




Kansas Athletics, Incorporated and Subsidiary

Independent Auditor's Report and Consolidated Financial Statements

June 30, 2023 and 2022



Kansas Athletics, Incorporated and Subsidiary

June 30, 2023 and 2022

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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 (the Corporation), which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, 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, 2023 and 2022, 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 16* to the consolidated financial statements, the 2022 consolidated financial statements have been restated to correct a misstatement. 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 audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

FORVIS, LLP

Kansas City, Missouri
September 22, 2023

Kansas Athletics, Incorporated and Subsidiary
Consolidated Statements of Financial Position
June 30, 2023 and 2022

	2023	2022 (Restated - Note 16)
Assets		
Cash and cash equivalents	\$ 23,338,105	\$ 13,798,485
Accounts receivable, net of allowance; 2023 - \$221,009; 2022 - \$149,575	3,924,241	5,654,732
Contributions receivable, net of allowance; 2023 - \$1,856,719; 2022 - \$1,499,971	54,092,463	28,256,442
Investments	131,426,421	95,520,220
Other assets	1,651,042	1,496,985
Property and equipment, net of accumulated depreciation; 2023 - \$91,339,769; 2022 - \$111,010,157	115,073,703	113,472,542
Right-of-use asset - operating leases	<u>35,449,075</u>	<u>35,173,675</u>
Total assets	<u><u>\$ 364,955,050</u></u>	<u><u>\$ 293,373,081</u></u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 12,957,964	\$ 8,687,100
Accrued expenses	6,882,816	10,190,133
Advance ticket sales	14,359,219	11,288,328
Deferred revenue	9,611,099	7,859,124
Long-term debt	30,908,884	31,368,115
Operating lease liabilities	35,347,782	35,173,675
Other liabilities	<u>556,412</u>	<u>474,396</u>
Total liabilities	<u>110,624,176</u>	<u>105,040,871</u>
Net Assets		
Without donor restrictions	81,627,567	88,042,754
With donor restrictions	<u>172,703,307</u>	<u>100,289,456</u>
Total net assets	<u>254,330,874</u>	<u>188,332,210</u>
Total liabilities and net assets	<u><u>\$ 364,955,050</u></u>	<u><u>\$ 293,373,081</u></u>

Kansas Athletics, Incorporated and Subsidiary
Consolidated Statement of Activities
Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenues, Gains and Other Support			
NCAA and conference distributions	\$ 41,115,143	\$ -	\$ 41,115,143
Contributions and grants of cash and other financial assets	26,476,186	5,482,588	31,958,774
Contributions of nonfinancial assets	706,042		706,042
Ticket sales and handling fees	21,958,918		21,958,918
Sponsorship, media and royalties	22,599,605		22,599,605
Direct institutional support	1,705,153		1,705,153
Realized investment income	242,350	3,263,418	3,505,768
Other operating revenue	4,294,810		4,294,810
Net assets released from restrictions for operations	9,889,584	(9,889,584)	-
	<u>128,987,791</u>	<u>(1,143,578)</u>	<u>127,844,213</u>
Operating Expenses			
Salaries and benefits	47,416,367		47,416,367
Grants-in-aid	19,076,939		19,076,939
Team travel	8,455,822		8,455,822
Team operating expense	9,249,637		9,249,637
Student athlete training and development	6,306,491		6,306,491
Game operating expenses	2,489,610		2,489,610
Guarantees paid to visiting teams	1,425,053		1,425,053
Facilities and equipment	5,499,828		5,499,828
General administration and other	20,720,862		20,720,862
Impairment expense	1,796,415		1,796,415
Depreciation and amortization	4,337,690		4,337,690
	<u>126,774,714</u>	<u>-</u>	<u>126,774,714</u>
Operating Income (Loss)	<u>2,213,077</u>	<u>(1,143,578)</u>	<u>1,069,499</u>
Other Income (Expense)			
Contributions restricted for capital projects		75,403,428	75,403,428
Unrealized investment income (loss)	7,631	(1,557,913)	(1,550,282)
Interest expense	(1,109,383)		(1,109,383)
Depreciation on donor-funded property and equipment	(4,780,341)		(4,780,341)
Bad debt expense on contributions restricted for capital projects		(65,860)	(65,860)
Other non-operating activities	(400,135)		(400,135)
Impairment expense	(2,568,262)		(2,568,262)
Net assets released from restrictions for capital projects	222,226	(222,226)	-
	<u>(8,628,264)</u>	<u>73,557,429</u>	<u>64,929,165</u>
Change in Net Assets	(6,415,187)	72,413,851	65,998,664
Net Assets, Beginning of Year	<u>88,042,754</u>	<u>100,289,456</u>	<u>188,332,210</u>
Net Assets, End of Year	<u>\$ 81,627,567</u>	<u>\$ 172,703,307</u>	<u>\$ 254,330,874</u>

