University of Kentucky

Alumni Association

2018 Financial Statements

University of Kentucky
Alumni Association
Financial Statements
Years Ended June 30, 2018 and 2017

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Independent Auditor's Report

Board of Directors
University of Kentucky Alumni Association
Lexington, Kentucky

We have audited the accompanying financial statements of the University of Kentucky Alumni Association (Association), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of June 30, 2018 and 2017, 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.

BKD, LLP

Louisville, Kentucky
September 18, 2018

UNIVERSITY OF KENTUCKY
ALUMNI ASSOCIATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 362,297	$ 873,903
Accounts receivable	31,507	16,914
Royalty receivable	25,357	—
Accrued interest receivable	83,177	81,383
Prepaid expenses	32,473	33,296
Total current assets	534,811	1,005,496
Long-term investments	21,740,353	20,563,400
Royalty receivable	81,523	—
Equipment, furniture, and vehicles Less accumulated depreciation of $414,711 and $406,635 for 2018 and 2017, respectively	24,001	8,529
Total assets	$ 22,380,688	$ 21,577,425
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Athletic ticket and other deposits	$ 55,947	$ 17,630
Accounts payable	1,358	6,674
Deferred revenue	26,276	—
Total current liabilities	83,581	24,304
Deferred revenue	78,828	—
Total liabilities	162,409	24,304
NET ASSETS		
Unrestricted		
Undesignated	318,188	226,197
Designated	21,870,091	21,296,924
Total unrestricted net assets	22,188,279	21,523,121
Permanently restricted	30,000	30,000
Total net assets	22,218,279	21,553,121
Total liabilities and net assets	$ 22,380,688	$ 21,577,425

See notes to financial statements

UNIVERSITY OF KENTUCKY
ALUMNI ASSOCIATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

	Unrestricted	Permanently Restricted	Total
REVENUES AND OTHER ADDITIONS			
Contributions			
University of Kentucky	$ 1,608,024	$ —	$ 1,608,024
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
Investment return	1,368,208	—	1,368,208
Total revenues and other additions	4,493,825	—	4,493,825
EXPENSES			
Program services			
Alumni relations	1,494,318	—	1,494,318
Publications	643,538	—	643,538
Awards and scholarships	67,042	—	67,042
Total program services	2,204,898	—	2,204,898
Gifts to UK and its affiliated corporations	93,645	—	93,645
Management and general expenses	1,417,687	—	1,417,687
Investment expenses	112,437	—	112,437
Total expenses	3,828,667	—	3,828,667
Change in net assets	665,158	—	665,158
NET ASSETS, beginning of year	21,523,121	30,000	21,553,121
NET ASSETS, end of year	$ 22,188,279	$ 30,000	$ 22,218,279

See notes to financial statements

UNIVERSITY OF KENTUCKY
ALUMNI ASSOCIATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

	Unrestricted	Permanently Restricted	Total
REVENUES AND OTHER ADDITIONS			
Contributions			
University of Kentucky	$ 1,289,398	$ —	$ 1,289,398
Membership dues	792,896	—	792,896
Alumni projects	459,721	—	459,721
Royalties	265,304	—	265,304
Gifts and contributions	181,245	—	181,245
Advertising	84,113	—	84,113
Fundraising, net of expenses of $11,178	18,834	—	18,834
Investment return	2,076,646	—	2,076,646
Other revenue	1,500	—	1,500
Total revenues and other additions	5,169,657	—	5,169,657
EXPENSES			
Program services			
Alumni relations	1,640,950	—	1,640,950
Publications	631,913	—	631,913
Awards and scholarships	61,161	—	61,161
Total program services	2,334,024	—	2,334,024
Gifts to UK and its affiliated corporations	100,513	—	100,513
Management and general expenses	1,012,187	—	1,012,187
Investment expenses	106,673	—	106,673
Total expenses	3,553,397	—	3,553,397
Change in net assets	1,616,260	—	1,616,260
NET ASSETS, beginning of year	19,906,861	30,000	19,936,861
NET ASSETS, end of year	$ 21,523,121	$ 30,000	$ 21,553,121

