



Alumni Association

UNIVERSITY OF KENTUCKY • 2023 FINANCIAL STATEMENTS

University of Kentucky
Alumni Association
A Component Unit of the University of Kentucky
Financial Statements
Years Ended June 30, 2023 and 2022

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Independent Auditor's Report

Board of Directors
University of Kentucky Alumni Association
Lexington, Kentucky

Opinion

We have audited the financial statements of the University of Kentucky Alumni Association, a not-for-profit corporation affiliated with and a component unit of the University of Kentucky, which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the University of Kentucky Alumni Association as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University of Kentucky Alumni Association's ability to continue as a going concern within one year after the date that these financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University of Kentucky Alumni Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University of Kentucky Alumni Association's ability to continue as a going concern for a reasonable period of time.

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

FORVIS, LLP

Louisville, Kentucky
October 5, 2023

**UNIVERSITY OF KENTUCKY
ALUMNI ASSOCIATION
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2023 AND 2022**

| | 2023 | 2022 |
|---|---------------|---------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 1,529,505 | \$ 3,484,852 |
| Accounts receivable, net | 270,541 | 186,324 |
| Prepaid expenses | 93,449 | 106,804 |
| Total current assets | 1,893,495 | 3,777,980 |
| Long-term investments | 25,200,438 | 22,947,321 |
| Accounts receivable | 129,953 | 48,632 |
| Equipment, furniture, and vehicles | | |
| Less accumulated depreciation of \$488,891 and \$479,753 for 2023 and 2022, respectively | 12,286 | 28,220 |
| Total assets | \$ 27,236,172 | \$ 26,802,153 |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Athletic ticket and other deposits | \$ 19,805 | \$ 48,694 |
| Accounts payable | 44,000 | 83,060 |
| Due to the University of Kentucky | 1,000,000 | 2,000,000 |
| Deferred revenue | 43,007 | 12,000 |
| Total current liabilities | 1,106,812 | 2,143,754 |
| NON-CURRENT LIABILITIES | | |
| Deferred revenue | 93,620 | — |
| Due to the University of Kentucky | — | 1,000,000 |
| Total liabilities | 1,200,432 | 3,143,754 |
| NET ASSETS | | |
| Without donor restrictions | | |
| Undesignated | 517,316 | 484,693 |
| Designated by the Board for operating reserve - endowment | 992,610 | 740,932 |
| Designated by the Board for endowment | 24,474,545 | 22,367,973 |
| Invested in property and equipment, net of related debt | 12,286 | 28,220 |
| Total net assets without donor restrictions | 25,996,757 | 23,621,818 |
| With donor restrictions | | |
| Perpetual in nature | 30,000 | 30,000 |
| Purpose restrictions | 8,983 | 6,581 |
| Total net assets with donor restrictions | 38,983 | 36,581 |
| Total net assets | 26,035,740 | 23,658,399 |
| Total liabilities and net assets | \$ 27,236,172 | \$ 26,802,153 |

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, 2023**

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|----------------------------------|----------------------------|---------------------|
| REVENUES AND OTHER ADDITIONS | | | |
| Contributions | | | |
| University of Kentucky - cash and other financial assets | \$ 793,924 | \$ — | \$ 793,924 |
| University of Kentucky - nonfinancial assets | 1,689,747 | — | 1,689,747 |
| Membership dues | 352,189 | — | 352,189 |
| Gifts and contributions | 95,065 | — | 95,065 |
| Fundraising, net of expenses of \$2,296 | 14,671 | — | 14,671 |
| Alumni projects | 524,747 | — | 524,747 |
| Royalties | 241,299 | — | 241,299 |
| Advertising | 61,330 | — | 61,330 |
| Net investment return | 3,007,255 | 2,402 | 3,009,657 |
| Total revenues and other additions | <u>6,780,227</u> | <u>2,402</u> | <u>6,782,629</u> |
| EXPENSES | | | |
| Program services | | | |
| Alumni relations | 2,126,495 | — | 2,126,495 |
| Publications | 1,031,109 | — | 1,031,109 |
| Awards and scholarships | 53,546 | — | 53,546 |
| Total program services | <u>3,211,150</u> | <u>—</u> | <u>3,211,150</u> |
| Gifts to the University of Kentucky | 133,065 | — | 133,065 |
| Management and general expenses | 1,061,073 | — | 1,061,073 |
| Total expenses | <u>4,405,288</u> | <u>—</u> | <u>4,405,288</u> |
| Change in net assets | 2,374,939 | 2,402 | 2,377,341 |
| NET ASSETS, beginning of year | <u>23,621,818</u> | <u>36,581</u> | <u>23,658,399</u> |
| NET ASSETS, end of year | <u>\$25,996,757</u> | <u>\$ 38,983</u> | <u>\$26,035,740</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, 2022**

