Kansas Athletics, Incorporated and Subsidiary

Auditor’s Reports and Consolidated Financial Statements

June 30, 2014 and 2013

BKD LLP
CPAs & Advisors

Kansas Athletics, Incorporated and Subsidiary
June 30, 2014 and 2013

Contents

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Independent Auditor's Report

Board of Directors
Kansas Athletics, Incorporated and Subsidiary
Lawrence, Kansas

We have audited the accompanying consolidated financial statements of Kansas Athletics, Incorporated and Subsidiary, which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kansas Athletics, Incorporated and Subsidiary as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 12 to the consolidated financial statements, the 2013 consolidated financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

BKD, LLP

Kansas City, Missouri
September 26, 2014

Kansas Athletics, Incorporated and Subsidiary
Consolidated Statements of Financial Position
June 30, 2014 and 2013

Assets

	2014	2013 *(Restated - Note 12)*
Current Assets		
Cash	$ 5,893,512	$ 3,351,394
Tickets and accounts receivable, net of allowance; 2014 - $117,348, 2013 - $132,247	4,165,494	5,552,396
Contributions receivable, net of allowance; 2014 - $1,205,151, 2013 - $1,024,750	13,952,030	14,304,712
Investments held by Kansas University Endowment Association	14,347,515	12,315,103
Prepaid expenses and other current assets	859,210	742,153
Total current assets	39,217,761	36,265,758
Property and Equipment, At Cost		
Land and improvements	1,044,401	1,044,401
Buildings	7,488,361	7,488,361
Improvements to State property	151,208,764	150,775,550
Furniture and fixtures	12,017,661	9,900,456
Construction in progress	1,381,872	275,394
	173,141,059	169,484,162
Less accumulated depreciation and amortization	(56,493,509)	(47,033,544)
	116,647,550	122,450,618
Contributions Receivable	6,821,945	6,517,119
Investments		
Held by Kansas University Endowment Association	33,520,828	29,437,264
Held by trustee under bond indenture	2,986,374	4,556,001
	36,507,202	33,993,265
Other Assets	1,236,389	866,350
Total assets	$ 200,430,847	$ 200,093,110

Liabilities and Net Assets

	2014	2013 *(Restated - Note 12)*
Current Liabilities		
Accounts payable	$ 3,240,875	$ 3,468,061
Accrued interest payable	510	163,452
Advance ticket sales	9,940,680	11,908,551
Current portion of athletic facilities revenue bond	1,550,000	1,311,173
Current portion of capital lease obligation	428,809	394,325
Current portion of long-term debt Jayhawk Tennis Center	2,398,200	654,075
Current portion of deferred revenue	766,635	924,968
Current portion of contribution payable	-	448,740
Other accrued expenses and current liabilities	4,783,010	4,186,963
Total current liabilities	23,108,719	23,460,308
Long-Term Debt		
Athletic facilities revenue bonds	39,664,438	40,603,854
Capital lease obligation	1,233,531	1,577,511
Notes payable	6,000,000	6,000,000
Long-term debt Jayhawk Tennis Center	-	1,805,880
	46,897,969	49,987,245
Contribution Payable	-	4,444,081
Deferred Revenue	4,206,065	4,990,270
Other Non-Current Liabilities	1,662,116	279,746
Total liabilities	75,874,869	83,161,650
Net Assets		
Unrestricted	60,453,546	58,871,600
Temporarily restricted	46,753,186	40,749,412
Permanently restricted	17,349,246	17,310,448
Total net assets	124,555,978	116,931,460
Total liabilities and net assets	$ 200,430,847	$ 200,093,110

