

Alumni Association

2019 Financial Statements



University of Kentucky
Alumni Association
A Component Unit of the University of Kentucky
Financial Statements
Years Ended June 30, 2019 and 2018

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**UNIVERSITY OF KENTUCKY
ALUMNI ASSOCIATION
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018**

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 676,665	\$ 362,297
Accounts receivable	44,959	31,507
Royalty receivable	26,245	25,357
Accrued interest receivable	85,283	83,177
Prepaid expenses	34,494	32,473
Total current assets	867,646	534,811
Long-term investments	22,826,164	21,740,353
Royalty receivable	55,278	81,523
Equipment, furniture, and vehicles		
Less accumulated depreciation of \$427,743 and \$414,711 for 2019 and 2018, respectively	58,073	24,001
Total assets	\$ 23,807,161	\$ 22,380,688
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Athletic ticket and other deposits	\$ 30,731	\$ 55,947
Accounts payable	67,922	1,358
Deferred revenue	26,276	26,276
Total current liabilities	124,929	83,581
Deferred revenue	52,552	78,828
Total liabilities	177,481	162,409
NET ASSETS		
Without donor restrictions		
Undesignated	190,591	294,187
Designated by the Board for operating reserve - endowment	822,191	845,939
Designated by the Board for endowment	22,528,825	21,024,152
Invested in property and equipment, net of related debt	58,073	24,001
Total net assets without donor restrictions	23,599,680	22,188,279
With donor restrictions		
Perpetual in nature	30,000	30,000
Total net assets with donor restrictions	30,000	30,000
Total net assets	23,629,680	22,218,279
Total liabilities and net assets	\$ 23,807,161	\$ 22,380,688

See notes to financial statements

**UNIVERSITY OF KENTUCKY
ALUMNI ASSOCIATION
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND OTHER ADDITIONS			
Contributions			
University of Kentucky	\$ 1,939,026	\$ —	\$ 1,939,026
Membership dues	866,628	—	866,628
Alumni projects	503,024	—	503,024
Royalties	285,678	—	285,678
Gifts and contributions	11,740	—	11,740
Advertising	85,120	—	85,120
Fundraising, net of expenses of \$3,750	17,737	—	17,737
Net investment return	2,026,884	—	2,026,884
Total revenues and other additions	<u>5,735,837</u>	<u>—</u>	<u>5,735,837</u>
EXPENSES			
Program services			
Alumni relations	2,010,873	—	2,010,873
Publications	910,040	—	910,040
Awards and scholarships	67,532	—	67,532
Total program services	<u>2,988,445</u>	<u>—</u>	<u>2,988,445</u>
Gifts to UK and its affiliated corporations	244,109	—	244,109
Management and general expenses	1,091,882	—	1,091,882
Total expenses	<u>4,324,436</u>	<u>—</u>	<u>4,324,436</u>
Change in net assets	1,411,401	—	1,411,401
NET ASSETS, beginning of year	<u>22,188,279</u>	<u>30,000</u>	<u>22,218,279</u>
NET ASSETS, end of year	<u>\$23,599,680</u>	<u>\$ 30,000</u>	<u>\$23,629,680</u>