| | Without Donor <u>Restrictions</u> | With Donor <u>Restrictions</u> | <u>Total</u> |
|---|---|-----------------------------------|----------------------------|
| REVENUES (LOSSES) AND OTHER ADDITIONS (DEDUCTIONS) | | | |
| Contributions | | | |
| University of Kentucky - cash and other financial assets | \$ 715,216 | \$ — | \$ 715,216 |
| University of Kentucky - nonfinancial assets | 1,538,229 | — | 1,538,229 |
| Membership dues | 357,638 | — | 357,638 |
| Gifts and contributions | 49,096 | — | 49,096 |
| Fundraising, net of expenses of \$3,066 | 17,834 | — | 17,834 |
| Alumni projects | 408,719 | — | 408,719 |
| Royalties | 252,524 | — | 252,524 |
| Advertising | 58,305 | — | 58,305 |
| Net investment return | <u>(3,525,173)</u> | <u>(2,567)</u> | <u>(3,527,740)</u> |
| Total revenues (losses) and other additions (deductions) | <u>(127,612)</u> | <u>(2,567)</u> | <u>(130,179)</u> |
| EXPENSES | | | |
| Program services | | | |
| Alumni relations | 1,851,693 | — | 1,851,693 |
| Publications | 914,386 | — | 914,386 |
| Awards and scholarships | 69,153 | — | 69,153 |
| Total program services | <u>2,835,232</u> | <u>—</u> | <u>2,835,232</u> |
| Gifts to the University of Kentucky | 3,080,689 | — | 3,080,689 |
| Management and general expenses | <u>1,021,186</u> | <u>—</u> | <u>1,021,186</u> |
| Total expenses | <u>6,937,107</u> | <u>—</u> | <u>6,937,107</u> |
| Change in net assets | (7,064,719) | (2,567) | (7,067,286) |
| NET ASSETS, beginning of year | <u>30,686,537</u> | <u>39,148</u> | <u>30,725,685</u> |
| NET ASSETS, end of year | <u><u>\$23,621,818</u></u> | <u><u>\$ 36,581</u></u> | <u><u>\$23,658,399</u></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, 2023 AND 2022**

| | <u>2023</u> | <u>2022</u> |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | \$ 2,377,341 | \$ (7,067,286) |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: | | |
| Depreciation | 15,934 | 18,861 |
| Net realized and unrealized (gains) losses on investments | (2,590,974) | 3,973,794 |
| Changes in asset and liability accounts: | | |
| Athletic ticket and other deposits | (28,889) | 38,987 |
| Accounts receivable, net | (165,538) | 69,331 |
| Accounts payable | (39,060) | 10,668 |
| Due to the University of Kentucky | (2,000,000) | 3,000,000 |
| Deferred revenue | 124,627 | (14,276) |
| Prepaid expenses | 13,355 | (15,070) |
| Net cash provided (used) in operating activities | <u>(2,293,204)</u> | <u>15,009</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of equipment, furniture, and vehicles | — | (5,912) |
| Proceeds from sales and maturities of investments | 3,231,709 | 11,166,531 |
| Purchase of investments | (2,893,852) | (8,318,405) |
| Net cash provided by investing activities | <u>337,857</u> | <u>2,842,214</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (1,955,347) | 2,857,223 |
| CASH AND CASH EQUIVALENTS, beginning of year | <u>3,484,852</u> | <u>627,629</u> |
| CASH AND CASH EQUIVALENTS, end of year | <u>\$ 1,529,505</u> | <u>\$ 3,484,852</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, 2023 AND 2022**

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 dual reporting/funding 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 all liquid investments with an original maturity of three months or less. Uninvested cash and cash equivalents included in investment accounts, including endowment accounts, are considered to be cash and cash equivalents.