Kansas Athletics, Incorporated and Subsidiary
Consolidated Statement of Activities
Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Gains and Other Support				
Contributions and grants, excluding capital-restricted	$ 16,347,622	$ 7,534,565	$ 38,798	$ 23,920,985
NCAA and Conference distributions	22,369,558			22,369,558
Ticket sales and handling fees	20,517,720			20,517,720
Broadcast and television	6,855,577			6,855,577
Apparel sponsorship	3,932,143			3,932,143
Concessions and merchandise	1,321,309			1,321,309
Licensing royalties	1,136,841			1,136,841
Student activity fees	1,080,062			1,080,062
Direct institutional support	1,484,313			1,484,313
Investment income	198,832	4,311,349		4,510,181
Jayhawk Tennis Center	453,350			453,350
Other revenue	2,548,130			2,548,130
Gain on extinguishment of debt	2,714,360			2,714,360
Net assets released from restrictions	10,905,658	(10,905,658)		-
Operating revenue, gains and other support	91,865,475	940,256	38,798	92,844,529
Contributions restricted for capital projects	-	5,063,518		5,063,518
Total revenue, gains and other support	91,865,475	6,003,774	38,798	97,908,047
Expenses and Losses				
Salaries and benefits	31,735,964			31,735,964
Grants - in - aid	11,146,894			11,146,894
Depreciation and amortization	9,426,105			9,426,105
Contractual services	6,658,653			6,658,653
Team travel	6,568,622			6,568,622
Facilities and maintenance	3,258,974			3,258,974
Equipment, uniforms and supplies	3,210,130			3,210,130
Game expenses	2,644,267			2,644,267
Interest expense	2,139,523			2,139,523
Guarantees paid to visiting teams	1,917,406			1,917,406
Recruiting expenses	1,717,460			1,717,460
Marketing and promotions	1,394,561			1,394,561
Jayhawk Tennis Center	641,143			641,143
Bad debt expense	790,657			790,657
Other operating expenses	7,033,170			7,033,170
Total expenses and losses	90,283,529			90,283,529
Increase in Net Assets	1,581,946	6,003,774	38,798	7,624,518
Net Assets, Beginning of Year	58,871,600	40,749,412	17,310,448	116,931,460
Net Assets, End of Year	$ 60,453,546	$ 46,753,186	$ 17,349,246	$ 124,555,978

Kansas Athletics, Incorporated and Subsidiary

Consolidated Statement of Activities

Year Ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(Restated - Note 12)			*(Restated - Note 12)*
Revenue, Gains and Other Support				
Contributions and grants, excluding capital-restricted	$ 18,305,802	$ 12,723,976	$ 969,259	$ 31,999,037
NCAA and Conference distributions	20,789,319			20,789,319
Ticket sales and handling fees	19,142,770			19,142,770
Broadcast and television	6,505,602			6,505,602
Apparel sponsorship	3,647,143			3,647,143
Concessions and merchandise	1,363,249			1,363,249
Licensing royalties	1,277,420			1,277,420
Student activity fees	1,104,748			1,104,748
Direct institutional support	1,765,878			1,765,878
Investment income	229,023	2,407,457		2,636,480
Jayhawk Tennis Center	536,294			536,294
Other revenue	1,885,477			1,885,477
Net assets released from restrictions	8,414,695	(8,414,695)		-
Operating revenue, gains and other support	84,967,420	6,716,738	969,259	92,653,417
Contributions restricted for capital projects	-	997,031	-	997,031
Total revenue, gains and other support	84,967,420	7,713,769	969,259	93,650,448
Expenses and Losses				
Salaries and benefits	30,603,788			30,603,788
Grants - in - aid	10,791,099			10,791,099
Depreciation and amortization	8,889,609			8,889,609
Contractual services	7,061,713			7,061,713
Team travel	6,601,009			6,601,009
Facilities and maintenance	3,402,734			3,402,734
Equipment, uniforms and supplies	2,371,455			2,371,455
Game expenses	2,067,408			2,067,408
Interest expense	2,336,037			2,336,037
Guarantees paid to visiting teams	1,679,877			1,679,877
Recruiting expenses	1,675,404			1,675,404
Marketing and promotions	1,456,415			1,456,415
Jayhawk Tennis Center	668,184			668,184
Bad debt expense	1,300,678			1,300,678
Other operating expenses	6,530,295			6,530,295
Total expenses and losses	87,435,705			87,435,705
Increase (Decrease) in Net Assets	(2,468,285)	7,713,769	969,259	6,214,743
Net Assets, Beginning of Year	61,339,885	33,035,643	16,341,189	110,716,717
Net Assets, End of Year	$ 58,871,600	$ 40,749,412	$ 17,310,448	$ 116,931,460

