	-
	<u>114,739,094</u>	<u>6,250,038</u>	<u>120,989,132</u>
<b>Operating Expenses</b>			
Salaries and benefits	43,022,495		43,022,495
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	5,564,300		5,564,300
Game operating expenses	2,256,074		2,256,074
Guarantees paid to visiting teams	1,469,391		1,469,391
Facilities and equipment	4,293,733		4,293,733
General administration and other	17,198,421		17,198,421
Depreciation and amortization	5,339,913		5,339,913
	<u>110,454,194</u>	<u>-</u>	<u>110,454,194</u>
	<u>4,284,900</u>	<u>6,250,038</u>	<u>10,534,938</u>
<b>Operating Income</b>			
<b>Other Income (Expense)</b>			
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>
<b>Change in Net Assets</b>	10,881,326	(7,466,403)	3,414,923
<b>Net Assets, Beginning of Year</b>	<u>58,300,865</u>	<u>109,846,657</u>	<u>168,147,522</u>
<b>Net Assets, End of Year</b>	<u>\$ 69,182,191</u>	<u>\$ 102,380,254</u>	<u>\$ 171,562,445</u>

**Kansas Athletics, Incorporated and Subsidiary**  
**Consolidated Statement of Functional Expenses**  
**Year Ended June 30, 2020**

	<b>Football</b>	<b>Men's Basketball</b>	<b>Other Sports</b>	<b>Total Program Services</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total Expenses</b>
<b>Operating Expenses</b>							
Salaries and benefits	\$ 11,845,656	\$ 9,576,940	\$ 11,068,846	\$ 32,491,442	\$ 6,285,777	\$ 1,995,480	\$ 40,772,699
Grant-in-aid	4,866,528	741,728	7,739,893	13,348,149	397,808	23,599	13,769,556
Team travel	1,651,898	1,495,945	2,488,034	5,635,877	-	-	5,635,877
Team operating expense	2,853,475	1,000,065	2,683,564	6,537,104	714,000	21,000	7,272,104
Student athlete training and development	1,789,907	341,856	3,029,920	5,161,683	-	-	5,161,683
Game operating expenses	1,008,349	1,039,174	294,356	2,341,879	-	-	2,341,879
Guarantees paid to visiting teams	1,050,000	485,000	207,382	1,742,382	-	-	1,742,382
Facilities and equipment	506,331	58,431	2,992,831	3,557,593	281,111	23,334	3,862,038
General administration and other	2,661,081	1,518,107	3,407,177	7,586,365	8,534,237	1,913,883	18,034,485
Depreciation and amortization	1,630,912	1,198,434	2,068,602	4,897,948	20,842	291,793	5,210,583
	<u>29,864,137</u>	<u>17,455,680</u>	<u>35,980,605</u>	<u>83,300,422</u>	<u>16,233,775</u>	<u>4,269,089</u>	<u>103,803,286</u>
<b>Total operating expenses</b>							
<b>Other Expenses</b>							
Interest expense	558,601	419,366	404,770	1,382,737	82,158	-	1,464,895
Depreciation on donor-funded property	1,537,565	2,278,392	843,331	4,659,288	-	-	4,659,288
Bad debt expense on contributions restricted for capital projects	84,526	480	25,831	110,837	748	-	111,585
	<u>2,180,692</u>	<u>2,698,238</u>	<u>1,273,932</u>	<u>6,152,862</u>	<u>82,906</u>	<u>-</u>	<u>6,235,768</u>
<b>Total other expenses</b>							
<b>Total expenses</b>	<u>\$ 32,044,829</u>	<u>\$ 20,153,918</u>	<u>\$ 37,254,537</u>	<u>\$ 89,453,284</u>	<u>\$ 16,316,681</u>	<u>\$ 4,269,089</u>	<u>\$ 110,039,054</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
<b>Operating Expenses</b>							
Salaries and benefits	\$ 11,049,197	\$ 9,330,933	\$ 10,608,576	\$ 30,988,706	\$ 9,899,788	\$ 2,134,001	\$ 43,022,495
Grant-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	1,809,233	410,578	3,344,489	5,564,300	-	-	5,564,300
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	478,109	47,721	3,311,165	3,836,995	416,779	39,959	4,293,733
General administration and other	2,134,156	1,350,638	3,759,270	7,244,064	7,863,080	2,091,277	17,198,421
Depreciation and amortization	1,420,417	1,324,298	2,248,103	4,992,818	48,060	299,035	5,339,913
	<u>29,730,613</u>	<u>18,016,341</u>	<u>38,845,267</u>	<u>86,592,221</u>	<u>19,256,597</u>	<u>4,605,376</u>	<u>110,454,194</u>
<b>Other Expenses</b>							
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
	<u>1,834,416</u>	<u>2,334,890</u>	<u>1,080,802</u>	<u>5,250,108</u>	<u>86,229</u>	<u>-</u>	<u>5,336,337</u>
Total other expenses	<u>1,834,416</u>	<u>2,334,890</u>	<u>1,080,802</u>	<u>5,250,108</u>	<u>86,229</u>	<u>-</u>	<u>5,336,337</u>
Total expenses	<u>\$ 31,565,029</u>	<u>\$ 20,351,231</u>	<u>\$ 39,926,069</u>	<u>\$ 91,842,329</u>	<u>\$ 19,342,826</u>	<u>\$ 4,605,376</u>	<u>\$ 115,790,531</u>

