

Kansas Athletics, Incorporated and Subsidiary

Independent Auditor's Report and Consolidated Financial Statements

June 30, 2021 and 2020



Kansas Athletics, Incorporated and Subsidiary

June 30, 2021 and 2020

Contents

Independent Auditor's Report.....	1
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Consolidated Financial Statements

Statements of Financial Position	3
Statements of Activities.....	4
Statements of Functional Expenses	6
Statements of Cash Flows	8
Notes to Financial Statements	10

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, 2021 and 2020, 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
Page 2

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, 2021 and 2020, 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 Matter

As discussed in *Note 12* to the consolidated financial statements, in 2021, the Corporation adopted new accounting guidance for accounting for leases. Our opinion is not modified with respect to this matter.

BKD, LLP

Kansas City, Missouri
September 20, 2021

Kansas Athletics, Incorporated and Subsidiary
Consolidated Statements of Financial Position
June 30, 2021 and 2020

	2021	2020
Assets		
Cash and cash equivalents	\$ 12,211,425	\$ 15,850,157
Accounts receivable, net of allowance; 2021 - \$160,622; 2020 - \$96,755	817,400	2,042,368
Contributions receivable, net of allowance; 2021 - \$1,373,509; 2020 - \$2,234,093	38,192,797	51,748,462
Investments	76,537,552	54,602,765
Other assets	1,185,897	1,266,711
Property and equipment, net of accumulated depreciation; 2021 - \$121,401,160; 2020 - \$111,361,816	101,325,916	111,030,657
Right-of-use asset - operating leases	36,560,398	38,183,146
Total assets	<u>\$ 266,831,385</u>	<u>\$ 274,724,266</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 5,005,839	\$ 5,150,020
Accrued expenses	10,442,134	9,672,253
Advance ticket sales	10,954,796	6,963,635
Deferred revenue	9,424,754	4,222,593
Line-of-credit (revolving agreement)	-	9,809,260
Long-term debt	31,725,368	31,139,378
Operating lease liabilities	36,560,398	38,183,146
Other liabilities	487,632	598,160
Total liabilities	<u>104,600,921</u>	<u>105,738,445</u>
Net Assets		
Without donor restrictions	70,951,519	77,756,984
With donor restrictions	91,278,945	91,228,837
Total net assets	<u>162,230,464</u>	<u>168,985,821</u>
Total liabilities and net assets	<u>\$ 266,831,385</u>	<u>\$ 274,724,266</u>

Kansas Athletics, Incorporated and Subsidiary
Consolidated Statement of Activities
Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenues, Gains and Other Support			
NCAA and conference distributions	\$ 34,075,570	\$ -	\$ 34,075,570
Contributions and grants	21,437,902	3,430,086	24,867,988
Ticket sales and handling fees	2,952,282		2,952,282
Sponsorship, media and royalties	15,348,658		15,348,658
Direct institutional support	1,386,073		1,386,073
Realized investment income	34,383	1,722,389	1,756,772
Other operating revenue	1,436,957		1,436,957
Net assets released from restrictions for operations	6,450,920	(6,450,920)	-
	<u>83,122,745</u>	<u>(1,298,445)</u>	<u>81,824,300</u>
Operating Expenses			
Salaries and benefits	41,518,520		41,518,520
Grants-in-aid	14,675,076		14,675,076
Team travel	3,903,038		3,903,038
Team operating expense	5,374,039		5,374,039
Student athlete training and development	4,887,879		4,887,879
Game operating expenses	742,051		742,051
Guarantees paid to visiting teams	471,415		471,415
Facilities and equipment	3,559,050		3,559,050
General administration and other	12,528,867		12,528,867
Depreciation and amortization	5,108,517		5,108,517
	<u>92,768,452</u>	<u>-</u>	<u>92,768,452</u>
Operating Loss	<u>(9,645,707)</u>	<u>(1,298,445)</u>	<u>(10,944,152)</u>
Other Income (Expense)			
Contributions restricted for capital projects		2,042,766	2,042,766
Unrealized investment income	265,154	9,232,890	9,498,044
Interest expense	(1,128,026)		(1,128,026)
Depreciation on donor-funded property and equipment	(4,930,826)		(4,930,826)
Bad debt expense on contributions restricted for capital projects		(40,857)	(40,857)
Loss on extinguishment of debt	(1,185,197)		(1,185,197)
Other non-operating activities	(67,109)		(67,109)
Net assets released from restrictions for capital projects	9,886,246	(9,886,246)	-
	<u>2,840,242</u>	<u>1,348,553</u>	<u>4,188,795</u>
Change in Net Assets	(6,805,465)	50,108	(6,755,357)
Net Assets, Beginning of Year	<u>77,756,984</u>	<u>91,228,837</u>	<u>168,985,821</u>
Net Assets, End of Year	<u><u>\$ 70,951,519</u></u>	<u><u>\$ 91,278,945</u></u>	<u><u>\$ 162,230,464</u></u>