The Association's cash deposits, in Federal Deposit Insurance Corporation (FDIC) insured financial institutions, are covered up to \$250,000 at each FDIC insured institution. The Association's cash equivalents are held in the Goldman Sachs Financial Square Treasury Solutions Fund and are not insured through FDIC.

At June 30, 2023, the Association's cash accounts exceeded federally insured limits by \$1,232,231.

Accounts receivable. Accounts receivable are stated at the amount of consideration from members, customers or partners of which the Association has an unconditional right to receive plus any accrued or unpaid interest where applicable. The Association provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Investments and Net Investment 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.

Net 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 the 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, 2023 and 2022.

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 2023, the Association entered into a new agreement with Central Bank to provide a list of members' data in exchange for payments to be received from fiscal year 2023 through fiscal year 2027. The royalties receivable was reduced by the amount of cash received this year of \$29,097. Revenue in the amount of \$156,034 will be recognized over the contract term on a straight-line basis, with \$31,207 recognized as revenue in 2023. This agreement was reached with Central Bank in conjunction with a contract between JMI Sports and Central Bank. Noncurrent deferred revenue amount only included this agreement. Current deferred revenue included \$31,207 for this agreement and \$11,800 for revenues related to upcoming Alumni travel packages.

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

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

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

When a donor's stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Gifts having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

Conditional contributions having donor stipulations which are satisfied in the period the gift is received are recorded as revenue 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 (SIPC) against brokerage firm insolvency or other non-market related legal events up to \$500,000 per customer of which \$100,000 is for uninvested cash.

Membership Dues. Membership dues are recognized as contribution revenue when pledged, the proceeds of which are available for any purpose of the Association. The Association recognizes all alumni as members; however, members who give \$75 or more annually to the University will be recognized as active members. The life membership rate is \$1,000 for single and \$1,100 for joint life members and have the option to be paid over a period of time.

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. Salaries, wages, benefits and other operating expenses are allocated based on the direct costs of the program and indirect expenses such as rent and utilities are allocated based on square footage of the program space.

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.

Change in Accounting Principles. The Financial Accounting Standards Board (FASB) 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 statement of financial position and disclosing key information about leasing transactions effective for fiscal years beginning after December 15, 2021, fiscal year 2023 for the Association. There was no impact on the financial statements for adoption of the standard.

Subsequent Events. Subsequent events have been evaluated through October 5, 2023, which is the date the financial statements were available to be issued.

2. INVESTMENTS

The following table summarizes the fair value of the investments as of June 30, 2023 and 2022:

| | 2023 | 2022 |
|---|----------------------|----------------------|
| U.S. government obligations | \$ 256,452 | \$ 271,717 |
| Corporate, municipal and foreign bonds | 6,298,165 | 6,439,536 |
| Common stocks | | |
| Consumer discretionary | 1,946,545 | 1,609,156 |
| Financial | 3,608,269 | 3,173,925 |
| Information technology | 2,570,825 | 2,088,914 |
| Other | 4,841,618 | 3,708,757 |
| Mutual funds | | |
| Small cap | 398,538 | 589,134 |
| International | 2,461,874 | 2,198,143 |
| Exchange-traded funds | 2,781,095 | 2,832,040 |
| Investment in the University's endowment pool | 37,057 | 35,999 |
| Total | <u>\$ 25,200,438</u> | <u>\$ 22,947,321</u> |