Kansas Athletics, Incorporated and Subsidiary
Consolidated Statement of Activities
Year Ended June 30, 2022 (Restated – Note 16)

	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenues, Gains and Other Support			
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	5,549,761	(5,549,761)	-
Total operating revenues, gains and other support	112,858,808	3,648,293	116,507,101
Operating Expenses			
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	4,232,768		4,232,768
Total operating expenses	109,280,204	250,000	109,530,204
Operating Income	3,578,604	3,398,293	6,976,897
Other Income (Expense)			
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	(4,756,661)		(4,756,661)
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	475,574	(475,574)	-
Total other income (expense)	(5,700,963)	5,612,218	(88,745)
Change in Net Assets	(2,122,359)	9,010,511	6,888,152
Net Assets, Beginning of Year, As Previously Reported	70,951,519	91,278,945	162,230,464
Adjustment applicable to prior years	19,213,594	-	19,213,594
Net Assets, Beginning of Year, as Restated	90,165,113	91,278,945	181,444,058
Net Assets, End of Year	\$ 88,042,754	\$ 100,289,456	\$ 188,332,210

Kansas Athletics, Incorporated and Subsidiary
Consolidated Statement of Functional Expenses
Year Ended June 30, 2023

	Football	Men's Basketball	Other Sports	Total Program Services	Management and General	Fundraising	Total Expenses
Operating Expenses							
Salaries and benefits	\$ 15,678,243	\$ 11,207,626	\$ 12,529,177	\$ 39,415,046	\$ 6,320,837	\$ 1,680,484	\$ 47,416,367
Grants-in-aid	7,383,914	1,030,551	10,365,237	18,779,702	282,078	15,159	19,076,939
Team travel	1,608,046	1,951,288	4,896,488	8,455,822	-	-	8,455,822
Team operating expense	3,279,097	1,627,177	3,785,443	8,691,717	532,265	25,655	9,249,637
Student athlete training and development	1,560,100	221,920	4,524,471	6,306,491	-	-	6,306,491
Game operating expenses	942,758	1,099,865	446,987	2,489,610	-	-	2,489,610
Guarantees paid to visiting teams	700,000	485,000	240,053	1,425,053	-	-	1,425,053
Facilities and equipment	466,622	1,095,023	3,395,978	4,957,623	514,655	27,550	5,499,828
General administration and other	2,851,298	1,946,339	4,255,966	9,053,603	8,918,183	2,749,076	20,720,862
Impairment expense	1,796,415	-	-	1,796,415	-	-	1,796,415
Depreciation and amortization	1,357,697	997,669	1,722,063	4,077,429	26,026	234,235	4,337,690
Total operating expenses	37,624,190	21,662,458	46,161,863	105,448,511	16,594,044	4,732,159	126,774,714
Other Expenses							
Interest expense	443,753	332,815	332,815	1,109,383	-	-	1,109,383
Impairment expense	2,568,262	-	-	2,568,262	-	-	2,568,262
Depreciation on donor-funded property and equipment	1,577,513	2,337,587	865,241	4,780,341	-	-	4,780,341
Bad debt expense on contributions restricted for capital projects	5,690	39,582	15,971	61,243	4,380	237	65,860
Other non-operating activities	-	-	-	-	400,135	-	400,135
Total other expenses	4,595,218	2,709,984	1,214,027	8,519,229	404,515	237	8,923,981
Total expenses	\$ 42,219,408	\$ 24,372,442	\$ 47,375,890	\$ 113,967,740	\$ 16,998,559	\$ 4,732,396	\$ 135,698,695