**Kansas Athletics, Incorporated and Subsidiary**  
**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2020 and 2019**

	<b>2020</b>	<b>2019</b>
<b>Operating Activities</b>		
Change in net assets	\$ (2,576,624)	\$ 3,414,923
Items not requiring (providing) operating activities cash flows		
Net realized and unrealized gains (losses) on investments	1,341,553	(835,522)
Depreciation	9,869,871	9,373,838
Amortization of bond issuance costs	57,759	60,856
Loss on disposition of property and equipment	234,481	68,575
Contributions received restricted for capital projects	(5,479,792)	(4,118,095)
Contributions received restricted for long-term investments	(114,923)	(976,632)
Changes in		
Accounts receivable	(513,652)	2,906,408
Contributions receivable	310,223	(3,156,479)
Other assets	3,245,614	(1,525,659)
Accounts payable, accrued expenses and other liabilities	(4,523,667)	3,254,043
Advance ticket sales	(4,814,215)	4,702,348
Deferred revenue	2,177,704	(470,171)
	<u>(785,668)</u>	<u>12,698,433</u>
<b>Investing Activities</b>		
Additions to investments held by Kansas University		
Endowment Association	(37,676,281)	(57,021,213)
Withdrawals from investments held by Kansas University		
Endowment Association	35,954,706	58,312,498
Deposits to investments held by trustee under bond indenture	(2,944,842)	(2,948,675)
Withdrawals from investments held by trustee under bond indenture	3,044,117	3,038,887
Purchase of property and equipment	(8,455,646)	(29,991,558)
	<u>(10,077,946)</u>	<u>(28,610,061)</u>
<b>Financing Activities</b>		
Proceeds from contributions restricted for capital projects	16,312,520	11,315,688
Proceeds from contributions restricted for long-term investments	254,404	536,347
Proceeds from line of credit	1,102,664	17,739,161
Payments on line of credit	(9,032,565)	-
Principal payments on long-term debt	(2,329,615)	(2,252,544)
	<u>6,307,408</u>	<u>27,338,652</u>
<b>Increase (Decrease) in Cash, Cash Equivalents and Cash Held in Investments</b>	<b>(4,556,206)</b>	<b>11,427,024</b>
<b>Cash, Cash Equivalents and Cash Held in Investments, Beginning of Year</b>	<b>34,725,180</b>	<b>23,298,156</b>
<b>Cash, Cash Equivalents and Cash Held in Investments, End of Year</b>	<b>\$ 30,168,974</b>	<b>\$ 34,725,180</b>

**Kansas Athletics, Incorporated and Subsidiary**  
**Consolidated Statements of Cash Flows (Continued)**  
**Years Ended June 30, 2020 and 2019**

