

# **Kansas Athletics, Incorporated and Subsidiary**

Independent Auditor's Report and Consolidated Financial Statements

June 30, 2022 and 2021

**Kansas Athletics, Incorporated and Subsidiary**  
**June 30, 2022 and 2021**

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## Independent Auditor's Report

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

### ***Opinion***

We have audited the consolidated financial statements of Kansas Athletics, Incorporated and Subsidiary, which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Kansas Athletics, Incorporated and Subsidiary as of June 30, 2022 and 2021, 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.

### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are required to be independent of Kansas Athletics, Incorporated and Subsidiary and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Emphasis of Matter***

As described in *Note 14* to the consolidated financial statements, in 2022, Kansas Athletics, Incorporated and Subsidiary adopted ASU 2020-07, *Not-for-Profit Entities* (Topic 958): *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. Our opinion is not modified with respect to this matter.

### ***Responsibilities of Management for the Consolidated Financial Statements***

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Kansas Athletics, Incorporated and Subsidiary's ability to continue as a going concern within one year after the date that these consolidated financial statements are available to be issued.

### ***Auditor's Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Kansas Athletics, Incorporated and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Kansas Athletics, Incorporated and Subsidiary's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

**FORVIS, LLP**

Kansas City, Missouri  
September 27, 2022

**Kansas Athletics, Incorporated and Subsidiary**  
**Consolidated Statements of Financial Position**  
**June 30, 2022 and 2021**

	<b>2022</b>	<b>2021</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 13,798,485	\$ 12,211,425
Accounts receivable, net of allowance; 2022 - \$149,575; 2021 - \$160,622	5,654,732	817,400
Contributions receivable, net of allowance; 2022 - \$1,499,971; 2021 - \$1,373,509	28,256,442	38,192,797
Investments	95,520,220	76,537,552
Other assets	1,496,985	1,185,897
Property and equipment, net of accumulated depreciation; 2022 - \$131,299,092; 2021 - \$121,401,160	93,183,607	101,325,916
Right-of-use asset - operating leases	<u>35,173,675</u>	<u>36,560,398</u>
Total assets	<u><u>\$ 273,084,146</u></u>	<u><u>\$ 266,831,385</u></u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 8,687,100	\$ 5,005,839
Accrued expenses	10,190,133	10,442,134
Advance ticket sales	11,288,328	10,954,796
Deferred revenue	7,859,124	9,424,754
Long-term debt	31,368,115	31,725,368
Operating lease liabilities	35,173,675	36,560,398
Other liabilities	<u>474,396</u>	<u>487,632</u>
Total liabilities	<u>105,040,871</u>	<u>104,600,921</u>
<b>Net Assets</b>		
Without donor restrictions	67,753,819	70,951,519
With donor restrictions	<u>100,289,456</u>	<u>91,278,945</u>
Total net assets	<u>168,043,275</u>	<u>162,230,464</u>
Total liabilities and net assets	<u><u>\$ 273,084,146</u></u>	<u><u>\$ 266,831,385</u></u>

**Kansas Athletics, Incorporated and Subsidiary**  
**Consolidated Statement of Activities**  
**Year Ended June 30, 2022**