Kansas Athletics, Incorporated and Subsidiary
Consolidated Statement of Functional Expenses
Year Ended June 30, 2022 (Restated – Note 16)

	Football	Men's Basketball	Other Sports	Total Program Services	Management and General	Fundraising	Total Expenses
Operating Expenses							
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	724,721	1,174,455	2,027,212	3,926,388	30,638	275,742	4,232,768
Total operating expenses	28,945,320	20,334,355	40,071,801	89,351,476	15,938,010	4,240,718	109,530,204
Other Expenses							
Interest expense	452,770	339,578	339,578	1,131,926	-	-	1,131,926
Depreciation on donor-funded property and equipment	1,434,505	2,424,678	897,478	4,756,661	-	-	4,756,661
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	1,891,313	2,769,300	1,242,464	5,903,077	321,852	-	6,224,929
Total expenses	\$ 30,836,633	\$ 23,103,655	\$ 41,314,265	\$ 95,254,553	\$ 16,259,862	\$ 4,240,718	\$ 115,755,133

Kansas Athletics, Incorporated and Subsidiary
Consolidated Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022 (Restated - Note 16)
Operating Activities		
Change in net assets	\$ 65,998,664	\$ 6,888,152
Items not requiring (providing) operating activities cash flows		
Net realized and unrealized gains on investments	530,199	401,826
Depreciation	9,118,031	8,989,429
Amortization of bond issuance costs	8,800	8,800
(Gain) Loss on disposition of property and equipment	(26,700)	3,474
Contributions received restricted for capital projects	(75,403,428)	(6,533,575)
Contributions received restricted for long-term investments	(6,305)	(328,171)
Impairment expense	4,364,677	-
Noncash operating lease expense	1,176,905	1,534,960
Changes in		
Accounts receivable	1,730,491	(4,837,332)
Contributions receivable	(108,796)	(1,004,244)
Other assets	(154,057)	(311,088)
Accounts payable, accrued expenses and other liabilities	1,027,110	3,394,642
Advance ticket sales	3,070,891	333,532
Deferred revenue	1,751,975	(1,565,630)
Operating lease liabilities	(1,278,198)	(1,534,960)
Net cash provided by operating activities	<u>11,800,259</u>	<u>5,439,815</u>
Investing Activities		
Additions to investments held by Kansas University		
Endowment Association	(45,816,532)	(27,862,879)
Withdrawals from investments held by Kansas University		
Endowment Association	45,257,406	27,337,888
Withdrawals from investments held by trustee under bond indenture	551,353	1,102,430
Proceeds from disposition of property and equipment	26,700	-
Purchase of property and equipment	(15,065,416)	(1,815,915)
Net cash used in investing activities	<u>(15,046,489)</u>	<u>(1,238,476)</u>
Financing Activities		
Proceeds from contributions restricted for capital projects	49,553,136	17,564,597
Proceeds from contributions restricted for long-term investments	129,372	237,748
Proceeds from line of credit	-	10,000,000
Payments on line of credit	-	(10,000,000)
Principal payments on long-term debt	(468,031)	(454,691)
Net cash provided by financing activities	<u>49,214,477</u>	<u>17,347,654</u>
Increase in Cash, Cash Equivalents and Cash Held in Investments	45,968,247	21,548,993
Cash, Cash Equivalents and Cash Held in Investments, Beginning of Year	<u>61,604,658</u>	<u>40,055,665</u>
Cash, Cash Equivalents and Cash Held in Investments, End of Year	<u><u>\$ 107,572,905</u></u>	<u><u>\$ 61,604,658</u></u>

Kansas Athletics, Incorporated and Subsidiary
Consolidated Statements of Cash Flows (Continued)
Years Ended June 30, 2023 and 2022

	2023	2022 (Restated - Note 16)
Reconciliation of Cash, Cash Equivalents and Cash Held in Investments to the Statements of Financial Position		
Cash and cash equivalents	\$ 23,338,105	\$ 13,798,485
Investments	<u>84,234,800</u>	<u>47,806,173</u>
 Total cash, cash equivalents and cash held in investments shown in the statements of cash flows	 <u><u>\$ 107,572,905</u></u>	 <u><u>\$ 61,604,658</u></u>
Supplemental Cash Flows Information		
Interest paid	\$ 1,103,360	\$ 1,124,874
Property and equipment purchases in accounts payable	39,835	21,382
Right-of-use assets obtained in exchange for new operating lease liabilities	1,452,305	148,237
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, 2023 and 2022

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, 2023 and 2022, 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, 2023 and 2022

donor-funded property and equipment, impairment 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.