Kansas Athletics, Incorporated and Subsidiary

Consolidated Statements of Cash Flows

Years Ended June 30, 2014 and 2013

	2014	2013 *(Restated - Note 12)*
Operating Activities		
Change in net assets	$ 7,624,518	$ 6,214,743
Items not requiring (providing) operating activities cash flows		
Depreciation and amortization	9,527,009	8,987,847
Net realized and unrealized gains on investments	(4,147,375)	(2,288,903)
Impairment recognized on long-lived assets	-	158,628
Loss on disposal of property and equipment	4,590	-
Contributions received restricted for capital projects	(5,063,518)	(997,031)
Contributions received restricted for long-term investment	(38,798)	(969,259)
Gain on forgiveness of contributions payable	(4,704,477)	-
Loss on refunding of bonds	1,990,117	-
Changes in		
Accounts receivable	1,386,902	(2,590,528)
Contributions receivable	1,095,597	(5,276,073)
Prepaid expenses and other assets	(117,057)	94,489
Accounts payable and accrued expenses	1,194,572	(1,592,382)
Advance ticket sales	(1,967,871)	3,088,387
Contributions payable	(188,344)	(325,456)
Deferred revenue	(1,074,681)	(1,500,278)
Net cash provided by operating activities	5,521,184	3,004,184
Investing Activities		
Contributions to investments held by Kansas University Endowment Association	(28,939,265)	(27,077,913)
Withdrawals from investments held by Kansas University Endowment Association	26,970,664	23,222,903
Deposits to investments held by trustee under bond indenture	(3,315,935)	(3,068,199)
Withdrawals from investments held by trustee under bond indenture	3,315,943	3,318,205
Purchase of property and equipment	(3,203,966)	(1,397,813)
Net cash used in investing activities	(5,172,559)	(5,002,817)
Financing Activities		
Proceeds from contributions restricted for long-lived assets	3,738,475	2,325,177
Proceeds from contributions restricted for long-term investments	316,100	573,876
Proceeds from athletic facilities revenue bonds	41,214,438	-
Principal payments on athletic facilities revenue bonds	(41,780,000)	(1,260,000)
Principal payments on capital lease obligation	(411,662)	(768,735)
Principal payments on long-term debt	(61,755)	(59,152)
Deferred financing costs	(822,103)	-
Net cash provided by financing activities	2,193,493	811,166
Increase (Decrease) in Cash	2,542,118	(1,187,467)
Cash, Beginning of Year	3,351,394	4,538,861
Cash, End of Year	$ 5,893,512	$ 3,351,394
Supplemental Cash Flows Information		
Interest paid	$ 2,174,268	$ 2,346,813
Property and equipment purchases in accounts payable	478,971	82,102
Capital lease obligation incurred for equipment	102,166	1,260,000

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Kansas Athletics, Incorporated and Subsidiary (the Corporation) a Kansas not-for-profit corporation, operates under the administrative jurisdiction of the University of Kansas (the University) and is subject to all regulations and administrative policies of the University. The Corporation operates the varsity intercollegiate athletic program at the University in facilities that are owned by the University. The primary source of revenues and support for the program are athletic event ticket sales, conference revenue distributions and contributions.

Jayhawk Tennis Center, LLC (Jayhawk Tennis Center), a Kansas limited liability corporation, operates to manage the indoor and outdoor tennis facility utilized by the student athletes of the University of Kansas and the community of the city of Lawrence, Kansas. The primary sources of revenues for the facility are member dues, court time, lessons, clinics, facility rental and pro shop revenue.

Principles of Consolidation

The consolidated financial statements include the accounts of Kansas Athletics, Incorporated and its wholly owned subsidiary, Jayhawk Tennis Center, LLC (collectively, the Corporation). All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the 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.

Accounts Receivable

Accounts receivable are stated at the amount the Corporation expects to collect from balances outstanding. The Corporation provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Accounts receivable are ordinarily due 30 days after the issuance of the invoice. Accounts past due more than 90 days are considered delinquent. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer.

Contributions Receivable

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue. The Corporation provides an allowance for uncollectible contributions, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

Investments 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 cost.

The Corporation classifies funds that are available for immediate expenditure as current assets and funds invested in KU Endowment's long-term investment program and other investment funds as noncurrent assets.

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 cost.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Land improvements	39 years
Buildings	39 years
Improvements to State property	25 years
Furniture and equipment	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 $0 and $158,628 were recognized for the years ended June 30, 2014 and 2013, respectively, based on the discontinuation of a remodeling project. The loss is included in other operating expenses in the accompanying consolidated statements of activities.