	<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	\$ 41,026,529	\$ -	\$ 41,026,529
Contributions and grants of cash and other financial assets	22,227,933	7,420,480	29,648,413
Contributions of nonfinancial assets	608,018		608,018
Ticket sales and handling fees	17,953,139		17,953,139
Sponsorship, media and royalties	19,793,612		19,793,612
Direct institutional support	1,516,194		1,516,194
Realized investment income	69	1,777,574	1,777,643
Other operating revenue	4,183,553		4,183,553
Net assets released from restrictions for operations	<u>5,549,761</u>	<u>(5,549,761)</u>	<u>-</u>
Total operating revenues, gains and other support	<u>112,858,808</u>	<u>3,648,293</u>	<u>116,507,101</u>
<b>Operating Expenses</b>			
Salaries and benefits	40,761,897		40,761,897
Grants-in-aid	16,303,056		16,303,056
Team travel	8,078,532		8,078,532
Team operating expense	7,725,368		7,725,368
Student athlete training and development	5,586,513		5,586,513
Game operating expenses	2,427,873		2,427,873
Guarantees paid to visiting teams	1,283,144		1,283,144
Facilities and equipment	4,266,304		4,266,304
General administration and other	18,614,749	250,000	18,864,749
Depreciation and amortization	<u>5,106,328</u>		<u>5,106,328</u>
Total operating expenses	<u>110,153,764</u>	<u>250,000</u>	<u>110,403,764</u>
<b>Operating Income</b>	<u>2,705,044</u>	<u>3,398,293</u>	<u>6,103,337</u>
<b>Other Income (Expense)</b>			
Contributions restricted for capital projects		6,533,575	6,533,575
Unrealized investment income (loss)	33,894	(431,285)	(397,391)
Interest expense	(1,131,926)		(1,131,926)
Depreciation on donor-funded property and equipment	(4,958,442)		(4,958,442)
Bad debt expense on contributions restricted for capital projects		(14,498)	(14,498)
Other non-operating activities	(321,844)		(321,844)
Net assets released from restrictions for capital projects	<u>475,574</u>	<u>(475,574)</u>	<u>-</u>
Other income (loss)	<u>(5,902,744)</u>	<u>5,612,218</u>	<u>(290,526)</u>
<b>Change in Net Assets</b>	(3,197,700)	9,010,511	5,812,811
<b>Net Assets, Beginning of Year</b>	<u>70,951,519</u>	<u>91,278,945</u>	<u>162,230,464</u>
<b>Net Assets, End of Year</b>	<u>\$ 67,753,819</u>	<u>\$ 100,289,456</u>	<u>\$ 168,043,275</u>

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

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Operating Revenues, Gains and Other Support</b>			
NCAA and conference distributions	\$ 34,075,570	\$ -	\$ 34,075,570
Contributions and grants of cash and other financial assets	20,792,248	3,430,086	24,222,334
Contributions of nonfinancial assets	645,654		645,654
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>
<b>Operating Expenses</b>			
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>
<b>Operating Loss</b>	<u>(9,645,707)</u>	<u>(1,298,445)</u>	<u>(10,944,152)</u>
<b>Other Income (Expense)</b>			
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>
<b>Change in Net Assets</b>	(6,805,465)	50,108	(6,755,357)
<b>Net Assets, Beginning of Year</b>	<u>77,756,984</u>	<u>91,228,837</u>	<u>168,985,821</u>
<b>Net Assets, End of Year</b>	<u>\$ 70,951,519</u>	<u>\$ 91,278,945</u>	<u>\$ 162,230,464</u>

**Kansas Athletics, Incorporated and Subsidiary**  
**Consolidated Statement of Functional Expenses**  
**Year Ended June 30, 2022**

	<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	\$ 11,171,948	\$ 10,526,701	\$ 10,955,502	\$ 32,654,151	\$ 6,403,962	\$ 1,703,784	\$ 40,761,897
Grants-in-aid	6,495,722	879,601	8,688,306	16,063,629	227,216	12,211	16,303,056
Team travel	1,804,908	2,512,551	3,761,073	8,078,532	-	-	8,078,532
Team operating expense	2,622,266	1,314,955	3,251,959	7,189,180	511,532	24,656	7,725,368
Student athlete training and development	1,445,866	165,774	3,974,873	5,586,513	-	-	5,586,513
Game operating expenses	705,840	1,364,894	357,139	2,427,873	-	-	2,427,873
Guarantees paid to visiting teams	450,000	580,797	252,347	1,283,144	-	-	1,283,144
Facilities and equipment	661,767	155,900	3,144,999	3,962,666	287,793	15,845	4,266,304
General administration and other	2,862,282	1,658,727	3,658,391	8,179,400	8,476,869	2,208,480	18,864,749
Depreciation and amortization	1,598,281	1,174,455	2,027,212	4,799,948	30,638	275,742	5,106,328
Total operating expenses	<u>29,818,880</u>	<u>20,334,355</u>	<u>40,071,801</u>	<u>90,225,036</u>	<u>15,938,010</u>	<u>4,240,718</u>	<u>110,403,764</u>
<b>Other Expenses</b>							
Interest expense	452,770	339,578	339,578	1,131,926	-	-	1,131,926
Depreciation on donor-funded property and equipment	1,636,286	2,424,678	897,478	4,958,442	-	-	4,958,442
Bad debt expense on contributions restricted for capital projects	4,038	5,044	5,408	14,490	8	-	14,498
Other non-operating activities	-	-	-	-	321,844	-	321,844
Total other expenses	<u>2,093,094</u>	<u>2,769,300</u>	<u>1,242,464</u>	<u>6,104,858</u>	<u>321,852</u>	<u>-</u>	<u>6,426,710</u>
Total expenses	<u>\$ 31,911,974</u>	<u>\$ 23,103,655</u>	<u>\$ 41,314,265</u>	<u>\$ 96,329,894</u>	<u>\$ 16,259,862</u>	<u>\$ 4,240,718</u>	<u>\$ 116,830,474</u>