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, 2023 and 2022

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.

Impairment losses of \$4,364,677 and \$0 were recognized for property and equipment for the years ended June 30, 2023 or 2022, respectively, based on the intended disposition of certain assets significantly before the end of their previously estimated useful life.

The loss is included in impairment expense in the accompanying consolidated statements of activities. Fair value was determined based on the future expected cash flows of the property and equipment.

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, 2023 and 2022

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

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

Conditional gifts, with or without restriction

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.e.*, the donor imposed barrier is met

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Nature of the Gift	Value Recognized
<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
Expected to be collected in future years	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 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 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.

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Notes to Consolidated Financial Statements

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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.

At lease commencement, 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, 2023 and 2022 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.

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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, 2023 and 2022 was \$12,048,434 in each year. During 2023 and 2022, the cash received was in excess of the cumulative revenue recognized and is shown as deferred revenue totaling \$4,942,857 and \$6,435,714 as of June 30, 2023 and 2022, 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, 2023 and 2022, 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.

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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 \$822,115 and \$1,233,173 as of June 30, 2023 and 2022, respectively.

Contract Balances

The following table provides information about the Corporation's receivables, contract assets and contract liabilities from contracts with customers:

	2023	2022
Accounts receivable		
Accounts receivable, beginning of year	\$ 5,654,732	\$ 817,400
Accounts receivable, end of year	3,924,241	5,654,732
Contract liabilities		
Advance ticket sales, beginning of year	11,288,328	10,954,796
Advance ticket sales, end of year	14,359,219	11,288,328
Deferred revenue, beginning of year	7,859,124	9,424,754
Deferred revenue, end of year	9,611,099	7,859,124

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, 2023 and 2022.

The Corporation has contracts that are unsatisfied or partially unsatisfied as of June 30, 2023 and 2022, in the amounts of \$44,342,857 and \$49,885,714, respectively, related to sponsorships, media and royalties. As of June 30, 2023, 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, 2023 and 2022, the Corporation recognized revenue of \$11,699,386 and \$11,365,854, respectively, that was recognized as advanced ticket sales or deferred revenue at the beginning of the year.

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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.

Disaggregation of Revenue

The composition of revenue based on type of revenue and timing of revenue recognition for the years ended June 30, 2023 and 2022, are as follows:

	2023	2022
Sponsorship, media and royalties		
Non-cash sponsorships	\$ 4,429,644	\$ 3,942,669
Media rights	10,706,689	7,326,353
Royalties from trademark and licensing	1,845,415	1,739,453
Sponsorship	5,617,857	6,785,137
NCAA and conference distributions	40,704,085	40,615,471
Bonus payment	411,058	411,058
Ticket sales and handling fees	21,958,918	17,953,139
Total	<u>\$ 85,673,666</u>	<u>\$ 78,773,280</u>
Timing of revenue and recognition		
Services transferred over time	\$ 59,285,104	\$ 56,877,472
Services/sales at point in time	26,388,562	21,895,808
Total	<u>\$ 85,673,666</u>	<u>\$ 78,773,280</u>

Kansas Athletics, Incorporated and Subsidiary
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Note 3: Contributions Receivable

Contributions receivable at June 30, 2023 and 2022, consisted of the following unconditional promises to give discounted at a rate of 4 percent:

	2023	2022
Due within one year	\$ 33,900,807	\$ 26,708,531
Due in one to five years	20,956,670	3,052,761
Due in greater than five years	3,050,000	100,000
	<u>57,907,477</u>	<u>29,861,292</u>
Less unamortized discount	1,958,295	104,879
Less allowance for uncollectible contributions	<u>1,856,719</u>	<u>1,499,971</u>
	<u><u>\$ 54,092,463</u></u>	<u><u>\$ 28,256,442</u></u>