Bond Issuance Costs

Costs incurred in connection with the issuance of bonds are capitalized and amortized using the effective-interest method over the term of the bonds. Bond issuance costs are included in other assets on the consolidated statements of financial position.

Advance Ticket Sales

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

Deferred Revenue

Revenue from fees for merchandise and multimedia is deferred and recognized over the periods to which the fees relate.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Corporation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Corporation in perpetuity.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as temporarily restricted and then released from restriction.

In-kind Contributions

The Corporation receives in-kind contributions of supplies and services from donors and others. It is the policy of the Corporation to record, as contribution revenue in the financial statements, the estimated fair value of these supplies and services received, and also to record a like amount of expense to reflect the immediate consumption of these supplies and services. Revenue and expense related to in-kind services are only recorded when the services received create or enhance nonfinancial assets or require specialized skills possessed by the individuals providing the service and the service would typically need to be purchased if not donated. For the years ended June 30, 2014 and 2013, $1,293,289 and $1,324,143, respectively, of in-kind supplies and services was received and consumed by the Corporation.

Broadcast and Television

Broadcast and television revenues represent marketing and media production and distribution services rights relating to the Corporation’s athletics programs. Revenues are recognized on a straight-line basis over the length of the contract period with the service provider.

Fair Value of Financial Instruments

Financial assets consist of cash, accounts receivable, contributions receivable and investments. Financial liabilities consist of bonds payable, capital lease obligations, notes payable and a contribution payable. The carrying amounts reported in the consolidated statements of financial position for these financial instruments approximate fair value. The Corporation’s fair value measurements relating to investments are further described in Note 3.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized below on a functional basis. Certain costs have been allocated among the program, management and general and fundraising categories based on management's estimate of usage and other methods.

	2014	2013
Program	$ 70,061,390	$ 68,379,518
Management and general	17,717,641	16,782,739
Fundraising	2,504,498	2,273,448
	$ 90,283,529	$ 87,435,705

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 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, 2014 and 2013 with respect to uncertain tax positions.

With a few exceptions, the Corporation is no longer subject to U.S. federal examinations by tax authorities for years before 2011.

Taxes Collected from Customers and Remitted to Governmental Authorities

Taxes collected from customers and remitted to governmental authorities are presented in the accompanying consolidated statements of activities on a net basis.

Transfers Between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the period ending date.

Reclassifications

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 financial statement presentation. These reclassifications had no effect on the change in net assets.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report on Consolidated Financial Statements, which is the date the consolidated financial statements were available to be issued.

Note 2: Contributions Receivable

Contributions receivable at June 30, 2014 and 2013 consisted of the following unconditional promises to give discounted at a rate of 4%:

	2014	2013
Due within one year	$ 15,157,181	$ 15,329,462
Due in one to five years	7,364,541	7,106,396
	22,521,722	22,435,858
Less unamortized discount	542,596	589,277
Less allowance for uncollectible accounts	1,205,151	1,024,750
	$ 20,773,975	$ 20,821,831

Contributions receivable are classified within the consolidated statements of financial position as follows:

	2014	2013
Contributions receivable - current	$ 13,952,030	$ 14,304,712
Contributions receivable - non-current	6,821,945	6,517,119
	$ 20,773,975	$ 20,821,831

Note 3: Investments

Investments at June 30, 2014 and 2013 consisted of the following:

	2014	2013
Held by Kansas University Endowment Association		
Cash	$ 14,464,375	$ 12,406,758
Long-term investment pool	31,179,763	27,133,824
Bond fund	1,422,595	1,391,152
Real estate	801,610	820,633
	47,868,343	41,752,367
Held by Trustee Under Bond Indenture		
Money market mutual funds	1,566,899	3,136,526
Guaranteed investment contract	1,419,475	1,419,475
	2,986,374	4,556,001
Total investments	$ 50,854,717	$ 46,308,368

Investments are classified within the consolidated statements of financial position as follows:

	2014	2013
Investments held by Kansas University Endowment Association		
Current	$ 14,347,515	$ 12,315,103
Noncurrent	33,520,828	29,437,264
Investments held by trustee under bond indenture	2,986,374	4,556,001
	$ 50,854,717	$ 46,308,368

Total investment return is comprised of the following:

	2014	2013
Interest and dividend income	$ 362,806	$ 347,577
Net realized and unrealized gains	4,147,375	2,288,903
	$ 4,510,181	$ 2,636,480

Investments Held by Kansas University Endowment Association

The Kansas University Endowment Association (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.