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

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenues, Gains and Other Support			
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	20,213,724		20,213,724
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	3,312,319		3,312,319
Net assets released from restrictions for operations	6,412,170	(6,412,170)	-
	<u>104,209,255</u>	<u>352,628</u>	<u>104,561,883</u>
Operating Expenses			
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	7,259,471		7,259,471
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	4,116,027		4,116,027
General administration and other	17,824,379		17,824,379
Depreciation and amortization	5,210,583		5,210,583
	<u>103,834,536</u>	<u>-</u>	<u>103,834,536</u>
	<u>374,719</u>	<u>352,628</u>	<u>727,347</u>
Operating Income			
Other Income (Expense)			
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)
Bad debt expense on contributions restricted for capital projects		(111,585)	(111,585)
Other non-operating activities	(401,861)		(401,861)
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>
Change in Net Assets	8,574,793	(11,151,417)	(2,576,624)
Net Assets, Beginning of Year	<u>69,182,191</u>	<u>102,380,254</u>	<u>171,562,445</u>
Net Assets, End of Year	<u><u>\$ 77,756,984</u></u>	<u><u>\$ 91,228,837</u></u>	<u><u>\$ 168,985,821</u></u>

Kansas Athletics, Incorporated and Subsidiary
Consolidated Statement of Functional Expenses
Year Ended June 30, 2021

	Football	Men's Basketball	Other Sports	Total Program Services	Management and General	Fundraising	Total Expenses
Operating Expenses							
Salaries and benefits	\$ 12,600,501	\$ 8,628,155	\$ 9,708,186	\$ 30,936,842	\$ 8,692,957	\$ 1,888,721	\$ 41,518,520
Grants-in-aid	5,131,581	836,799	8,456,790	14,425,170	235,461	14,445	14,675,076
Team travel	1,034,511	775,225	2,093,302	3,903,038	-	-	3,903,038
Team operating expense	1,937,872	708,979	2,388,506	5,035,357	227,358	111,324	5,374,039
Student athlete training and development	1,526,053	123,125	3,238,701	4,887,879	-	-	4,887,879
Game operating expenses	295,108	239,085	207,858	742,051	-	-	742,051
Guarantees paid to visiting teams	200,000	84,500	186,915	471,415	-	-	471,415
Facilities and equipment	452,503	108,655	2,748,111	3,309,269	235,799	13,982	3,559,050
General administration and other	2,487,542	1,477,008	3,136,887	7,101,437	4,359,092	1,068,338	12,528,867
Depreciation and amortization	1,598,966	1,174,959	2,028,081	4,802,006	11,239	295,272	5,108,517
Total operating expenses	27,264,637	14,156,490	34,193,337	75,614,464	13,761,906	3,392,082	92,768,452
Other Expenses							
Interest expense	442,788	332,219	327,725	1,102,732	25,294	-	1,128,026
Depreciation on donor-funded property and equipment	1,627,172	2,411,174	892,480	4,930,826	-	-	4,930,826
Bad debt expense on contributions restricted for capital projects	30,949	176	9,458	40,583	274	-	40,857
Income on extinguishment of debt	-	-	-	-	1,116,693	68,504	1,185,197
Other non-operating activities	-	-	-	-	67,109	-	67,109
Total other expenses	2,100,909	2,743,569	1,229,663	6,074,141	1,209,370	68,504	7,352,015
Total expenses	\$ 29,365,546	\$ 16,900,059	\$ 35,423,000	\$ 81,688,605	\$ 14,971,276	\$ 3,460,586	\$ 100,120,467