Note 4: Investments and Fair Value Measurements

Investments at June 30, 2023 and 2022 consisted of the following:

	2023	2022
Held by Kansas University Endowment Association		
Cash	\$ 84,234,800	\$ 47,806,173
Long-term investment pool	45,146,043	45,053,386
Bond fund	1,254,978	1,290,020
Real estate	<u>790,600</u>	<u>819,288</u>
	<u>131,426,421</u>	<u>94,968,867</u>
Held by Trustee Under Bond Indenture		
Money market mutual funds	<u>-</u>	<u>551,353</u>
Total investments	<u><u>\$ 131,426,421</u></u>	<u><u>\$ 95,520,220</u></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

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separate accounts have been combined into appropriate net asset 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.

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

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- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

The following table presents the fair value measurements of assets recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2023 and 2022:

		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, 2023					
Investments held by the Kansas University Endowment Association					
Long-term investment pool	\$ 45,146,043	\$	-	\$ 45,146,043	\$ -
Bond fund	1,254,978		-	1,254,978	-
June 30, 2022					
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	-	-

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, 2023.

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Nonrecurring Measurements

The following table presents the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2023. There were no assets measured at fair value on a nonrecurring basis at June 30, 2022:

		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, 2023				
Long-lived assets	\$ 9,575,864	\$ -	\$ -	\$ 9,575,864

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Long-Lived Assets & Unobservable Inputs

Long-lived assets are valued at fair value on June 30, 2023, due to an impairment recorded. The fair value is estimated based on the future expected cash flows generated by the assets over the next year, which is the expected remaining period of time until demolition of the assets. Due to the assets being demolished within one year, a discount has not been applied to the future cash flows.

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Note 5: Property and Equipment

Property and equipment at June 30, 2023 and 2022 consisted of:

	2023	2022 (Restated - Note 16)
Buildings and leasehold improvements	\$ 10,839,404	\$ 10,530,376
Improvements to State property	161,474,932	194,277,229
Furniture and fixtures	19,839,187	18,889,313
Construction in progress	14,259,949	785,781
	<hr/>	<hr/>
	206,413,472	224,482,699
Less accumulated depreciation	91,339,769	111,010,157
	<hr/>	<hr/>
	<u>\$ 115,073,703</u>	<u>\$ 113,472,542</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, 2023 and 2022, 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, which was 6.45 percent and 2.34 percent as of June 30, 2023 and 2022, respectively.

The Corporation has an additional \$20,000,000 revolving line of credit which expires in April 2024 related to general operations of the Corporation. At June 30, 2023 and 2022, there was \$0 borrowed against this line. The line is unsecured. Interest on outstanding balances is payable monthly at the SOFR rate plus 1.29 percent, which was 6.45 percent and 2.34 percent as of June 30, 2023 and 2022, respectively.

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Note 7: Long-term Debt

Long-term debt at June 30, 2023 and 2022 consisted of the following:

	<u>2023</u>	<u>2022</u>
Private placement bonds (A)	\$ 31,048,591	\$ 31,500,000
Finance lease obligations (B)	<u>57,204</u>	<u>73,826</u>
	31,105,795	31,573,826
Less unamortized debt issuance costs	<u>(196,911)</u>	<u>(205,711)</u>
	<u><u>\$ 30,908,884</u></u>	<u><u>\$ 31,368,115</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, 2023 and 2022, the Corporation had investments of \$0 and \$551,353, 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 2024 – February 2026. Cost and accumulated depreciation at June 30, 2023 was \$88,638 and \$26,591, respectively, and at June 30, 2022, \$88,638 and \$8,864, respectively.