See notes to financial statements

UNIVERSITY OF KENTUCKY
ALUMNI ASSOCIATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 665,158	$ 1,616,260
Adjustments to reconcile change in net assets to		
net cash provided (used) by operating activities:		
Depreciation	8,076	10,997
Net realized and unrealized (gains) losses on investments	(919,119)	(1,636,826)
Changes in asset and liability accounts:		
Athletic ticket and other deposits	38,317	(23,859)
Accounts and accrued interest receivable	(16,387)	(14,804)
Accounts payable	(5,316)	2,297
Deferred revenue	105,104	—
Prepaid expenses	823	(3,129)
Royalty receivable	(106,880)	—
Net cash provided (used) by operating activities	(230,224)	(49,064)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of equipment, furniture, and vehicles	(23,548)	—
Proceeds from sales and maturities of investments	3,743,663	1,438,892
Purchase of investments	(4,001,497)	(1,606,730)
Net cash provided (used) by investing activities	(281,382)	(167,838)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(511,606)	(216,902)
CASH AND CASH EQUIVALENTS, beginning of year	873,903	1,090,805
CASH AND CASH EQUIVALENTS, end of year	$ 362,297	$ 873,903

See notes to financial statements

UNIVERSITY OF KENTUCKY
ALUMNI ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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 community while developing positive goodwill, support and loyalty to the University of Kentucky (the University).

Basis of Presentation
The three net asset categories as reflected in the accompanying financial statements are as follows:

Unrestricted

- 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 Association's policy is to reinvest such earnings for future growth.

Temporarily Restricted

- Net assets whose use by the Association is limited by donor-imposed stipulations that either expire by passage of time or that can be fulfilled or removed by actions of the Association pursuant to those stipulations.

Permanently Restricted

- Net assets whose use by the Association is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the Association.

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, 2018, the Association's cash accounts did not exceed federally insured limits.

Investments. Investments in equity securities with readily determinable fair values and investments in debt securities are stated at 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.

Equipment, Furniture and Vehicles. Equipment, furniture and vehicles are stated at cost or fair value at the date of gift, if donated. 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, 2018 and 2017.

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 fiscal year 2018 and the remaining $105,104 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.

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

Contributions. Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenues and net assets. Gifts received with a donor stipulation that limits their use are reported as restricted revenues and net assets. When a donor-stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the 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 unrestricted revenues and net assets.

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 funds are recognized as unrestricted revenues 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.

Membership Dues. Membership dues are recognized as revenue when received, the proceeds of which are available for any purpose of the Association.

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.

Future Changes in Accounting Principles. *Presentation of Financial Statements for Not-for-Profit Entities.* The FASB recently issued Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which changes requirements for financial statements and notes of all not-for-profit entities and is effective for fiscal years beginning after December 15, 2017.

A summary of the changes by financial statement area most relevant to the Association are as follows:

Statement of Financial Position

- The statement of financial position will distinguish 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.
- Investment income is shown net of external and direct internal investment expenses. Disclosure of the expenses netted against investment income is no longer required.

Notes to 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 appropriations as of the end of the period are disclosed.

The Association is in the process of evaluating the impact the amendment will have on the financial statements.

Subsequent Events. Subsequent events have been evaluated through September 18, 2018, 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, 2018 and 2017:

	2018	2017
U.S. government obligations	$ 50,958	$ 310,398
Corporate, municipal and foreign bonds	6,476,630	6,209,136
Common stocks		
Consumer discretionary	2,189,872	2,186,732
Financial common	2,413,276	2,312,132
Information technology	2,515,397	2,205,189
Other	2,313,345	2,227,122
Mutual funds		
Small cap	823,882	802,185
International	4,211,723	3,507,489
Exchange-traded funds	580,331	593,014
Certificates of deposit	164,939	210,003
Total	$ 21,740,353	$ 20,563,400

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

Components of investment return for the years ended June 30, 2018 and 2017 are as follows:

	2018	2017
Interest and dividends received	$ 449,089	$ 439,820
Realized gains and losses	381,928	69,602
Unrealized gains and losses	537,191	1,567,224
Total	$ 1,368,208	$ 2,076,646

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.