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

	<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	\$ 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
<b>Total operating expenses</b>	<b>27,264,637</b>	<b>14,156,490</b>	<b>34,193,337</b>	<b>75,614,464</b>	<b>13,761,906</b>	<b>3,392,082</b>	<b>92,768,452</b>
<b>Other Expenses</b>							
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
<b>Total other expenses</b>	<b>2,100,909</b>	<b>2,743,569</b>	<b>1,229,663</b>	<b>6,074,141</b>	<b>1,209,370</b>	<b>68,504</b>	<b>7,352,015</b>
<b>Total expenses</b>	<b>\$ 29,365,546</b>	<b>\$ 16,900,059</b>	<b>\$ 35,423,000</b>	<b>\$ 81,688,605</b>	<b>\$ 14,971,276</b>	<b>\$ 3,460,586</b>	<b>\$ 100,120,467</b>

**Kansas Athletics, Incorporated and Subsidiary**  
**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2022 and 2021**

	<b>2022</b>	<b>2021</b>
<b>Operating Activities</b>		
Change in net assets	\$ 5,812,811	\$ (6,755,357)
Items not requiring (providing) operating activities cash flows		
Net realized and unrealized (gains) losses on investments	401,826	(10,255,160)
Depreciation	10,064,770	10,039,343
Amortization of bond issuance costs	8,800	17,783
Loss on disposition of property and equipment	3,474	-
Contributions received restricted for capital projects	(6,533,575)	(2,042,766)
Contributions received restricted for long-term investments	(328,171)	(242,338)
Noncash operating lease expense	1,534,960	1,659,836
Changes in		
Accounts receivable	(4,837,332)	1,224,968
Contributions receivable	(1,004,244)	2,279,207
Other assets	(311,088)	80,814
Accounts payable, accrued expenses and other liabilities	3,394,642	515,172
Advance ticket sales	333,532	3,991,161
Deferred revenue	(1,565,630)	5,202,161
Operating lease liabilities	(1,534,960)	(1,659,836)
	<u>5,439,815</u>	<u>4,054,988</u>
Net cash provided by operating activities	<u>5,439,815</u>	<u>4,054,988</u>
<b>Investing Activities</b>		
Additions to investments held by Kansas University		
Endowment Association	(27,862,879)	(30,383,616)
Withdrawals from investments held by Kansas University		
Endowment Association	27,337,888	30,892,514
Deposits to investments held by trustee under bond indenture	-	(2,205,000)
Withdrawals from investments held by trustee under bond indenture	1,102,430	3,541,898
Purchase of property and equipment	(1,815,915)	(334,602)
	<u>(1,238,476)</u>	<u>1,511,194</u>
Net cash provided by (used in) investing activities	<u>(1,238,476)</u>	<u>1,511,194</u>
<b>Financing Activities</b>		
Proceeds from contributions restricted for capital projects	17,564,597	13,378,222
Proceeds from contributions restricted for long-term investments	237,748	183,340
Proceeds from long-term debt	-	30,803,792
Proceeds from line of credit	10,000,000	-
Payments on line of credit	(10,000,000)	(9,809,260)
Principal payments on long-term debt	(454,691)	(30,235,585)
	<u>17,347,654</u>	<u>4,320,509</u>
Net cash provided by financing activities	<u>17,347,654</u>	<u>4,320,509</u>
<b>Increase in Cash, Cash Equivalents and Cash Held in Investments</b>	<u>21,548,993</u>	<u>9,886,691</u>
<b>Cash, Cash Equivalents and Cash Held in Investments, Beginning of Year</b>	<u>40,055,665</u>	<u>30,168,974</u>
<b>Cash, Cash Equivalents and Cash Held in Investments, End of Year</b>	<u>\$ 61,604,658</u>	<u>\$ 40,055,665</u>