See notes to financial statements

**UNIVERSITY OF KENTUCKY
ALUMNI ASSOCIATION
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018**

	Without Donor <u>Restrictions</u>	With Donor Restrictions	<u>Total</u>
REVENUES AND OTHER ADDITIONS			
Contributions			
University of Kentucky	\$ 1,668,488	\$ —	\$ 1,668,488
Membership dues	710,841	—	710,841
Alumni projects	463,367	—	463,367
Royalties	263,703	—	263,703
Gifts and contributions	5,151	—	5,151
Advertising	64,200	—	64,200
Fundraising, net of expenses of \$5,809	10,331	—	10,331
Net investment return	1,255,771	—	1,255,771
Total revenues and other additions	<u>4,441,852</u>	<u>—</u>	<u>4,441,852</u>
EXPENSES			
Program services			
Alumni relations	1,635,182	—	1,635,182
Publications	804,689	—	804,689
Awards and scholarships	67,042	—	67,042
Total program services	<u>2,506,913</u>	<u>—</u>	<u>2,506,913</u>
Gifts to UK and its affiliated corporations	93,645	—	93,645
Management and general expenses	1,176,136	—	1,176,136
Total expenses	<u>3,776,694</u>	<u>—</u>	<u>3,776,694</u>
Change in net assets	665,158	—	665,158
NET ASSETS, beginning of year	<u>21,523,121</u>	<u>30,000</u>	<u>21,553,121</u>
NET ASSETS, end of year	<u>\$22,188,279</u>	<u>\$ 30,000</u>	<u>\$22,218,279</u>

See notes to financial statements

**UNIVERSITY OF KENTUCKY
ALUMNI ASSOCIATION
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,411,401	\$ 665,158
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	13,032	8,076
Net realized and unrealized gains on investments	(1,651,258)	(919,119)
Changes in asset and liability accounts:		
Athletic ticket and other deposits	(25,216)	38,317
Accounts and accrued interest receivable	(15,558)	(16,387)
Accounts payable	66,564	(5,316)
Deferred revenue	(26,276)	105,104
Prepaid expenses	(2,021)	823
Royalty receivable	25,357	(106,880)
Net cash used in operating activities	<u>(203,975)</u>	<u>(230,224)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of equipment, furniture, and vehicles	(47,104)	(23,548)
Proceeds from sales and maturities of investments	2,291,240	3,743,663
Purchase of investments	(1,725,793)	(4,001,497)
Net cash provided by (used in) investing activities	<u>518,343</u>	<u>(281,382)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	314,368	(511,606)
CASH AND CASH EQUIVALENTS, beginning of year	<u>362,297</u>	<u>873,903</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 676,665</u>	<u>\$ 362,297</u>

See notes to financial statements

**UNIVERSITY OF KENTUCKY
ALUMNI ASSOCIATION
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The University of Kentucky Alumni Association (the Association) was incorporated as a non-profit organization in the Commonwealth of Kentucky to foster intellectual and emotional fellowship through quality services, programs and benefits. The Association provides an on-going connection between the alumni and the University of Kentucky (the University) community while developing positive goodwill, support and loyalty to the University.

Effective July 1, 2018, the University and the Association adopted a new operating model which resulted in increased integration between the two entities. As a result, the Association is considered a component unit of the University.

Basis of Presentation

The two net asset categories as reflected in the accompanying financial statements are as follows:

Without donor restrictions

- Net assets that are free of donor-imposed restrictions. This category includes realized and unrealized gains on endowment and other long-term investments for which the use has not been specifically restricted by the donor. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board designated endowment. The Association's policy is to reinvest such earnings for future growth.

With donor restrictions

- Net assets whose use by the Association is limited by donor-imposed stipulations. Some 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 restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Summary of Significant Accounting Policies

Cash and Cash Equivalents. Cash and cash equivalents include investments with an original maturity of three months or less.

At June 30, 2019, the Association's cash accounts did not exceed federally insured limits.

Investments and Investments Return. Investments in equity securities with readily determinable fair values and investments in debt securities are stated at fair value. Other investments are valued at the lower cost or fair value. Certificates of deposit are stated at cost plus accrued interest, which approximates market value.

Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments, less external investment expenses. 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 without donor restrictions. Other investment return is reflected in the statement of activities with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

Equipment, Furniture and Vehicles. Equipment, furniture and vehicles are stated at cost or fair value at the date of gift, if donated, less accumulated depreciation. Those items with a unit cost of \$1,000 or more and having an estimated useful life of greater than one year are capitalized. Depreciation is computed by the straight-line method over the estimated useful lives of the assets, generally 3-10 years.

Long-lived Asset Impairment. The Association evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended June 30, 2019 and 2018.