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	—	—
Total assets at fair value	$ 21,575,414	$ 15,047,826	$ 6,527,588	$ —

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, 2017:

		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	$ 310,398	$ —	$ 310,398	$ —
Corporate, municipal, and foreign bonds	6,209,136	—	6,209,136	—
Common stocks				
Consumer discretionary	2,186,732	2,186,732	—	—
Financial common	2,312,132	2,312,132	—	—
Information technology	2,205,189	2,205,189	—	—
Other	2,227,122	2,227,122	—	—
Mutual funds				
Small cap	802,185	802,185	—	—
International	3,507,489	3,507,489	—	—
Exchange traded funds	593,014	593,014	—	—
Total assets at fair value	$ 20,353,397	$ 13,833,863	$ 6,519,534	$ —

Following is a description of the valuation methodologies and inputs used for assets and liabilities 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, 2018.

- 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.

4. 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 and as management and general expenses, totaled $1,208,024 and $889,398 in 2018 and 2017, 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 $400,000, in both 2018 and 2017, as in-kind contributions from the University and as management and general expenses in the statements of activities. The total contribution by the University to the Association was $1,608,024 and $1,289,398 in 2018 and 2017, respectively.

The following expenses incurred by the Association were paid to the University during the years ended June 30, 2018 and 2017:

	2018	2017
Athletic tickets (alumni relations)	$ 338,956	$ 315,827
Gifts to the University and its affiliated corporations	93,645	100,513
Awards and scholarships	67,042	61,161
Total	$ 499,643	$ 477,501

5. 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 $202,000 and $94,717 in 2018 and 2017, respectively.

6. 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 OPEB trust based on funding policy contributions in accordance with the parameters of Government Accounting Standards Board Statement 75.

The Association has recognized its share of the contribution in employee benefit costs and has no additional liability for this benefit at June 30, 2018 and 2017.

7. NET ASSETS

Designated unrestricted net assets

Designated unrestricted net assets include the Investment Fund, the Life Membership Fund, and the Student Activities 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's intention is to utilize the Life Membership Fund assets to support life membership expenses for annual dues. The Student Activities Fund net assets are used to provide scholarships to worthy students at the University. The Board of Directors' (the Board) intention is to utilize the net assets of the Investment Fund and the Student Activities Fund for current operations. Each fund has been designated by the Board and is separated for investment purposes.

Designated unrestricted net assets as of June 30, 2018 and 2017 are as follows:

	2018	2017
Investment Fund	$ 8,946,666	$ 8,817,109
Life Membership Fund	12,910,067	12,466,457
Student Activities Fund	13,358	13,358
Total	$ 21,870,091	$ 21,296,924

Permanently restricted net assets

Permanently restricted net assets 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.

8. 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 permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association in a manner consistent with the standard of prudence prescribed by UPMIFA.

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, 2018 and 2017 were as follows:

	2018		
	Unrestricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ —	$ 30,000	$ 30,000
Board-designated endowment funds	21,870,091	—	21,870,091
Total endowment funds	$21,870,091	$ 30,000	$21,900,091

	2017		
	Unrestricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ —	$ 30,000	$ 30,000
Board-designated endowment funds	21,296,924	—	21,296,924
Total endowment funds	$21,296,924	$ 30,000	$21,326,924

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	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 (depreciation)	919,119	—	—	919,119
Total investment return	1,365,604	—	—	1,365,604
Appropriation of endowment assets for expenditure	(112,437)	—	—	(112,437)
Appropriation of endowment assets for operating expenditure - special allocation	(680,000)	—	—	(680,000)
Endowment net assets, end of year	$ 21,870,091	$ —	$ 30,000	$ 21,900,091

Changes in endowment net assets for the year ended June 30, 2017 were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 19,646,217	$ —	$ 30,000	$ 19,676,217
Investment return:				
Investment income	438,716	—	—	438,716
Net appreciation (depreciation)	1,636,826	—	—	1,636,826
Total investment return	2,075,542	—	—	2,075,542
Appropriation of endowment assets for expenditure	(106,616)	—	—	(106,616)
Appropriation of endowment assets for operating expenditure - special allocation	(318,219)	—	—	(318,219)
Endowment net assets, end of year	$ 21,296,924	$ —	30,000	$ 21,326,924

Amounts of donor-restricted endowment funds classified as permanently restricted net assets at June 30, 2018 and 2017, consisted of:

	2018	2017
Permanently restricted net assets - portion of perpetual endowment fund required to be retained permanently by explicit donor stipulation	$ 30,000	$ 30,000
Total	$ 30,000	$ 30,000

The donor-restricted net assets are invested in certificates of deposit or money market funds and the value does 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.

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