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

	Football	Men's Basketball	Other Sports	Total Program Services	Management and General	Fundraising	Total Expenses
Operating Expenses							
Salaries and benefits	\$ 11,845,656	\$ 9,576,940	\$ 11,068,846	\$ 32,491,442	\$ 6,285,777	\$ 1,995,480	\$ 40,772,699
Grants-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	2,670,931	6,524,471	714,000	21,000	7,259,471
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	3,230,689	3,795,451	297,242	23,334	4,116,027
General administration and other	2,661,081	1,518,107	3,181,952	7,361,140	8,549,356	1,913,883	17,824,379
Depreciation and amortization	1,630,912	1,198,434	2,068,602	4,897,948	20,842	291,793	5,210,583
Total operating expenses	29,864,137	17,455,680	35,980,605	83,300,422	16,265,025	4,269,089	103,834,536
Other Expenses							
Interest expense	558,601	419,366	404,770	1,382,737	82,158	-	1,464,895
Depreciation on donor-funded property and equipment	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
Other non-operating activities	-	-	-	-	401,861	-	401,861
Total other expenses	2,180,692	2,698,238	1,273,932	6,152,862	484,767	-	6,637,629
Total expenses	\$ 32,044,829	\$ 20,153,918	\$ 37,254,537	\$ 89,453,284	\$ 16,749,792	\$ 4,269,089	\$ 110,472,165

Kansas Athletics, Incorporated and Subsidiary
Consolidated Statements of Cash Flows
Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating Activities		
Change in net assets	\$ (6,755,357)	\$ (2,576,624)
Items not requiring (providing) operating activities cash flows		
Net realized and unrealized (gains) losses on investments	(10,255,160)	1,341,553
Depreciation	10,039,343	9,869,871
Amortization of bond issuance costs	17,783	57,759
Loss on disposition of property and equipment	-	234,481
Contributions received restricted for capital projects	(2,042,766)	(5,479,792)
Contributions received restricted for long-term investments	(242,338)	(114,923)
Noncash operating lease expense	1,659,836	1,114,864
Changes in		
Accounts receivable	1,224,968	(513,652)
Contributions receivable	2,279,207	310,223
Other assets	80,814	3,245,614
Accounts payable, accrued expenses and other liabilities	515,172	(4,523,667)
Advance ticket sales	3,991,161	(4,814,215)
Deferred revenue	5,202,161	2,177,704
Operating lease liabilities	<u>(1,659,836)</u>	<u>(1,114,864)</u>
Net cash provided by (used in) operating activities	<u>4,054,988</u>	<u>(785,668)</u>
Investing Activities		
Additions to investments held by Kansas University		
Endowment Association	(30,383,616)	(37,676,281)
Withdrawals from investments held by Kansas University		
Endowment Association	30,892,514	35,954,706
Deposits to investments held by trustee under bond indenture	(2,205,000)	(2,944,842)
Withdrawals from investments held by trustee under bond indenture	3,541,898	3,044,117
Purchase of property and equipment	<u>(334,602)</u>	<u>(8,455,646)</u>
Net cash provided by (used in) investing activities	<u>1,511,194</u>	<u>(10,077,946)</u>
Financing Activities		
Proceeds from contributions restricted for capital projects	13,378,222	16,312,520
Proceeds from contributions restricted for long-term investments	183,340	254,404
Proceeds from long-term debt	30,803,792	1,102,664
Payments on line of credit	(9,809,260)	(9,032,565)
Principal payments on long-term debt	<u>(30,235,585)</u>	<u>(2,329,615)</u>
Net cash provided by financing activities	<u>4,320,509</u>	<u>6,307,408</u>
Increase (Decrease) in Cash, Cash Equivalents and Cash Held in Investments	9,886,691	(4,556,206)
Cash, Cash Equivalents and Cash Held in Investments, Beginning of Year	<u>30,168,974</u>	<u>34,725,180</u>
Cash, Cash Equivalents and Cash Held in Investments, End of Year	<u>\$ 40,055,665</u>	<u>\$ 30,168,974</u>