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

Components of investment return for the years ended June 30, 2023 and 2022 are as follows:

| | <u>2023</u> | <u>2022</u> |
|---------------------------------|---------------------|-----------------------|
| Interest and dividends received | \$ 538,095 | \$ 589,317 |
| Realized gains | 164,007 | 3,181,655 |
| Unrealized gains (losses) | 2,426,967 | (7,155,449) |
| Investment expenses | <u>(119,412)</u> | <u>(143,263)</u> |
| Total | <u>\$ 3,009,657</u> | <u>\$ (3,527,740)</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, 2023:

| | 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 | \$ 256,452 | \$ — | \$ 256,452 | \$ — |
| Corporate, municipal, and foreign bonds | 6,298,165 | — | 6,298,165 | — |
| Common stocks | | | | |
| Consumer discretionary | 1,946,545 | 1,946,545 | — | — |
| Financial | 3,608,269 | 3,608,269 | — | — |
| Information technology | 2,570,825 | 2,570,825 | — | — |
| Other | 4,841,618 | 4,841,618 | — | — |
| Mutual funds | | | | |
| Small cap | 398,538 | 398,538 | — | — |
| International | 2,461,874 | 2,461,874 | — | — |
| Exchange traded funds | 2,781,095 | 2,781,095 | — | — |
| Investment in the University's endowment pool | 37,057 | — | — | 37,057 |
| Total assets at fair value | <u>\$ 25,200,438</u> | <u>\$ 18,608,764</u> | <u>\$ 6,554,617</u> | <u>\$ 37,057</u> |

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, 2022:

| | 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 | \$ 271,717 | \$ — | \$ 271,717 | \$ — |
| Corporate, municipal, and foreign bonds | 6,439,536 | — | 6,439,536 | — |
| Common stocks | | | | |
| Consumer discretionary | 1,609,156 | 1,609,156 | — | — |
| Financial | 3,173,925 | 3,173,925 | — | — |
| Information technology | 2,088,914 | 2,088,914 | — | — |
| Other | 3,708,757 | 3,708,757 | — | — |
| Mutual funds | | | | |
| Small cap | 589,134 | 589,134 | — | — |
| International | 2,198,143 | 2,198,143 | — | — |
| Exchange traded funds | 2,832,040 | 2,832,040 | — | — |
| Investment in the University's endowment pool | 35,999 | — | — | 35,999 |
| Total assets at fair value | <u>\$ 22,947,321</u> | <u>\$ 16,200,069</u> | <u>\$ 6,711,253</u> | <u>\$ 35,999</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, 2023.

- 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 Net Asset Value 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.

There were no transfers in or out of Level 3 investments during the years ended June 30, 2023 and 2022.

4. ACCOUNTS RECEIVABLE, NET

The Association's net accounts receivable for the years ended June 30, 2023 and 2022 are as follows:

| | 2023 | | |
|-----------------------------|---------------------|-------------------|-------------------|
| | Gross Receivable | Allowance | Net Receivable |
| Accrued interest receivable | \$ 71,543 | \$ — | \$ 71,543 |
| Advertising receivable | 80,195 | — | 80,195 |
| Contribution receivable | 130,435 | (8,616) | 121,819 |
| Royalty receivable | 126,937 | — | 126,937 |
| Other receivable | — | — | — |
| Total | <u>\$ 409,110</u> | <u>\$ (8,616)</u> | <u>\$ 400,494</u> |
| Current portion | | | \$ 270,541 |
| Noncurrent portion | | | 129,953 |
| Total | | | <u>\$ 400,494</u> |

| | 2022 | | |
|-----------------------------|---------------------|-------------------|-------------------|
| | Gross Receivable | Allowance | Net Receivable |
| Accrued interest receivable | \$ 65,051 | \$ — | \$ 65,051 |
| Advertising receivable | 34,730 | — | 34,730 |
| Contribution receivable | 140,098 | (8,154) | 131,944 |
| Royalty receivable | — | — | — |
| Other receivable | 3,231 | — | 3,231 |
| Total | <u>\$ 243,110</u> | <u>\$ (8,154)</u> | <u>\$ 234,956</u> |
| Current portion | | | \$ 186,324 |
| Noncurrent portion | | | 48,632 |
| Total | | | <u>\$ 234,956</u> |