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Aggregate annual maturities of long-term debt and payments on finance lease obligations at June 30, 2023 are:

	Long-term Debt (Excluding Leases)	Finance Lease Obligations
2024	\$ 926,655	\$ 23,461
2025	959,371	17,424
2026	993,243	17,239
2027	1,028,311	-
2028	1,064,617	-
Thereafter	<u>26,076,394</u>	<u>-</u>
	<u><u>\$ 31,048,591</u></u>	58,124
Less amount representing interest		<u>920</u>
Present value of future minimum lease payments		<u><u>\$ 57,204</u></u>

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Note 8: Net Assets With Donor Restrictions

Net assets with donor restrictions at June 30, 2023 and 2022 were restricted for the following purposes or periods:

	2023	2022
Subject to expenditure for specified purpose		
Student-athlete scholarships	\$ 2,625,494	\$ 3,873,245
Capital projects	75,221,794	27,937,115
Team operational support	3,759,687	4,511,102
Other programs	957,596	721,026
Contributions receivable restricted by donors for		
Student-athlete scholarships	1,300,860	1,355,439
Capital projects	36,996,551	11,171,141
Team operational support	2,026,139	3,403,807
Other programs	1,779,923	1,644,718
	<u>124,668,044</u>	<u>54,617,593</u>
Subject to the passage of time		
Contributions receivable that are not restricted by donors, but which are unavailable for expenditure until due	<u>851,278</u>	<u>135,979</u>
Endowments, subject to KU Endowment spending policy and appropriation		
Student-athlete scholarships	43,810,495	42,118,659
Team operational support	1,515,161	1,441,921
General use	619,269	619,269
Other programs	1,139,405	1,133,313
Contributions receivable restricted by donors for endowment	<u>99,655</u>	<u>222,722</u>
	<u>47,183,985</u>	<u>45,535,884</u>
Total net assets with donor restrictions	<u><u>\$ 172,703,307</u></u>	<u><u>\$ 100,289,456</u></u>

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

	2023	2022
Satisfaction of purpose restrictions		
Student-athlete scholarships	\$ 4,510,067	\$ 1,855,681
Capital projects	222,226	475,574
Team operational support	3,205,017	1,901,781
Other	461,503	128,706
Expiration of time restrictions	47,115	95,174
Appropriation of endowment assets for expenditure		
Student-athlete scholarships	1,637,870	1,541,783
Team operational support	26,646	25,339
Other	1,366	1,297
	<u>\$ 10,111,810</u>	<u>\$ 6,025,335</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

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2. Purposes of the Corporation and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Corporation
7. Investment policies of the Corporation

The composition of the donor-restricted endowment fund at June 30, 2023 and 2022 was:

	2023	2022
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ 20,978,978	\$ 20,985,283
Accumulated investment gains	<u>26,205,007</u>	<u>24,550,601</u>
	<u><u>\$ 47,183,985</u></u>	<u><u>\$ 45,535,884</u></u>

Changes in endowment net assets with donor restrictions for the years ended June 30, 2023 and 2022 were:

Endowment net assets, July 1, 2021	\$ 45,290,055
Investment return, net	1,270,013
Contributions	544,235
Appropriation of endowment assets for expenditure	<u>(1,568,419)</u>
Endowment net assets, June 30, 2022	<u>45,535,884</u>
Investment return, net	367,146
Contributions	2,946,837
Appropriation of endowment assets for expenditure	<u>(1,665,882)</u>
	<u>1,648,101</u>
Endowment net assets, June 30, 2023	<u><u>\$ 47,183,985</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, 2023 and 2022, no funds were reported in net assets with donor restrictions in which the fair value of assets fell below the level the Corporation is required to maintain.

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

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

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

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

Note 10: Liquidity and Availability

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

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

Liquidity generated from donor contributions are included in the investments held by KU Endowment. Contributions without donor restrictions, contributions restricted for annual scholarships and contributions restricted for team operating support are considered to be available for operating expenditure. Annual distributions from donor-established endowments held at KU Endowment, as described in *Note 9*, are also considered available for operating expenditure.