	<b>2020</b>	<b>2019</b>
<b>Reconciliation of Cash, Cash Equivalents and Cash Held in Investments to the Statements of Financial Position</b>		
Cash and cash equivalents	\$ 15,850,157	\$ 19,492,338
Investments	14,318,817	15,232,842
 Total cash, cash equivalents and cash held in investments shown in the statements of cash flows	 \$ 30,168,974	 \$ 34,725,180
<b>Supplemental Cash Flows Information</b>		
Interest paid	\$ 1,523,283	\$ 1,593,133
Property and equipment purchases in accounts payable	-	362,712

**Kansas Athletics, Incorporated and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**June 30, 2020 and 2019**

**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 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. Uninvested cash and cash equivalents included in investment accounts, including endowment accounts, are considered to be cash and cash equivalents. At June 30, 2020, cash equivalents consisted primarily of money market accounts.

# **Kansas Athletics, Incorporated and Subsidiary**

## **Notes to Consolidated Financial Statements**

### **June 30, 2020 and 2019**

#### ***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 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.

# **Kansas Athletics, Incorporated and Subsidiary**

## **Notes to Consolidated Financial Statements**

### **June 30, 2020 and 2019**

#### *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. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

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 acquisitions over \$5,000 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, 2020 or 2019.

#### ***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.

# **Kansas Athletics, Incorporated and Subsidiary**

## **Notes to Consolidated Financial Statements**

### **June 30, 2020 and 2019**

#### ***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 consolidated statements of activities as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service. Gifts, including conditional 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.

# **Kansas Athletics, Incorporated and Subsidiary**

## **Notes to Consolidated Financial Statements**

### **June 30, 2020 and 2019**

#### ***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, 2020 and 2019, \$1,145,654 and \$1,340,402, respectively, of in-kind supplies and services was received and consumed by the Corporation.

#### ***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, 2020 and 2019 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.



# **Kansas Athletics, Incorporated and Subsidiary**

## **Notes to Consolidated Financial Statements**

### **June 30, 2020 and 2019**

#### ***Reclassifications***

Certain reclassifications have been made to the 2019 consolidated financial statements to conform to the 2020 consolidated financial statement presentation. These reclassifications had no effect on the change in net assets.

#### **Note 2: Revenue from Contracts with Customers**

##### ***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 years ended June 30, 2020 and 2019 was \$12,048,434 in each year and a contract asset included in other assets totaled \$0 and \$3,007,589 as of June 30, 2020 and 2019, respectively. During 2020, the cash received was in excess of the cumulative revenue recognized and is shown as deferred revenue totaling \$2,457,991 as June 30, 2020. 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.

Two of the contracts noted above have clauses for variable consideration if certain thresholds or criteria are met. As of June 30, 2020 and 2019, the criteria has not been met and no associated revenue has been recognized as it does not meet the constraint.

# **Kansas Athletics, Incorporated and Subsidiary**

## **Notes to Consolidated Financial Statements**

### **June 30, 2020 and 2019**

#### ***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 \$1,764,602 and \$2,044,889 as of June 30, 2020 and 2019, 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, 2020 and 2019.

The Corporation has contracts that are unsatisfied or partially unsatisfied as of June 30, 2020 and 2019, in the amounts of \$60,971,429 and \$66,514,286, respectively, related to sponsorships, media and royalties. As of June 30, 2020, the Corporation expects to recognize approximately \$5,543,000 as revenue over each year of the remaining contract life of 11 years.

During the years ended June 30, 2020 and 2019, the Corporation recognized revenue of \$12,188,908 and \$7,486,560, respectively, that was recognized as advanced ticket sales or deferred revenue at the beginning of the year.