Kansas Athletics, Incorporated and Subsidiary
Consolidated Statements of Cash Flows (Continued)
Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Reconciliation of Cash, Cash Equivalents and Cash Held in Investments to the Statements of Financial Position		
Cash and cash equivalents	\$ 12,211,425	\$ 15,850,157
Investments	<u>27,844,240</u>	<u>14,318,817</u>
 Total cash, cash equivalents and cash held in investments shown in the statements of cash flows	 <u><u>\$ 40,055,665</u></u>	 <u><u>\$ 30,168,974</u></u>
Supplemental Cash Flows Information		
Interest paid	\$ 1,055,941	\$ 1,523,283
Right of use assets obtained in exchange for new operating lease liabilities	\$ 37,088	\$ 247,209

Kansas Athletics, Incorporated and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

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, 2021 and 2020, cash equivalents consisted primarily of money market accounts.

Kansas Athletics, Incorporated and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

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 and net loss from Jayhawk Tennis Center.

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, 2021 and 2020

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, 2021 or 2020.

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, 2021 and 2020

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, 2021 and 2020

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, 2021 and 2020, \$645,654 and \$1,145,654, 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, 2021 and 2020 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, 2021 and 2020

Reclassifications

Certain reclassifications have been made to the 2020 consolidated financial statements to conform to the 2021 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, 2021 and 2020 was \$12,048,434 in each year. During 2021 and 2020, the cash received was in excess of the cumulative revenue recognized and is shown as deferred revenue totaling \$7,928,571 and \$2,457,991 as of June 30, 2021 and 2020, 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.

Two of the contracts noted above have clauses for variable consideration if certain thresholds or criteria are met. As of June 30, 2021 and 2020, the criteria have 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, 2021 and 2020

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 \$1,496,183 and \$1,764,602 as of June 30, 2021 and 2020, 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 Corporation 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 which there were none at June 30, 2021 and 2020.

The Corporation has contracts that are unsatisfied or partially unsatisfied as of June 30, 2021 and 2020, in the amounts of \$55,428,571 and \$60,971,429, respectively, related to sponsorships, media and royalties. As of June 30, 2021, the Corporation expects to recognize \$5,542,857 as revenue over each year of the remaining contract life of 10 years.

During the years ended June 30, 2021 and 2020, the Corporation recognized revenue of \$7,374,693 and \$12,188,908, 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 collected 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, 2021 and 2020

Disaggregation of Revenue

The composition of revenue based on type of revenue and timing of revenue recognition for the years ended June 30, 2021 and 2020, are as follows:

	2021	2020
Sponsorship, media and royalties		
Non-cash sponsorships	\$ 3,060,000	\$ 3,000,000
Media rights	5,086,157	6,578,650
Royalties from trademark and licensing	1,013,485	980,140
Sponsorship	6,189,016	6,461,239
NCAA and conference distributions	33,664,512	36,445,015
Bonus payment	411,058	411,058
Ticket sales and handling fees	<u>2,952,282</u>	<u>20,213,366</u>
Total	<u><u>\$ 52,376,510</u></u>	<u><u>\$ 74,089,468</u></u>
	2021	2020
Timing of revenue and recognition		
Services transferred over time	\$ 46,364,228	\$ 50,876,102
Services/sales at point in time	<u>6,012,282</u>	<u>23,213,366</u>
Total	<u><u>\$ 52,376,510</u></u>	<u><u>\$ 74,089,468</u></u>

Kansas Athletics, Incorporated and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

Note 3: Contributions Receivable

Contributions receivable at June 30, 2021 and 2020, consisted of the following unconditional promises to give discounted at a rate of 4 percent:

	2021	2020
Due within one year	\$ 28,617,883	\$ 29,834,524
Due in one to five years	10,893,806	24,590,337
Due in greater than five years	150,000	187,501
	<u>39,661,689</u>	<u>54,612,362</u>
Less unamortized discount	95,383	629,807
Less allowance for uncollectible contributions	<u>1,373,509</u>	<u>2,234,093</u>
	<u><u>\$ 38,192,797</u></u>	<u><u>\$ 51,748,462</u></u>

Note 4: Investments and Fair Value Measurements

Investments at June 30, 2021 and 2020 consisted of the following:

	2021	2020
Held by Kansas University Endowment Association		
Cash	\$ 27,844,240	\$ 14,318,817
Long-term investment pool	44,831,154	35,012,042
Bond fund	1,416,137	1,463,711
Real estate	<u>792,238</u>	<u>817,612</u>
	<u>74,883,769</u>	<u>51,612,182</u>
Held by Trustee Under Bond Indenture		
Money market mutual funds	1,653,783	1,571,108
Guaranteed investment contract	<u>-</u>	<u>1,419,475</u>
	<u>1,653,783</u>	<u>2,990,583</u>
Total investments	<u><u>\$ 76,537,552</u></u>	<u><u>\$ 54,602,765</u></u>

Kansas Athletics, Incorporated and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

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, 2021 and 2020

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 tables present 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, 2021 and 2020:

		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)
	Fair Value			
June 30, 2021				
Investments held by the Kansas University Endowment Association				
Long-term investment pool	\$ 44,831,154	\$ -	\$ 44,831,154	\$ -
Bond fund	1,416,137	-	1,416,137	-
Investments held by trustee under bond indenture				
Money market mutual funds	1,653,783	1,653,783	-	-

Kansas Athletics, Incorporated and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

		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)
Fair Value				
June 30, 2020				
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	-	-

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, 2021.

Kansas Athletics, Incorporated and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

Note 5: Property and Equipment

Property and equipment at June 30, 2021 and 2020 consisted of:

	<u>2021</u>	<u>2020</u>
Buildings and leasehold improvements	\$ 10,362,317	\$ 10,330,595
Improvements to State property	193,903,932	193,700,136
Furniture and fixtures	17,785,645	17,533,704
Construction in progress	<u>675,182</u>	<u>828,038</u>
	222,727,076	222,392,473
Less accumulated depreciation	<u>121,401,160</u>	<u>111,361,816</u>
	<u><u>\$ 101,325,916</u></u>	<u><u>\$ 111,030,657</u></u>

Note 6: Lines of Credit

The Corporation had a \$20,000,000 revolving bank line of credit which expires in May 2022 related to athletic facilities construction and renovation. At June 30, 2021 and 2020, there was \$0 and \$9,809,260 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 percent and 3.6 percent as of June 30, 2021 and 2020, respectively).

The Corporation entered into a \$20,000,000 line of credit in October 2020 which expires in December 2021 related to general operations of the Corporation. At June 30, 2021, there was \$0 borrowed against the line. The line is unsecured. Interest on outstanding balances is payable monthly at LIBOR plus 1.19 (1.4 percent as of June 30, 2021).

Kansas Athletics, Incorporated and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

Note 7: Long-term Debt

Long-term debt at June 30, 2021 and 2020 consisted of the following:

	2021	2020
Revenue bonds, KDFA Series 2014F (A)	\$ -	\$ 29,765,000
Private placement bonds (B)	31,500,000	865,896
Finance lease obligations (C)	439,879	-
Notes payable	-	4,908
	<u>31,939,879</u>	<u>30,635,804</u>
Add unamortized premium	-	912,899
Less unamortized debt issuance costs	<u>(214,511)</u>	<u>(409,325)</u>
	<u><u>\$ 31,725,368</u></u>	<u><u>\$ 31,139,378</u></u>

- (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. These bonds were refinanced in October 2020 with the private placement bonds. The entire amount of the unamortized premium and debt issuance costs included in the above schedule for 2020 relate to these 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 were secured by future revenues of the Corporation. Principal payments were due annually, ending in 2033. Interest was payable at various rates ranging from 3.00 percent to 4.00 percent per annum.