5. 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, 2023 and 2022, 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 statement of financial position date to meet general expenditures are as follows:

| | <u>2023</u> | <u>2022</u> |
|--|----------------------|----------------------|
| Financial assets at year end | | |
| Cash and cash equivalents | \$ 1,529,505 | \$ 3,484,852 |
| Accounts receivable, net | 270,541 | 186,324 |
| Investments convertible to cash in the next 12 months | 992,610 | 740,932 |
| Other long-term investments | 24,170,771 | 22,170,390 |
| Investments in university pooled endowment | <u>37,057</u> | <u>35,999</u> |
| Total | <u>\$ 27,000,484</u> | <u>\$ 26,618,497</u> |
| Financial assets available to meet general expenditures over the next 12 months | | |
| Cash and cash equivalents | \$ 1,529,505 | \$ 3,484,852 |
| Accounts receivable | 198,998 | 121,273 |
| Payout on quasi-restricted endowments for use over next 12 months | <u>992,610</u> | <u>740,932</u> |
| Total | <u>\$ 2,721,113</u> | <u>\$ 4,347,057</u> |

6. 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, totaled \$1,323,854 and \$1,207,944 in 2023 and 2022, respectively. The fair value of the funding for operations that the Association received totaled \$733,488 and \$618,878 in 2023 and 2022, 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 \$396,935 in 2023 and 2022 as nonfinancial asset contributions from the University in the Statements of Activities. Also, the Association has recognized the fair value of the utilities of \$29,394 and \$29,688, in 2023 and 2022, respectively, as nonfinancial asset contributions from the University in the Statements of Activities. Included in Athletic ticket and other deposits are amounts owed to the University of \$1,787 and \$11,880 in 2023 and 2022, respectively. The total contribution by the University to the Association was \$2,483,671 and \$2,253,445 in 2023 and 2022, respectively. The Association entered into an agreement with the University on May 20, 2022 to make a charitable grant of \$3,000,000 to support the construction, renovation and/or expansion of the outdoor area on the University's campus informally known as the Rose Street Plaza. A payment of \$2,000,000 was made on the grant in October 2022 and the remaining \$1,000,000 is payable on or before December 31, 2023. In addition, the Association held a \$37,057 and \$35,999 investment in the University's endowment investment pool in fiscal years ending June 30, 2023 and 2022, respectively.

The following expenses incurred by the Association were paid to the University during the years ended June 30, 2023 and 2022:

| | 2023 | 2022 |
|-------------------------------------|------------|--------------|
| Athletic tickets (alumni relations) | \$ 384,925 | \$ 369,972 |
| Gifts to the University of Kentucky | 133,065 | 3,080,689 |
| Awards and scholarships | 53,546 | 69,153 |
| Total | \$ 571,536 | \$ 3,519,814 |

7. 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% of eligible compensation and employees contribute five percent of eligible compensation. The Association's share of the cost of these benefits was \$134,336 and \$105,975 in 2023 and 2022, respectively.

8. 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 \$88 per month or 10% of the 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, 2023 and 2022.

9. 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. 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, 2023 and 2022 are as follows:

| | 2023 | 2022 |
|---|---------------|---------------|
| Without donor restrictions | | |
| Undesignated | \$ 517,316 | \$ 484,693 |
| Designated by the Board for operating reserve | 992,610 | 740,932 |
| Designated by the Board for endowment | 24,474,545 | 22,367,973 |
| Invested in property and equipment, net of related debt | 12,286 | 28,220 |
| Total | \$ 25,996,757 | \$ 23,621,818 |

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. Two endowment funds have been established by the will of Colonel Lloyd E. Teague totaling \$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, 2023 and 2022 are as follows:

| | 2023 | 2022 |
|-------------------------|-----------|-----------|
| With donor restrictions | | |
| Perpetual in nature | \$ 30,000 | \$ 30,000 |
| Purpose restrictions | 8,983 | 6,581 |
| Total | \$ 38,983 | \$ 36,581 |

10. ENDOWMENT

The Association's endowment consists of three individual funds held with an external equity firm established for a variety of purposes and two endowment funds held in the University's endowment pool established for scholarships.

The endowment held with an external equity firm 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 Association's endowments of \$37,057 held with the University are subject to the University's endowment spending policy.