**Kansas Athletics, Incorporated and Subsidiary**  
**Consolidated Statements of Cash Flows (Continued)**  
**Years Ended June 30, 2022 and 2021**

	<u><b>2022</b></u>	<u><b>2021</b></u>
<b>Reconciliation of Cash, Cash Equivalents and Cash Held in Investments to the Statements of Financial Position</b>		
Cash and cash equivalents	\$ 13,798,485	\$ 12,211,425
Investments	<u>47,806,173</u>	<u>27,844,240</u>
 Total cash, cash equivalents and cash held in investments shown in the statements of cash flows	 <u><u>\$ 61,604,658</u></u>	 <u><u>\$ 40,055,665</u></u>
<b>Supplemental Cash Flows Information</b>		
Interest paid	\$ 1,124,874	\$ 1,055,941
Property and equipment purchases in accounts payable	21,382	-
Right-of-use assets obtained in exchange for new operating lease liabilities	148,237	37,088
Right-of-use assets obtained in exchange for new finance lease liabilities	88,638	-

# **Kansas Athletics, Incorporated and Subsidiary**

## **Notes to Consolidated Financial Statements**

### **June 30, 2022 and 2021**

#### **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, 2022 and 2021, cash equivalents consisted primarily of money market accounts.

##### ***Operating Measure***

The Corporation reports an operating income (loss) in the consolidated statements of activities which includes all revenues and expenses associated with operating the University's intercollegiate athletic program. The measure of operations excludes amounts related to donor-funded property and equipment, including contributions restricted for capital projects, depreciation expense on

# Kansas Athletics, Incorporated and Subsidiary

## Notes to Consolidated Financial Statements

June 30, 2022 and 2021

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.

### ***Investments and Net Investment Return***

The Corporation has the following two categories of investments:

#### ***Investments Held by Kansas University Endowment Association***

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

#### ***Investments Held by Trustee under Bond Indenture***

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

# **Kansas Athletics, Incorporated and Subsidiary**

## **Notes to Consolidated Financial Statements**

### **June 30, 2022 and 2021**

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 finance 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, 2022 or 2021.

#### ***Advance Ticket Sales and Ticket Sales***

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

#### ***Deferred Revenue and Sponsorships and Royalties***

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

# Kansas Athletics, Incorporated and Subsidiary

## Notes to Consolidated Financial Statements

### June 30, 2022 and 2021

#### **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**

Contributions are provided to the Corporation either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
<i>Conditional gifts, with or without restriction</i>	
Gifts that depend on the Corporation overcoming a donor imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> , the donor imposed barrier is met
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value

# Kansas Athletics, Incorporated and Subsidiary

## Notes to Consolidated Financial Statements

### June 30, 2022 and 2021

#### Nature of the Gift

Expected to be collected in future years

#### Value Recognized

Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

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 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 and investment income that are originally restricted by the donor and for which the restriction is met in the same time period the gift is received are recorded as revenue with donor restrictions and then released from restriction.

Conditional contributions and investment income having donor stipulations which are satisfied in the period the gift is received and the investment income is earned are recorded as revenue with donor restrictions and then released from restriction.

#### ***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.

#### ***Leases***

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, 2022 and 2021**

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.

#### ***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, 2022 and 2021 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.