Use of Estimates. Financial statements prepared in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

Income Taxes. The Association is exempt from income tax under section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the Association is subject to federal income taxes on any unrelated business taxable income. The Association files tax returns in the U.S. federal jurisdiction.

Royalties Receivable and Deferred Revenue. During fiscal year 2017, the Association entered into an agreement with Central Bank to provide a list of members' data in exchange for payments to be received from fiscal year 2018 through fiscal year 2022. The total of \$131,380 will be recognized over the contract term on a straight-line basis, with \$26,276 recognized as revenue in both 2019 and 2018 and the remaining \$78,828 and \$105,104 as of June 30, 2019 and 2018, respectively, recorded as deferred revenue. This agreement was reached with Central Bank in conjunction with a contract between JMI and Central Bank. The Association will also receive an additional amount of revenue each year should JMI pay Central Bank an additional revenue share exceeding the guaranteed payment amounts of revenue agreed to in the contract between JMI and Central Bank based on credit card usage as defined in the agreement.

Contributions. Gifts of cash and other assets received without donor stipulations are reported as revenues and net assets without donor restrictions. Gifts received with donor stipulations that limit their use are reported as revenues and net assets with donor restrictions. When a donor-stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statements of Activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as revenues and net assets without donor restrictions.

Gifts to the Alumni Scholars Endowment, Alumni Center Fund, and to Alumni Clubs accounts are recognized as gifts to the University, not the Association. Gifts to the Wildcat Society Fund are recognized as revenues without donor restrictions of the Association, and are included in contributions from the University in the Statements of Activities.

Contributed Services. Contributions of services are recognized as revenue at their estimated fair value only 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. Contributions of service include services received from personnel of the University.

In-kind Contributions. In addition to receiving cash contributions, the Association receives in-kind contributions. It is the policy of the Association to record the estimated fair value of certain in-kind donations as an expense in its financial statements, and similarly increase contribution revenue by a like amount.

Concentrations of Credit Risk. The Association maintains cash deposits, including checking and money market accounts and certificates of deposit, in banks insured by the Federal Deposit Insurance Corporation (FDIC), with insurance limits of \$250,000 at each FDIC insured institution; state law requires that deposits in excess of this coverage be fully collateralized. Investments are maintained in a brokerage account insured by the Securities Investor Protection Corporation (SPIC) against brokerage firm insolvency or other non-market related legal events up to \$500,000 per customer of which \$100,000 is for un-invested cash.

Functional Allocation of Expenses. The costs of supporting the various programs and other activities have been summarized on a functional basis in the Statements of Activities.

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 actual transfer date.

Revision. Certain immaterial revisions have been made to the 2018 financial statements to present in-kind contribution for utilities from the University within revenue and expenses. These revision did not have a significant impact on the financial statement line items impacted.

Future Changes in Accounting Principles. The Financial Accounting Standards Board issued Accounting Standards Update No. 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing transactions effective for fiscal years beginning after December 15, 2019.

The Financial Accounting Standards Board (FASB) amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for nonpublic entities for annual periods beginning after December 15, 2018, and any interim periods within annual reporting periods that begin after December 15, 2019. The Association is in the process of evaluating the effect the amendment will have on the financial statements.

Additionally, FASB issued guidance clarifying whether a transaction with a resource provider, e.g., the receipt of funds under a government grant or contract, is a contribution or an exchange transaction. The guidance requires all organizations to evaluate whether the resource provider is receiving commensurate value in a transfer of assets transaction, and whether contributions are conditional or unconditional. If commensurate value is received by the resource provider, the transaction would be accounted for as an exchange transaction by applying Topic 606, Revenue from Contracts with Customers, or other topics. The standard clarifies that a resource provider is not synonymous with the general public. Indirect benefit received by the public as a result of the assets transferred is not equivalent to commensurate value received by the resource provider. If commensurate value is not received by the resource provider, i.e., the transaction is non-exchange, the recipient organization would record the transaction as a contribution under Topic 958 and determine whether the contribution is conditional or unconditional. For nonpublic entities, the standard will be effective for reporting periods beginning on or after December 15, 2018.