Kansas Athletics, Incorporated and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

The Corporation's financial assets as of June 30, 2023 and 2022, and the portion of those assets available for general expenditure within one year thereafter, include the following:

	2023		2022	
	Financial Assets	Available Liquidity	Financial Assets	Available Liquidity
Cash and cash equivalents	\$ 23,338,105	\$ 23,338,105	\$ 13,798,485	\$ 13,798,485
Accounts receivable, net	3,924,241	3,924,241	5,654,732	5,654,732
Contributions receivable, net	54,092,463	15,571,390	28,256,442	16,093,216
Investments	131,426,421	15,758,913	95,520,220	20,896,050
	<u>\$ 212,781,230</u>	<u>\$ 58,592,649</u>	<u>\$ 143,229,879</u>	<u>\$ 56,442,483</u>

The Corporation receives significant contributions restricted by donors and considers contributions restricted for programs which are ongoing, major and central to its annual operations to be available to meet cash needs for general expenditures. For the years ended June 30, 2023 and 2022, restricted contributions of \$12,174,647 and \$13,039,063, respectively, were included in financial assets available to meet cash needs for general expenditures within one year.

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, 2023 and 2022 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, 2023 and 2022 were \$1,705,153 and \$1,516,194, 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 \$7,613,113, \$60,732 and \$2,770,462 in 2023, respectively, and \$7,354,691, \$67,194 and \$2,729,994 in 2022, 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 \$3,558,984 and \$5,483,482 at June 30, 2023 and 2022, respectively, and are included in accounts payable. Total trade receivables due from the University and related entities were \$33,182 and \$127,421 at June 30, 2023 and 2022, respectively, and are included in accounts receivable.

Kansas Athletics, Incorporated and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Investment management fees paid to KU Endowment during 2023 and 2022 were \$377,901 and \$346,937, respectively.

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, 2023 and 2022 are:

	<u>2023</u>	<u>2022</u>
Lease cost		
Finance lease cost		
Amortization of right-of-use asset	\$ 17,727	\$ 454,691
Interest on lease liabilities	828	7,534
Operating lease cost	<u>1,176,905</u>	<u>1,534,960</u>
Total lease cost	<u><u>\$ 1,195,460</u></u>	<u><u>\$ 1,997,185</u></u>

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June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Other information		
Right-of-use assets obtained in exchange for new operating leases	\$ 1,452,305	\$ 148,237
Right-of-use assets obtained in exchange for new finance leases	\$ -	\$ 88,638
Weighted-average remaining lease term		
Finance leases	2 years	3 years
Operating leases	19 years	21 years
Weighted-average discount rate		
Operating leases	3.20%	3.19%

Future minimum lease payments and reconciliation to the consolidated statements of financial position at June 30, 2023, are as follows:

<u>Year Ending June 30</u>	<u>Finance Leases</u>	<u>Operating Leases</u>
2024	\$ 23,461	\$ 2,816,583
2025	17,424	2,567,112
2026	17,239	2,698,395
2027	-	2,360,896
2028	-	2,245,703
Thereafter	-	35,883,389
Total future undiscounted lease payments	58,124	48,572,078
Less interest	(920)	(13,224,296)
Lease Liability	<u>\$ 57,204</u>	<u>\$ 35,347,782</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 \$1,763,200 and \$1,532,445 for the years ended June 30, 2023 and 2022, respectively.

Kansas Athletics, Incorporated and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

Note 14: Contributed Nonfinancial Assets

For the years ended June 30, 2023 and 2022, contributed nonfinancial assets recognized within the consolidated statements of activities included:

	<u>2023</u>	<u>2022</u>
Fringe benefits	<u>\$ 706,042</u>	<u>\$ 608,018</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, Commitments 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, 2023 and 2022, the Corporation's cash accounts exceeded federally insured limits by approximately \$22,600,000 and \$14,900,000, respectively.

Contributions Receivable and Contributions Revenue

Significant estimates for contributions receivable are described in *Note 1*. Approximately 60 percent of contributions receivable and 57 percent of contribution revenue was from two donors in 2023. Approximately 33 percent of contributions receivable and 14 percent of contribution revenue was from one donor in 2022.

Kansas Athletics, Incorporated and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

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.

Football Stadium Renovation Project

At June 30, 2023, commitments for the construction of stadium renovations were \$5,311,568. In August 2023, a change order associated with this contract was executed in the amount of \$8,402,789. As of the date the consolidated financial statements were available to be issued, the Corporation was preparing an additional change order in excess of \$88,000,000 which, when executed, would bring the total commitments to approximately \$101,000,000.