KU Endowment invests the funds in accordance with its investment policies and procedures. The following is a description of the investment funds held at KU Endowment:

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 net 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 program (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 governmental securities. Investments are recorded at fair value and investment earnings are allocated on a market-value unit basis.

Real Estate

Real estate represents property that is held by KU Endowment on behalf of the Corporation and is recorded at cost.

Investments Held by Trustee Under Bond Indenture

In connection with the Athletic Facilities Revenue Bonds discussed in Note 6, the Corporation is required to maintain funds in certain debt service reserve accounts pursuant to the bond agreements.

Recurring Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

The determination of where an asset or a liability falls in the hierarchy requires significant judgment. The Corporation evaluates its hierarchy disclosures for each reporting period; based on various factors; it is possible that an asset or a liability may be classified differently from one reporting period to another. However, the Corporation expects that changes in classifications between different levels will be rare.

The asset’s or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There have been no significant changes in the valuation techniques during the year ended June 30, 2014.

The following table presents the fair value measurements of assets and liabilities 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, 2014 and 2013:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2014				
Investments held by the Kansas University Endowment Association:				
Long-term investment pool	$ 31,179,763	$ -	$ 31,179,763	$ -
Bond fund	1,422,595	-	1,422,595	-
Investments held by trustee under bond indenture:				
Money market mutual funds	1,566,899	1,566,899	-	-
June 30, 2013				
Investments held by the Kansas University Endowment Association:				
Long-term investment pool	$ 27,133,824	$ -	$ 27,133,824	$ -
Bond fund	1,391,152	-	1,391,152	-
Investments held by trustee under bond indenture:				
Money market mutual funds	3,136,526	3,136,526	-	-

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Note 4: Long-term Debt

Long-term debt at June 30, 2014 and 2013 consisted of the following:

	2014	2013
Revenue bonds, KDFA Series 2004K (A)	$ -	$ 11,060,000
Revenue bonds, KDFA Series 2008C (B)	-	30,720,000
Revenue bonds, KDFA Series 2014F (C)	39,430,000	-
Note payable, donor (D)	6,000,000	6,000,000
Note payable, bank (E)	1,805,931	1,867,686
Note payable, bank (F)	592,269	592,269
Capital lease obligation (G)	1,662,340	1,971,836
	49,490,540	52,211,791
Unamortized premium on bonds	1,784,438	135,027
	51,274,978	52,346,818
Less current maturities	4,377,009	2,359,573
	$ 46,897,969	$ 49,987,245

(A) The Athletic Facilities Revenue Bonds, Series 2004K, were issued by the Kansas Development Finance Authority during the year ended June 30, 2005 in the original amount of $17,830,000. These tax-exempt bonds were legally defeased during the year ended June 30, 2014 in connection with the issuance of the Series 2014F bonds as discussed in (C) below.

The Corporation was required to continually maintain at least $1,419,475 in a debt service reserve account for the period of time for which principal and interest payments were required to be made on outstanding indebtedness. At June 30, 2013, the Corporation had investments held by a trustee of $1,454,671, which were designated as the debt service reserve. Funds in this reserve account were invested as permitted by the bond trust indenture, the earnings from which are transferred out of this account and applied towards the principal and interest payments.

(B) The Athletic Facilities Revenue Bonds, Series 2008C, were issued by the Kansas Development Finance Authority during the year ended June 30, 2009 in the original amount of $32,820,000. These tax-exempt bonds were legally defeased during the year ended June 30, 2014 in connection with the issuance of the Series 2014F bonds as discussed in (C) below.

The Corporation was required to continually maintain at least $3,101,153 in a debt service reserve account for the period of time for which principal and interest payments were required to be made on outstanding indebtedness. At June 30, 2013, the Corporation had investments held by a trustee of $3,101,308, which was designated as the debt service reserve. Funds in this reserve account were invested as permitted by the bond trust indenture, the earnings from which were transferred out of this account and applied towards the principal and interest payments.