#### ***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

June 30, 2020 and 2019

### *Disaggregation of Revenue*

The composition of revenue based on type of revenue and timing of revenue recognition for the years ended June 30, 2020 and 2019, are as follows:

	<u>2020</u>	<u>2019</u>
Sponsorship, media and royalties		
Non-cash sponsorships	\$ 3,000,000	\$ 2,800,000
Media rights	6,578,650	7,250,397
Royalties from trademark and licensing	980,140	1,064,570
Sponsorship	6,461,239	6,042,857
NCAA and conference distributions	36,445,015	37,274,710
Bonus payment	411,058	411,058
Ticket sales and handling fees	20,213,366	19,391,717
Total	<u>\$ 74,089,468</u>	<u>\$ 74,235,309</u>
	<u>2020</u>	<u>2019</u>
Timing of revenue and recognition		
Services transferred over time	\$ 50,876,102	\$ 52,043,592
Services/sales at point in time	23,213,366	22,191,717
Total	<u>\$ 74,089,468</u>	<u>\$ 74,235,309</u>

**Kansas Athletics, Incorporated and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**June 30, 2020 and 2019**

**Note 3: Contributions Receivable**

Contributions receivable at June 30, 2020 and 2019, consisted of the following unconditional promises to give discounted at a rate of 4 percent:

	<u>2020</u>	<u>2019</u>
Due within one year	\$ 29,834,524	\$ 30,291,134
Due in one to five years	24,590,337	35,402,757
Due in greater than five years	187,501	-
	<u>54,612,362</u>	<u>65,693,891</u>
Less unamortized discount	629,807	1,454,442
Less allowance for uncollectible contributions	<u>2,234,093</u>	<u>1,208,555</u>
	<u><u>\$ 51,748,462</u></u>	<u><u>\$ 63,030,894</u></u>

**Note 4: Investments and Fair Value Measurements**

Investments at June 30, 2020 and 2019 consisted of the following:

	<u>2020</u>	<u>2019</u>
Held by Kansas University Endowment Association		
Cash	\$ 14,318,817	\$ 15,232,842
Long-term investment pool	35,012,042	34,837,289
Bond fund	1,463,711	1,366,626
Real estate	817,612	796,576
	<u>51,612,182</u>	<u>52,233,333</u>
Held by Trustee Under Bond Indenture		
Money market mutual funds	1,571,108	1,583,235
Guaranteed investment contract	<u>1,419,475</u>	<u>1,419,475</u>
	<u>2,990,583</u>	<u>3,002,710</u>
Total investments	<u><u>\$ 54,602,765</u></u>	<u><u>\$ 55,236,043</u></u>

# **Kansas Athletics, Incorporated and Subsidiary**

## **Notes to Consolidated Financial Statements**

### **June 30, 2020 and 2019**

#### ***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.

**Kansas Athletics, Incorporated and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**June 30, 2020 and 2019**

***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, 2020 and 2019:

	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)
<b>June 30, 2020</b>				
Investments held by the Kansas University Endowment Association				
Long-term investment pool	\$ 35,012,042	\$ -	\$ 35,012,042	\$ -
Bond fund	1,463,711	-	1,463,711	-
Investments held by trustee under bond indenture				
Money market mutual funds	1,571,108	1,571,108	-	-

**Kansas Athletics, Incorporated and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**June 30, 2020 and 2019**

	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)
<b>June 30, 2019</b>				
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	-	-

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. There have been no significant changes in the valuation techniques during the year ended June 30, 2020.

**Kansas Athletics, Incorporated and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**June 30, 2020 and 2019**

**Note 5: Property and Equipment**

Property and equipment at June 30, 2020 and 2019 consisted of:

	<b>2020</b>	<b>2019</b>
Buildings and leasehold improvements	\$ 10,330,595	\$ 7,221,117
Improvements to State property	193,700,136	182,076,239
Furniture and fixtures	17,533,704	16,431,456
Construction in progress	828,038	8,863,830
	222,392,473	214,592,642
Less accumulated depreciation	111,361,816	101,550,567
	<b>\$ 111,030,657</b>	<b>\$ 113,042,075</b>

**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, 2020 and 2019, there was \$9,809,260 and \$17,739,161 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 (1.3 and 3.6 percent as of June 30, 2020 and 2019, respectively). The line of credit was paid off subsequent to year-end.