In September 2023, a memorandum of understanding was entered into by which KU Endowment would advance to the Corporation up to \$200,000,000 earmarked for football stadium construction expenditures. In exchange, the Corporation has agreed to transfer, to KU Endowment, current and future contribution receivables restricted by donors for the same purpose as they are collected.

Kansas Athletics, Incorporated and Subsidiary

Notes to Consolidated Financial Statements

June 30, 2023 and 2022

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.

Note 16: Restatement of Prior Years' Financial Statements

Fiscal year 2022 has been restated for a computational error of \$20,288,935 in accumulated depreciation. This restatement increased the previously reported 2022 change in net assets by \$1,075,341.

The following consolidated financial statement line items for fiscal year 2022 were affected by the correction:

	As Restated	As Previously Reported	Effect of Change
Statement of Financial Position			
Property and equipment, net of accumulated depreciation	\$ 113,472,542	\$ 93,183,607	\$ 20,288,935
Total assets	293,373,081	273,084,146	20,288,935
Net Assets - without donor restrictions	88,042,754	67,753,819	20,288,935
Total net assets	188,332,210	168,043,275	20,288,935
Total liabilities and net assets	293,373,081	273,084,146	20,288,935
Statement of Activities (Without Donor Restrictions)			
Operating Expenses			
Depreciation and amortization	4,232,768	5,106,328	(873,560)
Total operating expenses	109,280,204	110,153,764	(873,560)
Operating Income	3,578,604	2,705,044	873,560
Other Income (Expense)			
Depreciation on donor-funded property and equipment	(4,756,661)	(4,958,442)	201,781
Other income (loss)	(5,700,963)	(5,902,744)	201,781
Change in Net Assets	(2,122,359)	(3,197,700)	1,075,341
Net Assets, Beginning of Year	90,165,113	70,951,519	19,213,594
Net Assets, End of Year	88,042,754	67,753,819	20,288,935
Statement of Activities (Total)			
Operating Expenses			
Depreciation and amortization	4,232,768	5,106,328	(873,560)
Total operating expenses	109,530,204	110,403,764	(873,560)
Operating Income	6,976,897	6,103,337	873,560
Other Income (Expense)			
Depreciation on donor-funded property and equipment	(4,756,661)	(4,958,442)	201,781
Other income (loss)	(88,745)	(290,526)	201,781
Change in Net Assets	6,888,152	5,812,811	1,075,341
Net Assets, Beginning of Year	181,444,058	162,230,464	19,213,594
Net Assets, End of Year	188,332,210	168,043,275	20,288,935

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June 30, 2023 and 2022

	As Restated	As Previously Reported	Effect of Change
Statement of Functional Expenses (Football)			
Operating Expenses			
Depreciation and amortization	\$ 724,721	\$ 1,598,281	\$ (873,560)
Total operating expenses	28,945,320	29,818,880	(873,560)
Other Expenses			
Depreciation on donor-funded property and equipment	1,434,505	1,636,286	(201,781)
Total other expenses	1,891,313	2,093,094	(201,781)
Total expenses	30,836,633	31,911,974	(1,075,341)
Statement of Functional Expenses (Total Program Services)			
Operating Expenses			
Depreciation and amortization	3,926,388	4,799,948	(873,560)
Total operating expenses	89,351,476	90,225,036	(873,560)
Other Expenses			
Depreciation on donor-funded property and equipment	4,756,661	4,958,442	(201,781)
Total other expenses	5,903,077	6,104,858	(201,781)
Total expenses	95,254,553	96,329,894	(1,075,341)
Statement of Functional Expenses (Total)			
Operating Expenses			
Depreciation and amortization	4,232,768	5,106,328	(873,560)
Total operating expenses	109,530,204	110,403,764	(873,560)
Other Expenses			
Depreciation on donor-funded property and equipment	4,756,661	4,958,442	(201,781)
Total other expenses	6,224,929	6,426,710	(201,781)
Total expenses	115,755,133	116,830,474	(1,075,341)
Statement of Cash Flows			
Operating Activities			
Change in net assets	6,888,152	5,812,811	1,075,341
Depreciation	8,989,429	10,064,770	(1,075,341)

Note 17: Subsequent Events

Subsequent events have been evaluated through September 22, 2023, which is the date the consolidated financial statements were available to be issued.