**Kansas Athletics, Incorporated and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**June 30, 2022 and 2021**

**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, 2022 and 2021 was \$12,048,434 in each year. During 2022 and 2021, the cash received was in excess of the cumulative revenue recognized and is shown as deferred revenue totaling \$6,435,714 and \$7,928,571 as of June 30, 2022 and 2021, 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, 2022 and 2021, the criteria have not been met and no associated revenue has been recognized as it does not meet the constraint.

***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.

# **Kansas Athletics, Incorporated and Subsidiary**

## **Notes to Consolidated Financial Statements**

### **June 30, 2022 and 2021**

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 \$1,233,173 and \$1,496,183 as of June 30, 2022 and 2021, 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, 2022 and 2021.

The Corporation has contracts that are unsatisfied or partially unsatisfied as of June 30, 2022 and 2021, in the amounts of \$49,885,714 and \$55,428,571, respectively, related to sponsorships, media and royalties. As of June 30, 2022, the Corporation expects to recognize \$5,542,857 as revenue over each year of the remaining contract life of 9 years.

During the years ended June 30, 2022 and 2021, the Corporation recognized revenue of \$11,365,854 and \$7,374,693, 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, 2022 and 2021**

***Disaggregation of Revenue***

The composition of revenue based on type of revenue and timing of revenue recognition for the years ended June 30, 2022 and 2021, are as follows:

	<b>2022</b>	<b>2021</b>
Sponsorship, media and royalties		
Non-cash sponsorships	\$ 3,942,669	\$ 3,121,159
Media rights	7,326,353	5,086,157
Royalties from trademark and licensing	1,739,453	1,013,485
Sponsorship	6,785,137	6,127,857
NCAA and conference distributions	40,615,471	33,664,512
Bonus payment	411,058	411,058
Ticket sales and handling fees	17,953,139	2,952,282
Total	<u>\$ 78,773,280</u>	<u>\$ 52,376,510</u>
Timing of revenue and recognition		
Services transferred over time	\$ 56,877,472	\$ 46,303,069
Services/sales at point in time	21,895,808	6,073,441
Total	<u>\$ 78,773,280</u>	<u>\$ 52,376,510</u>

**Note 3: Contributions Receivable**

Contributions receivable at June 30, 2022 and 2021, consisted of the following unconditional promises to give discounted at a rate of 4 percent:

	<b>2022</b>	<b>2021</b>
Due within one year	\$ 26,708,531	\$ 28,617,883
Due in one to five years	3,052,761	10,893,806
Due in greater than five years	100,000	150,000
	<u>29,861,292</u>	<u>39,661,689</u>
Less unamortized discount	104,879	95,383
Less allowance for uncollectible contributions	<u>1,499,971</u>	<u>1,373,509</u>
	<u>\$ 28,256,442</u>	<u>\$ 38,192,797</u>

**Kansas Athletics, Incorporated and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**June 30, 2022 and 2021**

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

Investments at June 30, 2022 and 2021 consisted of the following:

	<b>2022</b>	<b>2021</b>
Held by Kansas University Endowment Association		
Cash	\$ 47,806,173	\$ 27,844,240
Long-term investment pool	45,053,386	44,831,154
Bond fund	1,290,020	1,416,137
Real estate	819,288	792,238
	<u>94,968,867</u>	<u>74,883,769</u>
Held by Trustee Under Bond Indenture		
Money market mutual funds	<u>551,353</u>	<u>1,653,783</u>
	<u>\$ 95,520,220</u>	<u>\$ 76,537,552</u>

***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.

# **Kansas Athletics, Incorporated and Subsidiary**

## **Notes to Consolidated Financial Statements**

### **June 30, 2022 and 2021**

#### 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.

#### ***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

# Kansas Athletics, Incorporated and Subsidiary

## Notes to Consolidated Financial Statements

### June 30, 2022 and 2021

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, 2022 and 2021:

		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			
<b>June 30, 2022</b>					
Investments held by the Kansas University Endowment Association					
Long-term investment pool	\$ 45,053,386	\$ -	\$ 45,053,386	\$ -	
Bond fund	1,290,020	-	1,290,020	-	
Investments held by trustee under bond indenture					
Money market mutual funds	551,353	551,353	-	-	
<b>June 30, 2021</b>					
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	-	-	

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, 2022.