**Kansas Athletics, Incorporated and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**June 30, 2020 and 2019**

**Note 7: Long-term Debt**

Long-term debt at June 30, 2020 and 2019 consisted of the following:

	<b>2020</b>	<b>2019</b>
Revenue bonds, KDFA Series 2014F (A)	\$ 29,765,000	\$ 31,520,000
Capital lease obligations (B)	865,896	1,302,127
Notes payable	4,908	14,475
	30,635,804	32,836,602
Add unamortized premium	912,899	1,041,716
Less unamortized debt issuance costs	(409,325)	(467,084)
	\$ 31,139,378	\$ 33,411,234

- (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, 2020 and 2019, the Corporation had investments held by a trustee of \$2,990,583 and \$3,002,710, 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, 2020 was \$4,452,248 and \$3,021,186, respectively, and at June 30, 2019, \$4,452,248 and \$2,937,849, respectively.

**Kansas Athletics, Incorporated and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**June 30, 2020 and 2019**

Aggregate annual maturities of long-term debt and payments on capital lease obligations at June 30, 2020 are:

	<b>Long-term Debt (Excluding Leases)</b>	<b>Capital Lease Obligations</b>
2021	\$ 1,829,908	\$ 448,753
2022	1,900,000	448,753
2023	1,970,000	-
2024	2,025,000	-
2025	2,110,000	-
Thereafter	<u>19,935,000</u>	<u>-</u>
	<u>\$ 29,769,908</u>	897,506
Less amount representing interest		<u>31,610</u>
Present value of future minimum lease payments		<u>\$ 865,896</u>

**Kansas Athletics, Incorporated and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**June 30, 2020 and 2019**

**Note 8: Net Assets With Donor Restrictions**

Net assets with donor restrictions at June 30, 2020 and 2019 were restricted for the following purposes or periods:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specified purpose		
Student-athlete scholarships	\$ 2,754,568	\$ 2,650,445
Capital projects	9,334,262	8,434,539
Team operational support	1,541,252	1,754,389
Other programs	365,323	356,200
Contributions receivable restricted by donors for		
Student-athlete scholarships	786,178	885,692
Capital projects	33,222,429	43,748,393
Team operational support	5,392,174	4,795,267
Other programs	1,258,830	1,499,469
	<u>54,655,016</u>	<u>64,124,394</u>
Subject to the passage of time		
Contributions receivable that are not restricted by donors, but which are unavailable for expenditure until due	<u>213,389</u>	<u>412,772</u>
Endowments, subject to KU Endowment spending policy and appropriation		
Student-athlete scholarships	33,507,640	34,804,315
Team operational support	1,282,841	1,316,678
General use	660,803	609,154
Other programs	887,496	900,159
Contributions receivable restricted by donors for endowment	73,301	212,782
Underwater endowments	<u>(51,649)</u>	<u>-</u>
	<u>36,360,432</u>	<u>37,843,088</u>
Total net assets with donor restrictions	<u>\$ 91,228,837</u>	<u>\$ 102,380,254</u>

**Kansas Athletics, Incorporated and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**June 30, 2020 and 2019**

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

	<u>2020</u>	<u>2019</u>
Satisfaction of purpose restrictions		
Student-athlete scholarships	\$ 1,539,390	\$ 4,089,171
Capital projects	14,743,476	12,153,551
Team operational support	3,018,777	7,766,251
Other	148,725	276,320
 Expiration of time restrictions	 207,590	 145,398
 Appropriation of endowment assets for expenditure		
Student-athlete scholarships	1,471,954	1,361,833
Team operational support	24,415	24,222
Other	1,319	3,682
	<u>\$ 21,155,646</u>	<u>\$ 25,820,428</u>

**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.

**Kansas Athletics, Incorporated and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**June 30, 2020 and 2019**

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 assets 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
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, 2020 and 2019 was:

	<b>2020</b>	<b>2019</b>
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ 20,414,774	\$ 20,299,851
Accumulated investment gains	15,945,658	17,543,237
	\$ 36,360,432	\$ 37,843,088

**Kansas Athletics, Incorporated and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**June 30, 2020 and 2019**

Changes in endowment net assets with donor restrictions for the years ended June 30, 2020 and 2019 were:

Endowment net assets, July 1, 2018	\$ 36,514,096
Investment return, net	1,539,767
Contributions	1,178,962
Appropriation of endowment assets for expenditure	<u>(1,389,737)</u>
Endowment net assets, June 30, 2019	<u>37,843,088</u>
Investment return, net	(390,570)
Contributions	405,603
Appropriation of endowment assets for expenditure	<u>(1,497,689)</u>
	<u>(1,482,656)</u>
Endowment net assets, June 30, 2020	<u><u>\$ 36,360,432</u></u>

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, 2020, funds with original gift values of \$90,737; fair values of \$39,088; and deficiencies of \$51,649 were reported in net assets with donor restrictions. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after investment of new restricted contributions and continued appropriation for certain purposes that was deemed prudent by the governing body. There were no underwater endowments at June 30, 2019.