Prior to the refinancing, the Corporation was 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 were required to be made on outstanding indebtedness. At June 30, 2021 and 2020, the Corporation had investments held by a trustee of \$0 and \$2,990,583, respectively, which were designated as the debt service reserve. Funds in this reserve account were invested as permitted by the bond trust indenture, the earnings from which were transferred out of this account and applied towards the principal and interest payments.

- (B) The Private Placement notes payable were issued in the amount of \$31,500,000. These notes were issued for the purpose of refinancing the Series 2014F bonds to take advantage of the favorable interest rates and reduce the amount of debt outstanding. A portion of the amount of the unamortized premium and debt issuance costs included in the above 2021 schedule relate to these notes.

Kansas Athletics, Incorporated and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

These notes are secured by future revenues of the Corporation. Principal payments are due annually, ending in 2046. Interest is payable at the rate of 3.5 percent per annum.

The Corporation has an interest payment reserve account to be used for interest payments through October 2022. At June 30, 2021, the Corporation had investments of \$1,653,783, which were designated as the interest payment reserve. Funds in this reserve account are controlled by the Corporation.

- (C) Finance lease obligations for equipment with various expiration dates from July 2019 - 2023. Cost and accumulated depreciation at June 30, 2021 was \$4,452,248 and \$3,093,274, respectively, and at June 30, 2020, \$4,452,248 and \$3,021,186, respectively.

Aggregate annual maturities of long-term debt and payments on capital lease obligations at June 30, 2021 are:

	Long-term Debt (Excluding Leases)	Capital Lease Obligations
2022	\$ -	\$ 448,753
2023	451,409	-
2024	926,655	-
2025	959,371	-
2026	993,243	-
Thereafter	28,169,322	-
	<u>\$ 31,500,000</u>	448,753
Less amount representing interest		<u>8,874</u>
Present value of future minimum lease payments		<u>\$ 439,879</u>

Kansas Athletics, Incorporated and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

Note 8: Net Assets With Donor Restrictions

Net assets with donor restrictions at June 30, 2021 and 2020 were restricted for the following purposes or periods:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose		
Student-athlete scholarships	\$ 2,495,439	\$ 2,754,568
Capital projects	11,570,906	9,334,262
Team operational support	2,883,315	1,541,252
Other programs	392,860	365,323
Contributions receivable restricted by donors for		
Student-athlete scholarships	1,140,959	786,178
Capital projects	22,356,360	33,222,429
Team operational support	3,937,579	5,392,174
Other programs	<u>1,117,712</u>	<u>1,258,830</u>
	<u>45,895,130</u>	<u>54,655,016</u>
Subject to the passage of time		
Contributions receivable that are not restricted by donors, but which are unavailable for expenditure until due	<u>93,760</u>	<u>213,389</u>
Endowments, subject to KU Endowment spending policy and appropriation		
Student-athlete scholarships	41,999,623	33,507,640
Team operational support	1,437,899	1,282,841
General use	616,269	660,803
Other programs	1,103,965	887,496
Contributions receivable restricted by donors for endowment	132,299	73,301
Underwater endowments	<u>-</u>	<u>(51,649)</u>
	<u>45,290,055</u>	<u>36,360,432</u>
Total net assets with donor restrictions	<u><u>\$ 91,278,945</u></u>	<u><u>\$ 91,228,837</u></u>

Kansas Athletics, Incorporated and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

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

	2021	2020
Satisfaction of purpose restrictions		
Student-athlete scholarships	\$ 1,840,886	\$ 1,539,390
Capital projects	9,886,246	14,743,476
Team operational support	2,828,800	3,018,777
Other	101,678	148,725
Expiration of time restrictions	122,783	207,590
Appropriation of endowment assets for expenditure		
Student-athlete scholarships	1,530,228	1,471,954
Team operational support	25,291	24,415
Other	1,254	1,319
	<u>\$ 16,337,166</u>	<u>\$ 21,155,646</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.