The composition of net assets by type of endowment fund at June 30, 2023 and 2022 were as follows:

| | 2023 | | |
|----------------------------------|----------------------------|-------------------------|----------------------|
| | Without donor restrictions | With donor restrictions | Total |
| Donor-restricted endowment funds | \$ — | \$ 37,057 | \$ 37,057 |
| Board-designated endowment funds | 25,467,155 | — | 25,467,155 |
| Total | <u>\$ 25,467,155</u> | <u>\$ 37,057</u> | <u>\$ 25,504,212</u> |

| | 2022 | | |
|----------------------------------|----------------------------|-------------------------|----------------------|
| | Without donor restrictions | With donor restrictions | Total |
| Donor-restricted endowment funds | \$ — | \$ 35,999 | \$ 35,999 |
| Board-designated endowment funds | 23,108,905 | — | 23,108,905 |
| Total | <u>\$ 23,108,905</u> | <u>\$ 35,999</u> | <u>\$ 23,144,904</u> |

Changes in endowment net assets for the year ended June 30, 2023 were as follows:

| | Without donor restrictions | With donor restrictions | Total |
|---|----------------------------|-------------------------|----------------------|
| Endowment net assets, beginning of year | \$ 23,108,905 | \$ 35,999 | \$ 23,144,904 |
| Net investment return | 3,007,255 | 2,402 | 3,009,657 |
| Appropriation of endowment assets for expenditure | <u>(649,005)</u> | <u>(1,344)</u> | <u>(650,349)</u> |
| Total | <u>\$ 25,467,155</u> | <u>\$ 37,057</u> | <u>\$ 25,504,212</u> |

Changes in endowment net assets for the year ended June 30, 2022 were as follows:

| | Without donor restrictions | With donor restrictions | Total |
|--|----------------------------------|----------------------------|----------------------|
| Endowment net assets, beginning of year | \$ 30,259,097 | \$ 39,148 | \$ 30,298,245 |
| Net investment return | (3,525,173) | (2,567) | (3,527,740) |
| Appropriation of endowment assets for expenditure | <u>(3,625,019)</u> | <u>(582)</u> | <u>(3,625,601)</u> |
| Total | <u>\$ 23,108,905</u> | <u>\$ 35,999</u> | <u>\$ 23,144,904</u> |

The Association has adopted investment and spending policies for endowment assets held by the external equity firm 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 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 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 the 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.

11. NATURAL CLASSIFICATION

The Association's operating expenses by natural classification for the year ended June 30, 2023 are as follows:

| | Alumni relations | Publications | Awards and scholarships | Gifts to the University of Kentucky | Management and general expenses | Total |
|--|---------------------|---------------------|-------------------------|-------------------------------------|---------------------------------|---------------------|
| Salaries and wages | \$ 678,477 | \$ 454,092 | \$ — | \$ — | \$ 454,118 | \$ 1,586,687 |
| Employee benefits | 216,110 | 150,916 | — | — | 114,445 | 481,471 |
| Supplies and services | 573,173 | 200,288 | — | 66,421 | 189,175 | 1,029,057 |
| Depreciation | — | — | — | — | 15,934 | 15,934 |
| Student scholarships and financial aid | — | — | 27,500 | — | — | 27,500 |
| Utilities | 8,992 | 10,287 | — | — | 10,115 | 29,394 |
| Athletic tickets | 384,925 | — | — | — | — | 384,925 |
| Building rental | 121,429 | 138,918 | — | — | 136,588 | 396,935 |
| Other, various | 143,389 | 76,608 | 26,046 | 66,644 | 140,698 | 453,385 |
| Total | \$ 2,126,495 | \$ 1,031,109 | \$ 53,546 | \$ 133,065 | \$ 1,061,073 | \$ 4,405,288 |

The Association's operating expenses by natural classification for the year ended June 30, 2022 are as follows:

| | Alumni relations | Publications | Awards and scholarships | Gifts to the University of Kentucky | Management and general expenses | Total |
|--|---------------------|-------------------|-------------------------|-------------------------------------|---------------------------------|---------------------|
| Salaries and wages | \$ 557,334 | \$ 392,770 | \$ — | \$ — | \$ 473,554 | \$ 1,423,658 |
| Employee benefits | 171,582 | 125,244 | — | — | 121,265 | 418,091 |
| Supplies and services | 447,671 | 195,220 | — | 44,234 | 142,565 | 829,690 |
| Depreciation | — | — | — | — | 18,861 | 18,861 |
| Student scholarships and financial aid | — | — | 42,809 | — | — | 42,809 |
| Utilities | 9,082 | 10,390 | — | — | 10,216 | 29,688 |
| Athletic tickets | 369,972 | — | — | — | — | 369,972 |
| Building rental | 121,429 | 138,918 | — | — | 136,588 | 396,935 |
| Other, various | 174,623 | 51,844 | 26,344 | 3,036,455 | 118,137 | 3,407,403 |
| Total | \$ 1,851,693 | \$ 914,386 | \$ 69,153 | \$ 3,080,689 | \$ 1,021,186 | \$ 6,937,107 |