(C) The Athletic Facilities Revenue Bonds, Series 2014F, were issued by the Kansas Development Finance Authority during the year ended June 30, 2014 in the original amount of $39,430,000. These bonds were issued for the purpose of refinancing the Series 2004K bonds and Series 2008C bonds to take advantage of favorable interest rates and reduce the amount of debt outstanding.

The Corporation entered into a loan agreement with the Kansas Development Finance Authority for repayment of the Series 2014F bonds. These tax-exempt bonds are secured by future revenues of the Corporation. Principal payments are due annually, ending in 2033. Interest is payable at various rates ranging from 3.00% to 4.00% per annum.

The Corporation is required to continually maintain at least $2,951,113 in a debt service reserve account for the period of time for which principal and interest payments are required to be made on outstanding indebtedness. At June 30, 2014, the Corporation had investments held by a trustee of $2,951,113, which were designated as the debt service reserve. Funds in this reserve account are invested as permitted by the bond trust indenture, the earnings from which are transferred out of this account and applied towards the principal and interest payments.

In conjunction with the refinancing, the Series 2004K bonds and Series 2008C bonds were legally defeased, and the write-off of a related deferred asset resulted in recognition of a loss of approximately $1,900,000, which is included in the gain on extinguishment of debt in the 2014 Consolidated Statement of Activities.

(D) Note payable to donor, due on or before January 2017; bears no interest and is unsecured. Subsequent to year-end, the donor forgave $1,375,000 of the note balance, which will result in a gain on the 2015 consolidated statements of activities.

(E) Note payable to bank, payable in monthly installments, including interest at 4.25%, through January 2015 with the remaining balance due February 2015, collateralized by property and equipment; interest calculated based on the weekly average yield on U.S. Treasury securities adjusted to a constant maturity of one year plus a margin of 3.0% not to be less than 4.25%.

(F) Revolving bank line of credit that provides for borrowing up to $600,000 and expires in 2015. Payable in monthly interest installments at 3.75%, through January 2015 with the outstanding principal balance and all accrued unpaid interest due January 2015; interest calculated based on the prime rate not to be less than 3.75%.

(G) Capital lease obligation for equipment expiring July 2019. Cost and accumulated depreciation at June 30, 2014 was $2,708,993 and $792,265, respectively.

Aggregate annual maturities of long-term debt and payments on capital lease obligations at June 30, 2014 are:

Year Ending June 30,	Revenue Bonds	Other Long-term Debt	Capital Lease Obligations	Total
2015	$ 1,550,000	$ 2,398,200	$ 480,423	$ 4,428,623
2016	1,495,000	-	481,162	1,976,162
2017	1,555,000	6,000,000	481,930	8,036,930
2018	1,620,000	-	329,121	1,949,121
2019	1,690,000	-	1,866	1,691,866
Thereafter	33,304,438	-	-	33,304,438
	$ 41,214,438	$ 8,398,200	1,774,502	51,387,140
Less capital lease interest			(112,162)	(112,162)
			$ 1,662,340	$ 51,274,978

Note 5: Contributions Payable

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. Since the Corporation had made an unconditional promise to make minimum payments to the University on an annual basis, the future contributions to the University had been recorded in the consolidated financial statements as a liability. The net present value of the liability recorded at June 30, 2013 was $4,892,821.

In 2014, the agreement was amended to relieve the Corporation of all future obligations. As a result, a gain of approximately $4,700,000 was recognized during 2014 and is included in the gain on extinguishment of debt in the Consolidated Statement of Activities. 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.

Note 6: Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2014 and 2013 are available for the following purposes or periods:

	2014	2013
Scholarships	$ 16,553,742	$ 13,559,456
Capital projects	6,079,068	4,876,045
Hall of Athletics	465,036	375,474
Athletics Air Service	131,492	83,164
Other	2,368,464	1,591,826
Time restricted	21,155,384	20,263,447
	$ 46,753,186	$ 40,749,412

Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2014 and 2013 are restricted to:

	2014	2013
James Davis, Jr. Scholarship Fund	$ 5,286,986	$ 5,286,986
Louis L. Ward Family Scholarship for Men's Basketball Fund	1,240,049	1,240,049
Harry and Clara Nielsen Scholarship Fund	1,203,877	1,203,877
Dr. Earl and Kathleen Merkel Athletic Scholarship Fund	838,550	793,550
Mike and Mary Nell Beatty Athletic Scholarship Fund	810,195	710,195
Jayhawk Track and Field Endowment Fund	736,736	736,736
Ed Hall Memorial Scholarship Fund	529,000	477,000
Richard C. King Athletic Scholarship Fund	430,329	405,329
Wilt Chamberlain Men's Basketball Scholarship Fund	342,895	342,895
Wint Winter Athletic Scholarship Fund	325,144	299,200
Gladys and Dale Gordon Scholarship Fund	251,552	251,552
Bower's Family Men's Basketball Scholarship	246,673	246,673
W.R. Murfin Memorial Athletic Scholarship Fund	238,000	238,000
Kenneth and Ruth Hamilton Athletic Scholarship Fund	219,601	219,601
Other funds under $200,000 each	4,649,659	4,858,805
	$ 17,349,246	$ 17,310,448

Net Assets Released from Restrictions

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

	2014	2013
Scholarships	$ 8,312,564	$ 6,382,600
Hall of Athletics	-	148,777
Capital projects	1,962,280	382,694
Other	630,814	1,500,624
	$ 10,905,658	$ 8,414,695

Note 7: 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 management has interpreted the Uniform Prudent Management of Institutional Funds Act as adopted in the state of Kansas (UPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Corporation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Corporation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

The composition of donor-restricted endowment funds by net asset restriction and the changes in donor-restricted endowment net assets for the years ended June 30, 2014 and 2013 were:

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (32,568)	$ 10,637,521	$ 17,310,448	$ 27,915,401
Investment return:				
Investment income	-	228,276	-	228,276
Net appreciation	27,695	3,429,187	-	3,456,882
Total investment return	27,695	3,657,463	-	3,685,158
Contributions	-	-	38,798	38,798
Appropriation of endowment assets for expenditure	-	(1,055,148)	-	(1,055,148)
Endowment net assets, end of year	$ (4,873)	$ 13,239,836	$ 17,349,246	$ 30,584,209

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (85,058)	$ 9,803,209	$ 16,341,189	$ 26,059,340
Investment return:				
Investment income	-	217,677	-	217,677
Net appreciation	52,490	1,832,553	-	1,885,043
Total investment return	52,490	2,050,230	-	2,102,720
Contributions	-	-	969,259	969,259
Appropriation of endowment assets for expenditure	-	(1,215,918)	-	(1,215,918)
Endowment net assets, end of year	$ (32,568)	$ 10,637,521	$ 17,310,448	$ 27,915,401

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at June 30, 2014 and 2013, was:

	2014	2013
Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or UPMIFA	$ 17,349,246	$ 17,310,448
Temporarily restricted net assets - portion of perpetual endowment funds subject to a time restriction under UPMIFA with purpose restrictions	$ 13,239,836	$ 10,637,521

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.

Effective February 1, 2013, 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% 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% floor and a 5.44% cap of the trailing four-quarter average market value. Prior to February 1, 2013, the annual distribution amount had been based on a rate of 4.6% of the 12-quarter average market value as of September of each year. In February of 2009, spending was reduced by 10% and held constant through January 31, 2013 due to market volatility.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the amount given by the donor. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. These deficiencies totaled $4,873 and $32,568 at June 30, 2014 and 2013, respectively. In accordance with UPMIFA, the Corporation and KU Endowment together consider whether to continue spending from accounts that are in a deficiency position, to ensure that the donor expectation for permanency of the funds is not jeopardized.

Note 8: 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.

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, 2014 and 2013 were $1,484,313 and $1,765,878, respectively, and are recorded as revenue and expense within the accompanying consolidated statements of activities.

The Corporation pays the University for tuition and housing for student athletes. Amounts paid to the University for tuition and housing were $6,198,285 and $1,462,030 in 2014 and $6,226,576 and $1,101,786 in 2013, respectively, and is included in the grants-in-aid expense on the consolidated statements of activities.

Total trade payables due to the University and related entities were $2,003,672 and $2,377,321 at June 30, 2014 and 2013, respectively, and are included in accounts payable. Total trade receivables due from the University and related entities were $31,490 and $18,516 at June 30, 2014 and 2013, respectively, and are included in accounts receivable.

Investment management fees paid to KU Endowment during 2014 and 2013 were $249,208 and $239,918, respectively.