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

Kansas Athletics, Incorporated and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

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, 2021 and 2020 was:

	2021	2020
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ 20,657,111	\$ 20,414,774
Accumulated investment gains	<u>24,632,944</u>	<u>15,945,658</u>
	<u><u>\$ 45,290,055</u></u>	<u><u>\$ 36,360,432</u></u>

Changes in endowment net assets with donor restrictions for the years ended June 30, 2021 and 2020 were:

Endowment net assets, July 1, 2019	\$ 37,843,088
Investment return, net	(390,570)
Contributions	405,603
Appropriation of endowment assets for expenditure	<u>(1,497,689)</u>
Endowment net assets, June 30, 2020	<u>36,360,432</u>
Investment return, net	10,204,443
Contributions	281,953
Appropriation of endowment assets for expenditure	<u>(1,556,773)</u>
	<u>8,929,623</u>
Endowment net assets, June 30, 2021	<u><u>\$ 45,290,055</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, 2021, 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. 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.

Kansas Athletics, Incorporated and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

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.

Kansas Athletics, Incorporated and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

The Corporation's financial assets as of June 30, 2021 and 2020, and the portion of those assets available for general expenditure within one year thereafter, include the following:

	2021		2020	
	Financial Assets	Available Liquidity	Financial Assets	Available Liquidity
Cash and cash equivalents	\$ 12,211,425	\$ 12,211,425	\$ 15,850,157	\$ 15,850,157
Accounts receivable, net	817,400	817,400	2,042,368	2,042,368
Contributions receivable, net	38,192,797	13,212,060	51,748,462	14,065,155
Investments	76,537,552	17,663,103	54,602,765	4,716,952
	<u>\$ 127,759,174</u>	<u>\$ 43,903,988</u>	<u>\$ 124,243,752</u>	<u>\$ 36,674,632</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 ultimately capitalized as improvements upon project completion. The Corporation did not transfer any assets to the University during the years ended June 30, 2021 and 2020 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, 2021 and 2020 were \$1,386,073 and \$1,333,660, 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 \$7,068,867, \$86,147 and \$2,794,687 in 2021, respectively, and \$7,108,617, \$1,072,833 and \$1,730,941 in 2020, 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 \$2,048,990 and \$2,295,428 at June 30, 2021 and 2020, respectively, and are included in accounts payable. Total trade receivables due from the University and related entities were \$24,000 and \$82,568 at June 30, 2021 and 2020, 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. The Corporation paid KU Endowment principal and interest relating to this advance of \$0 and \$0 in 2021, respectively, and \$565,000 and \$9,362 in 2020, respectively.

Kansas Athletics, Incorporated and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

Investment management fees paid to KU Endowment during 2021 and 2020 were \$336,660 and \$329,168, respectively.

Note 12: Leases

Change in Accounting Principle

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). This ASU requires lessees to recognize a lease liability and a right-of-use (ROU) asset on a discounted basis, for substantially all leases, as well as additional disclosures regarding leasing arrangements. Disclosures are required to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. In July 2018, the FASB issued ASU 2018-11, *Leases* (Topic 842): *Targeted Improvements*, which provides an optional transition method of applying the new lease standard. Topic 842 can be applied using either a modified retrospective approach at the beginning of the earliest period presented or, as permitted by ASU 2018-11, at the beginning of the period in which it is adopted, *i.e.*, the comparatives under ASC 840 option.

The Corporation adopted Topic 842 on July 1, 2019 (the effective date), using the modified retrospective approach under ASC 840 transition method, which applies Topic 842 at the beginning of the earliest period presented. Prior period amounts have been adjusted in connection with the adoption of this standard. The Corporation elected the package of practical expedients under the new standard, which permits entities to not reassess lease classification, lease identification or initial direct costs for existing or expired leases prior to the effective date. Also, the Corporation elected to keep short-term leases with an initial term of 12 months or less off the balance sheet.