The Association is in the process of evaluating the impact these future changes will have on the financial statements.

Subsequent Events. Subsequent events have been evaluated through **XXXXXX XX, 2019**, which is the date the financial statements were available to be issued.

Change in Accounting Principle. In 2019, the Association adopted ASU 2016-14, Not-For-Profit Entities (Topic 958): Presentation of Financial Statement of Not-For-Profit Entities. A summary of the changes is as follows:

Statement of Financial Position

- The statement of financial position distinguishes between two new classes of net assets - those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets - unrestricted, temporarily restricted and permanently restricted.

Statement of Activities

- Expenses are reported by both nature and function in one location (see Note 10).
- Investment income is shown net of external investment expenses. Disclosure of the expenses netted against investment income is no longer required.

Notes of the Financial Statements

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one-year from the date of the Statement of Financial Position.
- Amounts and purposes of Governing Board designations and appropriation as of the end of the period are disclosed.

This change had no impact on previously reported total change in net assets.

2. INVESTMENTS

The following table summarizes the fair value of the investments as of June 30, 2019 and 2018:

	2019	2018
U.S. government obligations	\$ 451,910	\$ 50,958
Corporate, municipal and foreign bonds	5,639,620	6,476,630
Common stocks		
Consumer discretionary	1,767,892	2,189,872
Financial common	2,725,135	2,413,276
Information technology	2,250,411	2,515,397
Other	3,794,851	2,313,345
Mutual funds		
Small cap	998,709	823,882
International	4,592,338	4,211,723
Exchange-traded funds	575,298	580,331
Certificates of deposit	—	164,939
Investment in the University's endowment pool	30,000	—
	\$ 22,826,164	\$ 21,740,353

Investments are classified as long-term assets on the Statements of Financial Position.

Components of investment return for the years ended June 30, 2019 and 2018 are as follows:

	2019	2018
Interest and dividends received	\$ 488,659	\$ 449,089
Realized gains and losses	276,183	381,928
Unrealized gains and losses	1,375,075	537,191
Investment expenses	(113,033)	(112,437)
Total	<u>\$ 2,026,884</u>	<u>\$ 1,255,771</u>

The Association 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 statements of financial position.

3. DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES

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. The standard describes 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 that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying 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, 2019:

	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)
U.S. government obligations	\$ 451,910	\$ —	\$ 451,910	\$ —
Corporate, municipal, and foreign bonds	5,639,620	—	5,639,620	—
Common stocks				
Consumer discretionary	1,767,892	1,767,892	—	—
Financial common	2,725,135	2,725,135	—	—
Information technology	2,250,411	2,250,411	—	—
Other	3,794,851	3,794,851	—	—
Mutual funds				
Small cap	998,709	998,709	—	—
International	4,592,338	4,592,338	—	—
Exchange traded funds	575,298	575,298	—	—
Investment in the University's endowment pool	30,000	—	—	30,000
Total assets at fair value	<u>\$ 22,826,164</u>	<u>\$ 16,704,634</u>	<u>\$ 6,091,530</u>	<u>\$ 30,000</u>

During 2019, the Association transferred \$30,000 to the University to be invested in the University's pooled endowment. There was no change to the fair value of the investment during 2019.

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying 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, 2018:

	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)
U.S. government obligations	\$ 50,958	\$ —	\$ 50,958	\$ —
Corporate, municipal, and foreign bonds	6,476,630	—	6,476,630	—
Common stocks				
Consumer discretionary	2,189,872	2,189,872	—	—
Financial common	2,413,276	2,413,276	—	—
Information technology	2,515,397	2,515,397	—	—
Other	2,313,345	2,313,345	—	—
Mutual funds				
Small cap	823,882	823,882	—	—
International	4,211,723	4,211,723	—	—
Exchange traded funds	580,331	580,331	—	—
Investment in the University's endowment pool	—	—	—	—
Total assets at fair value	<u>\$ 21,575,414</u>	<u>\$ 15,047,826</u>	<u>\$ 6,527,588</u>	<u>\$ —</u>

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2019.