**Kansas Athletics, Incorporated and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**June 30, 2022 and 2021**

**Note 5: Property and Equipment**

Property and equipment at June 30, 2022 and 2021 consisted of:

	<b>2022</b>	<b>2021</b>
Buildings and leasehold improvements	\$ 10,530,376	\$ 10,362,317
Improvements to State property	194,277,229	193,903,932
Furniture and fixtures	18,889,313	17,785,645
Construction in progress	785,781	675,182
	<u>224,482,699</u>	<u>222,727,076</u>
Less accumulated depreciation	<u>131,299,092</u>	<u>121,401,160</u>
	<u><u>\$ 93,183,607</u></u>	<u><u>\$ 101,325,916</u></u>

**Note 6: Lines of Credit**

The Corporation has a \$20,000,000 revolving bank line of credit which expires in May 2024 related to athletic facilities construction and renovation. At June 30, 2022 and 2021, there was \$0 borrowed against this line. The line is secured by contributions receivable and cash held at KU Endowment associated with the project. During 2022, the line was amended to accrue interest on outstanding balances payable monthly at the secured overnight financing rate (SOFR) plus 1.29 percent, 2.34 percent as of June 30, 2022. As of June 30, 2021, interest on outstanding balances was payable monthly at LIBOR plus 1.13 percent, 1.3 percent as of June 30, 2021.

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



**Kansas Athletics, Incorporated and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**June 30, 2022 and 2021**

**Note 7: Long-term Debt**

Long-term debt at June 30, 2022 and 2021 consisted of the following:

	<u><b>2022</b></u>	<u><b>2021</b></u>
Private placement bonds (A)	\$ 31,500,000	\$ 31,500,000
Finance lease obligations (B)	<u>73,826</u>	<u>439,879</u>
	31,573,826	31,939,879
Less unamortized debt issuance costs	<u>(205,711)</u>	<u>(214,511)</u>
	<u><u>\$ 31,368,115</u></u>	<u><u>\$ 31,725,368</u></u>

- (A) 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. Debt issuance costs included in the above schedule relate to these notes.

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, 2022 and 2021, the Corporation had investments of \$551,353 and \$1,653,783, respectively, which were designated as the interest payment reserve. Funds in this reserve account are controlled by the Corporation.

- (B) Finance lease obligations for equipment with various expiration dates from July 2019 – February 2026. Cost and accumulated depreciation at June 30, 2022 was \$88,638 and \$8,864, respectively, and at June 30, 2021, \$4,452,248 and \$3,093,274, respectively.

**Kansas Athletics, Incorporated and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**June 30, 2022 and 2021**

Aggregate annual maturities of long-term debt and payments on finance lease obligations at June 30, 2022 are:

	<b>Long-term Debt (Excluding Leases)</b>	<b>Finance Lease Obligations</b>
2023	\$ 451,409	\$ 24,557
2024	926,655	23,461
2025	959,371	17,424
2026	993,243	10,164
2027	1,028,311	-
Thereafter	<u>27,141,011</u>	<u>-</u>
	<u><u>\$ 31,500,000</u></u>	75,606
Less amount representing interest		<u>1,780</u>
Present value of future minimum lease payments		<u><u>\$ 73,826</u></u>

**Kansas Athletics, Incorporated and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**June 30, 2022 and 2021**

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

Net assets with donor restrictions at June 30, 2022 and 2021 were restricted for the following purposes or periods:

	<u><b>2022</b></u>	<u><b>2021</b></u>
Subject to expenditure for specified purpose		
Student-athlete scholarships	\$ 3,873,245	\$ 2,495,439
Capital projects	27,937,115	11,570,906
Team operational support	4,511,102	2,883,315
Other programs	721,026	392,860
Contributions receivable restricted by donors for		
Student-athlete scholarships	1,355,439	1,140,959
Capital projects	11,171,141	22,356,360
Team operational support	3,403,807	3,937,579
Other programs	<u>1,644,718</u>	<u>1,117,712</u>
	<u>54,617,593</u>	<u>45,895,130</u>
Subject to the passage of time		
Contributions receivable that are not restricted by donors, but which are unavailable for expenditure until due	<u>135,979</u>	<u>93,760</u>
Endowments, subject to KU Endowment spending policy and appropriation		
Student-athlete scholarships	42,118,659	41,999,623
Team operational support	1,441,921	1,437,899
General use	619,269	616,269
Other programs	1,133,313	1,103,965
Contributions receivable restricted by donors for endowment	<u>222,722</u>	<u>132,299</u>
	<u>45,535,884</u>	<u>45,290,055</u>
Total net assets with donor restrictions	<u><u>\$ 100,289,456</u></u>	<u><u>\$ 91,278,945</u></u>

# Kansas Athletics, Incorporated and Subsidiary

## Notes to Consolidated Financial Statements

June 30, 2022 and 2021

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

	2022	2021
Satisfaction of purpose restrictions		
Student-athlete scholarships	\$ 1,855,681	\$ 1,840,886
Capital projects	475,574	9,886,246
Team operational support	1,901,781	2,828,800
Other	128,706	101,678
Expiration of time restrictions	95,174	122,783
Appropriation of endowment assets for expenditure		
Student-athlete scholarships	1,541,783	1,530,228
Team operational support	25,339	25,291
Other	1,297	1,254
	<u>\$ 6,025,335</u>	<u>\$ 16,337,166</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, 2022 and 2021**

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, 2022 and 2021 was:

	<b>2022</b>	<b>2021</b>
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ 20,985,283	\$ 20,657,111
Accumulated investment gains	<u>24,550,601</u>	<u>24,632,944</u>
	<u><u>\$ 45,535,884</u></u>	<u><u>\$ 45,290,055</u></u>

Changes in endowment net assets with donor restrictions for the years ended June 30, 2022 and 2021 were:

Endowment net assets, July 1, 2020	\$ 36,360,432
Investment return, net	10,204,443
Contributions	281,953
Appropriation of endowment assets for expenditure	<u>(1,556,773)</u>
Endowment net assets, June 30, 2021	<u>45,290,055</u>
Investment return, net	1,270,013
Contributions	544,235
Appropriation of endowment assets for expenditure	<u>(1,568,419)</u>
	<u>245,829</u>
Endowment net assets, June 30, 2022	<u><u>\$ 45,535,884</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, 2022 and 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.

# **Kansas Athletics, Incorporated and Subsidiary**

## **Notes to Consolidated Financial Statements**

### **June 30, 2022 and 2021**

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, 2022 and 2021

The Corporation's financial assets as of June 30, 2022 and 2021, and the portion of those assets available for general expenditure within one year thereafter, include the following:

	<b>2022</b>		<b>2021</b>	
	<b>Financial Assets</b>	<b>Available Liquidity</b>	<b>Financial Assets</b>	<b>Available Liquidity</b>
Cash and cash equivalents	\$ 13,798,485	\$ 13,798,485	\$ 12,211,425	\$ 12,211,425
Accounts receivable, net	5,654,732	5,654,732	817,400	817,400
Contributions receivable, net	28,256,442	16,093,216	38,192,797	13,212,060
Investments	95,520,220	20,896,050	76,537,552	17,663,103
	<u>\$ 143,229,879</u>	<u>\$ 56,442,483</u>	<u>\$ 127,759,174</u>	<u>\$ 43,903,988</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, 2022 and 2021 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, 2022 and 2021 were \$1,516,194 and \$1,386,073, 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 \$7,354,691, \$67,194 and \$2,729,994 in 2022, respectively, and \$7,068,867, \$86,147 and \$2,794,687 in 2021, 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 \$5,483,482 and \$2,048,990 at June 30, 2022 and 2021, respectively, and are included in accounts payable. Total trade receivables due from the University and related entities were \$127,421 and \$24,000 at June 30, 2022 and 2021, respectively, and are included in accounts receivable.