The most significant impact of adoption was the recognition of operating lease ROU assets and operating lease liabilities of \$39,545,220 as of July 1, 2019, while the accounting for existing capital leases (now referred to as finance leases) remained substantially unchanged. The standard did not significantly affect the consolidated statements of activities, functional expenses or cash flows.

Accounting Policies

The Corporation determines if an arrangement is a lease or contains a lease at inception. Leases result in the recognition of ROU assets and lease liabilities on the consolidated statements of financial position. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The Corporation determines lease classification as operating or finance at the lease commencement date. Finance leases are included in property and equipment and long-term debt on the consolidated statements of financial position.

Kansas Athletics, Incorporated and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. The Corporation has made a policy election to use a risk-free rate (the rate of a zero-coupon U.S. Treasury instrument) for the initial and subsequent measurement of all lease liabilities. The risk-free rate is determined using a period comparable with the lease term.

The lease term may include options to extend or to terminate the lease that the Corporation is reasonably certain to exercise. Lease expense is generally recognized on a straight-line basis over the lease term.

The Corporation has elected not to record leases with an initial term of 12 months or less on the consolidated statements of financial position. Lease expense on such leases is recognized on a straight-line basis over the lease term.

Nature of Leases

The Corporation has entered into the following lease arrangements:

Finance Leases

These leases mainly consist of equipment and furnishings. Termination of the leases generally are prohibited unless there is a violation under the lease agreement.

Operating Leases

The Corporation has leases for facilities, vehicles, software, etc. that expire in various years through 2044. Termination of the leases is generally prohibited unless there is a violation under the lease agreement.

All Leases

The Corporation has no material related-party leases.

The Corporation's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Kansas Athletics, Incorporated and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

Quantitative Disclosures

The lease cost and other required information for the years ended June 30, 2021 and 2020 are:

	2021	2020
Lease cost		
Finance lease cost		
Amortization of right-of-use asset	\$ 426,017	\$ 436,231
Interest on lease liabilities	20,989	34,469
Operating lease cost	<u>1,659,836</u>	<u>1,609,282</u>
Total lease cost	<u><u>\$ 2,106,842</u></u>	<u><u>\$ 2,079,982</u></u>
Other information		
Right-of-use assets obtained in exchange for new operating leases	\$ 37,088	\$ 247,209
Weighted-average remaining lease term		
Finance leases	1 year	2 years
Operating leases	22 years	23 years
Weighted-average discount rate		
Operating leases	3.22%	3.22%

Future minimum lease payments and reconciliation to the consolidated statements of financial position at June 30, 2021, are as follows:

Year Ending June 30	Finance Leases	Operating Leases
2022	\$ 448,753	\$ 2,529,948
2023	-	2,317,046
2024	-	2,267,059
2025	-	2,230,703
2026	-	2,230,703
Thereafter	<u>-</u>	<u>40,338,544</u>
Total future undiscounted lease payments	448,753	51,914,003
Less interest	<u>(8,874)</u>	<u>(15,353,605)</u>
Lease Liability	<u><u>\$ 439,879</u></u>	<u><u>\$ 36,560,398</u></u>

Kansas Athletics, Incorporated and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2021 and 2020

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 \$1,361,037 and \$1,498,479 for the years ended June 30, 2021 and 2020, 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, 2021 and 2020, the Corporation's cash accounts exceeded federally insured limits by approximately \$13,700,000 and \$16,100,000, respectively.

Contributions Receivable and Contributions Revenue

Significant estimates for contributions receivable are described in *Note 1*. Approximately 50 percent of contributions receivable and 11 percent of contribution revenue was from one donor in 2021. Approximately 55 percent of contributions receivable was from one donor in 2020. There were no concentrations of contribution revenue in 2020.

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*.

Kansas Athletics, Incorporated and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2021 and 2020

University Bond Obligation

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

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

Litigation

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

Note 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 decline in the value of the Corporation's investment portfolio.

Subsequent events have been evaluated through September 20, 2021, which is the date the consolidated financial statements were issued.