- Common stocks are valued at the closing price reported on the active market on which the individual securities are traded.
- Corporate, municipal, and foreign bonds are valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.
- Mutual funds and exchange-traded funds are valued at the daily closing price as reported by the fund. Mutual funds and exchange-traded funds held by the Association are open-end mutual funds and exchange-traded funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price. The mutual funds and exchange-traded funds held by the Association are deemed to be actively traded.
- U.S. government obligations are valued using pricing models maximizing the use of observable inputs for similar securities.
- The Investment in University pooled endowment fund is derived based on the per unit calculation where all contributing endowments participate in the appreciation and income of the pool on a per unit basis commensurate with their contribution to the pool.

4. AVAILABLE RESOURCES AND LIQUIDITY

The Association regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Association has various sources of liquidity at its disposal, including cash and cash equivalents and marketable debt and equity securities.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Association considers all expenditures related to its ongoing mission-related activities as well as the conduct of services undertaken to support those activities to be general expenditures.

In addition to financial assets available to meet general expenditures over the next 12 months, the Association operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

As of June 30, 2019 and 2018, the total financial assets held by the Association and the amounts of those financial assets that could readily be made available within one year of the balance sheet date to meet general expenditures are as follows:

	2019	2018
Financial assets at year end		
Cash and cash equivalents	\$ 676,665	\$ 362,297
Accounts receivable	44,959	31,507
Royalty receivable	26,245	25,357
Accrued interest receivable	85,283	83,177
Investments convertible to cash in the next 12 months	822,191	845,939
Other long-term investments	21,973,973	20,894,414
Investments in university pooled endowment	30,000	—
Total	\$ 23,659,316	\$ 22,242,691
Financial assets available to meet general expenditures over the next 12 months		
Cash and cash equivalents	\$ 676,665	\$ 362,297
Accounts receivable	44,959	31,507
Royalty receivable	26,245	25,357
Payout on quasi-restricted endowments for use over next 12 months	822,191	845,939
Total	\$ 1,570,060	\$ 1,265,100

5. RELATED PARTY TRANSACTIONS

The Association cooperates with the University in maintaining alumni relations and records, including providing information about alumni members to the University. Certain employees of the University provide assistance in the operations and management of the Association. The fair value of the salaries and benefits of these University employees, reflected in the statements of activities as in-kind contributions from the University, totaled \$1,557,633 and \$1,268,488 in 2019 and 2018, respectively. The Association offices are housed in the Helen G. King Alumni House, which is owned by the University and used by the Association at no charge. The Association has

recognized the fair rental value of the house of \$381,393 and \$400,000, in 2019 and 2018, respectively, as in-kind contributions from the University in the statements of activities. Also, the Association has recognized the fair value of the utilities of \$38,516 and \$60,464, in 2019 and 2018, respectively, as in-kind contributions from the University in the statements of activities. Included in accounts receivable are amounts owed from the University of \$1,500 and \$0 in 2019 and 2018, respectively. Included in Athletic ticket and other deposits are amounts owed to the University of \$4,180 and \$450 in 2019 and 2018, respectively. The total contribution by the University to the Association was \$1,939,026 and \$1,668,488 in 2019 and 2018, respectively. In addition, Alumni held a \$30,000 and \$0 investment in the University's endowment investment pool in fiscal year ending June 30, 2019 and 2018, respectively.

The following expenses incurred by the Association were paid to the University during the years ended June 30, 2019 and 2018:

	2019	2018
Athletic tickets (alumni relations)	\$ 370,629	\$ 338,956
Gifts to the University and its affiliated corporations	244,109	93,645
Awards and scholarships	67,532	67,042
Total	\$ 682,270	\$ 499,643

6. RETIREMENT PLAN

Eligible staff members of the Association are participants in the University of Kentucky Retirement Plan. Under this plan, the Association and plan participants make contributions to provide retirement benefits for employees. All payments are vested immediately for employees hired before January 1, 2010. For employees hired after January 1, 2010, employer contributions are vested after three years. The Association contributes 10 percent of eligible compensation and employees contribute five percent of eligible compensation. The Association's share of the cost of these benefits was \$161,647 and \$122,613 in 2019 and 2018, respectively.