12. REVENUE FROM CONTRACTS WITH MEMBERS, CUSTOMERS, AND PARTNERS

Revenue Recognition. Royalties revenue is recognized as the Association satisfies performance obligations under its contracts. Revenue is reported at the estimated transaction price or amount that reflects the consideration to which the Association expects to be entitled in exchange for providing a database for marketing rights and advertising. These amounts do not include variable consideration.

Revenue from ticket sales is recognized when control of the promised good or service is transferred to the Association's customers, in an amount that reflects the consideration that it expects to be entitled to in exchange for those goods or services. Revenue is recorded at the point of sale and does not include variable consideration. Revenue is recognized under Alumni Projects on the financial statements.

Advertising revenue is recognized when control of the promised goods or services (i.e. the printing of the magazine), is transferred to the Association's customers, in an amount that reflects the consideration that it expects to be entitled to in exchange for those goods or services. Revenue is reported when the magazine has been completed and sent to the printer for distribution. These amounts do not reflect variable consideration.

Commissions revenue is recognized when control of the promised goods or services is transferred to the Association's partners, in an amount that reflects the consideration that it expects to be entitled to in exchange for those goods or services. These amounts do not reflect variable consideration. Revenue is reflected under Alumni Projects on the financial statements.

Transaction Price and Recognition. The Association determines the transaction price based on standard charges for goods and services provided, reduced by discounts provided in accordance with the Association's policy.

Disaggregation of Revenue. The composition of revenue by lines of business for the years ended June 30, 2023 and 2022 is as follows:

| | <u>2023</u> | <u>2022</u> |
|---------------------------------------|-------------------|-------------------|
| Revenue recognized over time | | |
| Alumni projects - commissions | \$ 61,557 | \$ 17,548 |
| Alumni projects - other | 76,752 | 49,058 |
| Royalties | 241,299 | 252,524 |
| Revenue recognized at a point in time | | |
| Alumni projects - athletic events | 386,438 | 342,113 |
| Advertising | <u>61,330</u> | <u>58,305</u> |
| Total | <u>\$ 827,376</u> | <u>\$ 719,548</u> |

13. CONTRIBUTIONS RECEIVABLE

Contributions receivable for the year ended June 30, 2023 were as follows:

| | Without donor restrictions | With donor restrictions | Total |
|---|----------------------------------|-------------------------------|-------------------|
| Due within one year | \$ 97,303 | \$ — | \$ 97,303 |
| Due within one to five years | 33,132 | — | 33,132 |
| | <u>130,435</u> | <u>—</u> | <u>130,435</u> |
| Less | | | |
| Allowance for uncollectible contributions | (8,616) | — | (8,616) |
| Total | <u>\$ 121,819</u> | <u>\$ —</u> | <u>\$ 121,819</u> |

Discount rates ranged from 0.68% to 5.25% for fiscal year 2023.

Contributions receivable for the year ended June 30, 2022 were as follows:

| | Without donor restrictions | With donor restrictions | Total |
|---|----------------------------------|-------------------------------|-------------------|
| Due within one year | \$ 91,466 | \$ — | \$ 91,466 |
| Due within one to five years | 48,632 | — | 48,632 |
| | <u>140,098</u> | <u>—</u> | <u>140,098</u> |
| Less | | | |
| Allowance for uncollectible contributions | (8,154) | — | (8,154) |
| Total | <u>\$ 131,944</u> | <u>\$ —</u> | <u>\$ 131,944</u> |

Discount rates ranged from 0.68% to 2.61% for fiscal year 2022.

14. CURRENT ECONOMIC UNCERTAINTIES

While inflation continues to impact the economy, the duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time. Management and staff anticipate increased costs in the upcoming year.



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