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.

# Kansas Athletics, Incorporated and Subsidiary

## Notes to Consolidated Financial Statements

### June 30, 2020 and 2019

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.

The Corporation's financial assets as of June 30, 2020 and 2019, and the portion of those assets available for general expenditure within one year thereafter, include the following:

	2020		2019	
	Financial Assets	Available Liquidity	Financial Assets	Available Liquidity
Cash and cash equivalents	\$ 15,850,157	\$ 15,850,157	\$ 19,492,338	\$ 19,492,338
Accounts receivable, net	2,042,368	2,042,368	1,528,716	1,528,716
Contributions receivable, net	51,748,462	14,065,155	63,030,894	14,599,122
Investments	54,602,765	4,716,952	55,236,043	4,996,449
	<u>\$ 124,243,752</u>	<u>\$ 36,674,632</u>	<u>\$ 139,287,991</u>	<u>\$ 40,616,625</u>

**Kansas Athletics, Incorporated and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**June 30, 2020 and 2019**

**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 did not transfer any assets to the University during the years ended June 30, 2020 and 2019 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, 2020 and 2019 were \$1,333,660 and \$1,448,795, 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 \$7,108,617, \$1,072,833 and \$1,730,941 in 2020, respectively, and \$7,913,783, \$1,483,086 and \$2,237,688 in 2019, 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 \$2,295,428 and \$2,828,600 at June 30, 2020 and 2019, respectively, and are included in accounts payable. Total trade receivables due from the University and related entities were \$82,568 and \$114,843 at June 30, 2020 and 2019, 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, 2020 and 2019 were \$0 and \$746,140, 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 \$565,000 and \$9,362 in 2020, respectively, and \$627,500 and \$54,510 in 2019, respectively.

Investment management fees paid to KU Endowment during 2020 and 2019 were \$329,168 and \$313,890, respectively.



**Kansas Athletics, Incorporated and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**June 30, 2020 and 2019**

**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>
2021	\$ 2,521,611
2022	2,472,893
2023	2,344,696
2024	2,279,178
2025	2,230,703
Thereafter	<u>42,569,247</u>
	<u><u>\$ 54,418,328</u></u>

Rental expense for all operating leases was \$2,511,894 and \$2,517,915 for the years ended June 30, 2020 and 2019, 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 \$1,498,479 and \$1,577,454 for the years ended June 30, 2020 and 2019, respectively.

**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, 2020 and 2019, the Corporation's cash accounts exceeded federally insured limits by approximately \$16,100,000 and \$16,500,000, respectively.

# Kansas Athletics, Incorporated and Subsidiary

## Notes to Consolidated Financial Statements

### June 30, 2020 and 2019

#### Contributions Receivable and Contributions Revenue

Significant estimates for contributions receivable are described in *Note 1*. Approximately 55 percent of contributions receivable was from one donor in 2020. There were no concentrations of contribution revenue in 2020. Approximately 61 percent of contributions receivable was from one donor in 2019. There were no concentrations of contribution revenue in 2019.

#### 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.

# **Kansas Athletics, Incorporated and Subsidiary**

## **Notes to Consolidated Financial Statements**

### **June 30, 2020 and 2019**

#### 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: Subsequent Events**

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of the Corporation. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

There has been significant volatility in the investment markets both nationally and globally resulting in overall market decline in certain market segments which may result in further decline in the value of the Corporation's investment portfolio.

Subsequent events have been evaluated through September 24, 2020, which is the date the consolidated financial statements were issued.

#### **Note 16: Future Change 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, 2021. 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.