7. HEALTH INSURANCE BENEFITS FOR RETIREES

The University administers a single-employer defined benefit healthcare plan including medical and prescription drug benefits. The plan provides lifetime healthcare insurance benefits for eligible retirees and their surviving spouses. Human resources policies and procedures define retiree health benefits and can be amended by the President of the University as delegated by the University's Board of Trustees.

The University provides a pre-65 credit of up to 90% of the "true retiree" cost of the least expensive pre-65 medical plan. For post-65 benefits, the University provides a credit equal to 90% of the "true retiree" cost of the post-65 medical plan. However, retirees must pay the greater of \$25 per month or 10 percent of total plan cost.

The University has established a trust fund to segregate plan assets, and the contribution requirements of plan members and the University are established and may be amended by the president of the University. The University contributed to the other post-employment benefits (OPEB) trust based on funding policy contributions in accordance with the parameters of Government Accounting Standards Board Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

The Association has recognized its share of the contribution in employee benefit costs and has no additional liability for this benefit at June 30, 2019 and 2018.

8. NET ASSETS

Net assets without donor restrictions

Designated assets without donor restrictions include the Investment Fund and the Life Membership Fund. Investment Fund net assets are designated for investment as quasi-endowments. The Life Membership Fund net assets consist of proceeds from life membership dues. The Board of Director's (the Board) intention is to utilize the Life Membership Fund assets to support life membership expenses for annual dues. The Board's intention is to utilize the net assets of the Investment Fund for current operations. Each fund has been designated by the Board and is separated for investment purposes.

Net assets without donor restrictions as of June 30, 2019 and 2018 are as follows:

	2019	2018
Without donor restrictions		
Undesignated	\$ 190,591	\$ 294,187
Designated by the Board for operating reserve	822,191	845,939
Designated by the Board for endowment	22,528,825	21,024,152
Invested in property and equipment, net of related debt	58,073	24,001
Total	<u>\$ 23,599,680</u>	<u>\$ 22,188,279</u>

Net assets with donor restrictions

Net assets with donor restrictions include the Teague/Penniston Scholarship Fund, which has been restricted as to the nature of expenditures by the donor. An endowment fund has been established by the will of Colonel Lloyd E. Teague in the amount of \$30,000, the income from which is to be used to fund two scholarships. One scholarship is in the name of Colonel Lloyd E. Teague and the other is in the name of Colonel Louis T. Penniston. Scholarships are to be awarded annually.

Net assets with donor restrictions as of June 30, 2019 and 2018 are as follows:

	2019	2018
With donor restrictions		
Perpetual in nature	\$ 30,000	\$ 30,000
Total	<u>\$ 30,000</u>	<u>\$ 30,000</u>

9. ENDOWMENT

The Association's endowment consists of three individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the governing body to function as endowments (board-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Association has interpreted the Commonwealth of Kentucky Uniform Prudent Management of Institutional Funds Act (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 Association classifies as donor-restricted endowment funds (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 perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

In accordance with UPMIFA, the Association 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 Association 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 Association
7. Investment policies of the Association

The composition of net assets by type of endowment fund at June 30, 2019 and 2018 were as follows:

	2019		
	Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	\$ —	\$ 30,000	\$ 30,000
Board-designated endowment funds	23,351,016	—	23,351,016
Total	<u>\$ 23,351,016</u>	<u>\$ 30,000</u>	<u>\$ 23,381,016</u>
	2018		
	Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	\$ —	\$ 30,000	\$ 30,000
Board-designated endowment funds	21,870,091	—	21,870,091
Total	<u>\$ 21,870,091</u>	<u>\$ 30,000</u>	<u>\$ 21,900,091</u>