Note 9: Operating Leases

Noncancellable operating leases for facilities and equipment expire in various years through 2024. Future minimum lease payments under operating leases are:

Year Ending June 30,	Amount
2015	$ 2,093,219
2016	2,036,089
2017	2,009,298
2018	1,947,463
2019	1,901,473
Thereafter	46,489,554
	$ 56,477,096

Rental expense for all operating leases was $542,412 and $415,664 for the years ended June 30, 2014 and 2013, respectively.

On October 12, 2012, the Corporation entered into an agreement to lease land and athletic facilities for a period of 30 years, with options to extend the lease up to another 20 years. The facilities, which consist of a track and field stadium, a soccer stadium, and a softball stadium, will be constructed at the lessor's expense. Lease payments of $1,300,000 per year commenced in July 2014 and are included in the future minimum lease schedule above.

Note 10: Pension and Other Postretirement Benefit Plans

The Corporation provides a retirement annuity program for employees who meet certain length of service requirements. The Corporation contributes toward an annuity contract for each eligible employee an amount equal to 8.50% and the employee contributes 5.50% of the employee's annual salary. The Corporation's expense related to this plan was $1,362,103 and $1,272,100 for the years ended June 30, 2014 and 2013, respectively.

Note 11: Significant Estimates and Concentrations

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, 2014 and 2013, the Corporation's cash accounts exceeded federally insured limits by approximately $6,000,000 and $3,936,000, respectively.

Contributions Receivable

Significant estimates for contributions receivable are described in Note 1. Approximately 18% and 22% of contributions receivable are from one donor as of June 30, 2014 and 2013, respectively.

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 3.

Property and Equipment

Significant estimates relating to property and equipment are described in Note 1.

Note 12: Restatement of Prior Year Financial Statements

During 2014, the Corporation determined that a previously established agreement with the University to utilize certain facilities owned by the State met the criteria of a lease agreement under Accounting Standards Codification Section 840. Under this guidance, costs incurred for leasehold improvements shall be capitalized and amortized over the life of the lease. Previously, the Corporation had shown all improvements to State owned assets as transfers to the University in the year that the improvements were made. The 2013 consolidated financial statements have been restated to reflect the improvements to State property and accumulated amortization incurred since the lease inception date. The following financial statement line items were affected by the restatement.

	As Originally Reported	Effect of Change	Other Changes in Presentation	As Adjusted
Consolidated Statement of Financial Position				
Land and improvements	$ -	$ -	$ 1,044,401	$ 1,044,401
Buildings	-	-	7,488,361	7,488,361
Improvements to State property	-	149,684,840	1,090,710	150,775,550
Furniture and fixtures	-	-	9,900,456	9,900,456
Construction in progress	-	-	275,394	275,394
Gross property and equipment	-	149,684,840	19,799,322	169,484,162
Less accumulated depreciation and amortization	-	(41,308,553)	(5,724,991)	(47,033,544)
Property and equipment, net of accumulated depreciation and amortization	14,074,331	108,376,287	-	122,450,618
Total assets	91,716,823	108,376,287	-	200,093,110
Unrestricted net assets (deficit)	(49,504,687)	108,376,287	-	58,871,600
Total net assets	8,555,173	108,376,287	-	116,931,460
Total liabilities and net assets	91,716,823	108,376,287	-	200,093,110
Consolidated Statement of Activities				
Depreciation	$ 1,517,846	$ 7,371,763	$ -	$ 8,889,609
Total expenses and losses	80,063,942	7,371,763	-	87,435,705
Transfer of assets to the University	(192,035)	192,035	-	-
Increase (decrease) in net assets - unrestricted	4,903,478	(7,371,763)	-	(2,468,285)
Increase in net assets - total	13,394,471	(7,179,728)	-	6,214,743
Net assets (deficit), beginning of the year - unrestricted	(54,216,130)	115,556,015	-	61,339,885
Net assets (deficit), beginning of the year - total	(4,839,298)	115,556,015	-	110,716,717
Consolidated Statement of Cash Flows				
Change in net assets	$ 13,394,471	$ (7,179,728)	$ -	$ 6,214,743
Depreciation and amortization	1,616,084	7,371,763	-	8,987,847
Transfers of property and equipment to University	192,035	(192,035)	-	-