Investment management fees paid to KU Endowment during 2022 and 2021 were \$346,937 and \$336,660, respectively.

**Kansas Athletics, Incorporated and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**June 30, 2022 and 2021**

**Note 12: Leases**

***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.

***Quantitative Disclosures***

The lease cost and other required information for the years ended June 30, 2022 and 2021 are:

	<b>2022</b>	<b>2021</b>
Lease cost		
Finance lease cost		
Amortization of right-of-use asset	\$ 454,691	\$ 426,017
Interest on lease liabilities	7,534	20,989
Operating lease cost	<u>1,534,960</u>	<u>1,659,836</u>
Total lease cost	<u><u>\$ 1,997,185</u></u>	<u><u>\$ 2,106,842</u></u>



**Kansas Athletics, Incorporated and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**June 30, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
Other information		
Right-of-use assets obtained in exchange for new operating leases	\$ 148,237	\$ 37,088
Right-of-use assets obtained in exchange for new finance leases	\$ 88,638	\$ -
Weighted-average remaining lease term		
Finance leases	3 years	1 year
Operating leases	21 years	22 years
Weighted-average discount rate		
Operating leases	3.19%	3.22%

Future minimum lease payments and reconciliation to the consolidated statements of financial position at June 30, 2022, are as follows:

<u>Year Ending June 30</u>	<u>Finance Leases</u>	<u>Operating Leases</u>
2023	\$ 24,557	\$ 2,627,387
2024	23,461	2,623,988
2025	17,424	2,372,043
2026	10,164	2,500,703
2027	-	2,230,703
Thereafter	-	38,107,842
Total future undiscounted lease payments	75,606	50,462,666
Less interest	(1,780)	(15,288,991)
Lease Liability	<u>\$ 73,826</u>	<u>\$ 35,173,675</u>

**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 \$1,532,445 and \$1,361,037 for the years ended June 30, 2022 and 2021, respectively.

**Kansas Athletics, Incorporated and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**June 30, 2022 and 2021**

**Note 14: Contributed Nonfinancial Assets**

***Change in Accounting Principle***

In 2022, the Corporation, adopted ASU 2020-07, *Not-for-Profit Entities* (Topic 958): *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* on a retrospective basis. ASU 2020-07 requires contributed nonfinancial assets to be presented separately from contributions of cash or other financial assets in the consolidated statements of activities and disclosures within the notes to the consolidated financial statements about the valuation methodology for, use of, and donor-imposed restrictions associated with contributed nonfinancial assets. Adoption of ASU 2020-07 had no impact on previously reported total change in net assets.

For the years ended June 30, 2022 and 2021, contributed nonfinancial assets recognized within the consolidated statements of activities included:

	<u>2022</u>	<u>2021</u>
Fringe benefits	<u>\$ 608,018</u>	<u>\$ 645,654</u>

The nonfinancial assets listed above were recognized within revenue. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions.

***Fringe Benefits***

The Corporation operates a program called the Wheel Club, where courtesy cars are provided by various car dealerships and donors for employee use. The Corporation estimated the fair value using valuation techniques set forth by the Internal Revenue Service in its Employer's Tax Guide to Fringe Benefits publication.

**Note 15: 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, 2022 and 2021, the Corporation's cash accounts exceeded federally insured limits by approximately \$14,900,000 and \$13,700,000, respectively.

# Kansas Athletics, Incorporated and Subsidiary

## Notes to Consolidated Financial Statements

### June 30, 2022 and 2021

#### Contributions Receivable and Contributions Revenue

Significant estimates for contributions receivable are described in *Note 1*. Approximately 33 percent of contributions receivable and 14 percent of contribution revenue was from one donor in 2022. Approximately 50 percent of contributions receivable and 11 percent of contribution revenue was from one donor in 2021.

#### 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.

#### Loss Contingencies

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.

**Kansas Athletics, Incorporated and Subsidiary**  
**Notes to Consolidated Financial Statements**  
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**Note 16: Subsequent Events**

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 27, 2022, which is the date the consolidated financial statements were issued.