Changes in endowment net assets for the year ended June 30, 2019 were as follows:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	\$ 21,870,091	\$ 30,000	\$ 21,900,091
Investment return:			
Investment income	486,059	—	486,059
Net appreciation	1,651,258	—	1,651,258
Total	<u>2,137,317</u>	—	<u>2,137,317</u>
Appropriation of endowment assets for expenditure	(113,033)	—	(113,033)
Appropriation of endowment assets for operating expenditure - special allocation	<u>(543,359)</u>	—	<u>(543,359)</u>
Total	<u>\$ 23,351,016</u>	<u>\$ 30,000</u>	<u>\$ 23,381,016</u>

Changes in endowment net assets for the year ended June 30, 2018 were as follows:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	\$ 21,296,924	\$ 30,000	\$ 21,326,924
Investment return:			
Investment income	446,485	—	446,485
Net appreciation	919,119	—	919,119
Total	<u>1,365,604</u>	—	<u>1,365,604</u>
Appropriation of endowment assets for expenditure	(112,437)	—	(112,437)
Appropriation of endowment assets for operating expenditure - special allocation	<u>(680,000)</u>	—	<u>(680,000)</u>
Total	<u>\$ 21,870,091</u>	<u>\$ 30,000</u>	<u>\$ 21,900,091</u>

The donor-restricted net assets were invested in certificates of deposit or money market funds and the value did not fall below the original principal.

The Association has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the Association must hold in perpetuity or for donor-specified periods, as well as those of board-designated

endowment funds. Under the Association’s policies, endowment assets are invested in a manner that is intended to produce results that exceed the various sector benchmarks while assuming a low level of investment risk.

To satisfy its long-term rate of return objectives, the Association relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Association targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Association has a policy (the spending policy) based on the market value of the Investment Fund as of April 1 of the current year. Five percent of the fund will be budgeted in the following fiscal year’s general operating budget and up to an additional three percent of the fund may be earmarked for capital needs. The investment objective is to maximize total return of the fund over time, subject to risk constraints. A balance of equity and fixed income investments will be utilized. Equity investments are intended to provide long-term capital appreciation and a growing stream of income. Fixed income investments are intended to provide a stable stream of current income and to reduce the overall volatility of investment returns.

10. NATURAL CLASSIFICATION

The Association’s operating expenses by natural classification for the years ended June 30, 2019 and 2018 are as follows:

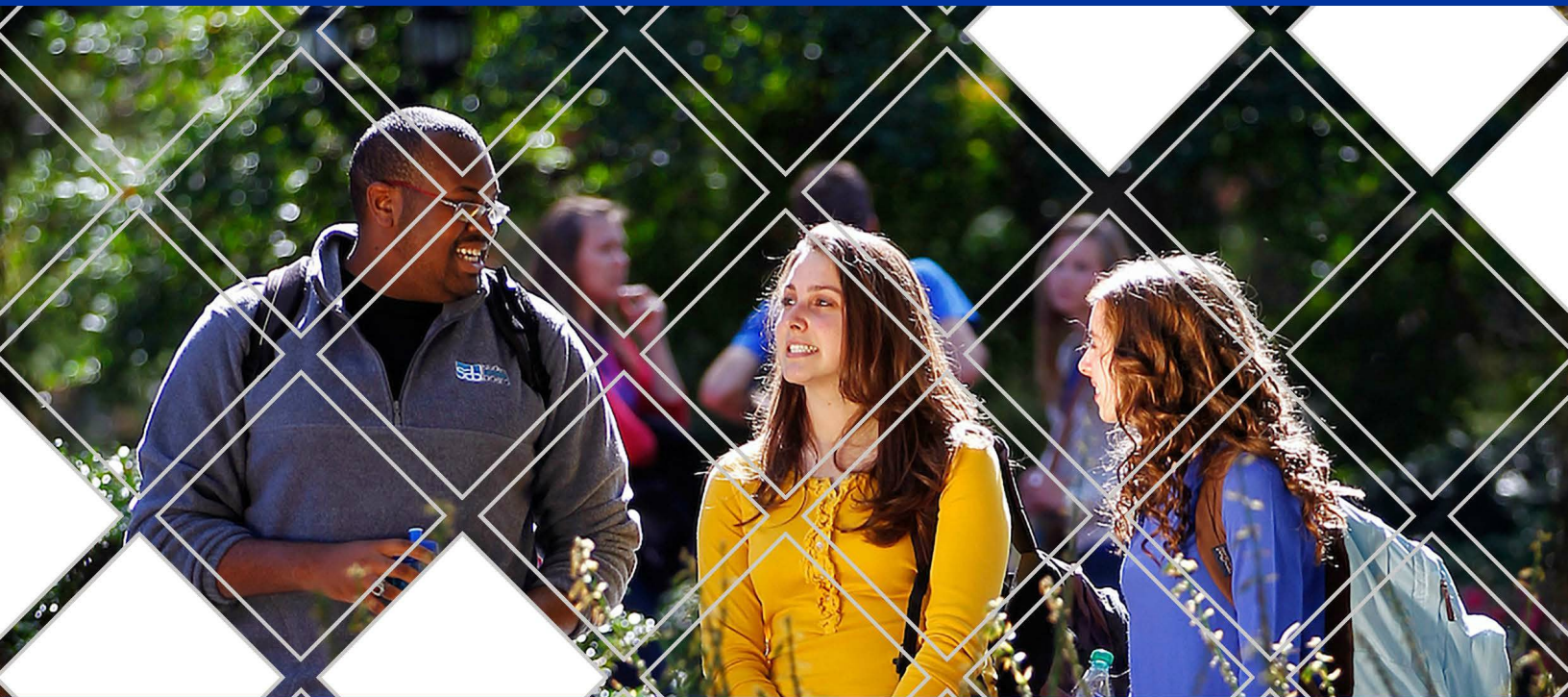
	2019					
	Alumni relations	Publications	Awards and scholarships	Gifts to UK and its affiliated corporations	Management and general expenses	Total
Salaries and wages	\$ 695,122	\$ 416,861	\$ —	\$ —	\$ 591,223	\$ 1,703,206
Employee benefits	220,468	147,319	—	—	150,496	518,283
Supplies and services	480,941	188,919	—	36,257	132,043	838,160
Depreciation	—	—	—	—	13,032	13,032
Student scholarships and financial aid	—	—	47,730	143,313	—	191,043
Utilities	11,783	13,479	—	—	13,254	38,516
Athletic tickets	370,629	—	—	—	—	370,629
Building rental	116,675	133,478	—	—	131,240	381,393
Other, various	115,255	9,984	19,802	64,539	60,594	270,174
Total	\$ 2,010,873	\$ 910,040	\$ 67,532	\$ 244,109	\$ 1,091,882	\$ 4,324,436

2018

	Alumni relations	Publications	Awards and scholarships	Gifts to UK and its affiliated corporations	Management and general expenses	Total
Salaries and wages	\$ 427,819	\$ 334,396	\$ —	\$ —	\$ 654,074	\$ 1,416,289
Employee benefits	142,575	112,381	—	—	172,138	427,094
Supplies and services	469,850	183,341	—	41,574	126,976	821,741
Depreciation	—	—	—	—	8,076	8,076
Student scholarships and financial aid	—	—	47,196	—	—	47,196
Utilities	18,497	21,161	—	—	20,806	60,464
Athletic tickets	338,955	—	—	—	—	338,955
Building rental	122,367	139,990	—	—	137,643	400,000
Other, various	115,119	13,420	19,846	52,071	56,423	256,879
Total	\$ 1,635,182	\$ 804,689	\$ 67,042	\$ 93,645	\$ 1,176,136	\$ 3,776,694

University Financial Services
301 Peterson Service Building
Lexington, KY 40506-0005

www.uky.edu/ufs/financial-statements-and-investor-information



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