



**UK** University of  
Kentucky®

Alumni Association  
2016 Financial Statements

**University of Kentucky  
Alumni Association  
Financial Statements  
Years Ended June 30, 2016 and 2015**

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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, 2016 and 2015, 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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 9 to the financial statements, the 2015 financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

*BKD, LLP*

Louisville, Kentucky  
October 20, 2016

**UNIVERSITY OF KENTUCKY  
ALUMNI ASSOCIATION  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2016 AND 2015**

	2016	2015 (Restated - Note 9)
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,090,805	\$ 1,277,349
Accounts receivable	3,721	14,249
Accrued interest receivable	79,772	78,479
Prepaid expenses	30,167	40,839
Total current assets	1,204,465	1,410,916
Long-term investments	18,758,736	18,958,968
Equipment, furniture, and vehicles		
Less accumulated depreciation of \$418,565 and \$394,118 for 2016 and 2015, respectively	19,526	38,570
Total assets	\$ 19,982,727	\$ 20,408,454
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Athletic ticket and other deposits	\$ 41,489	\$ 41,940
Accounts payable	4,377	12,933
Deferred revenue	-	673,929
Total current liabilities	45,866	728,802
<b>NET ASSETS</b>		
Unrestricted		
Undesignated	260,644	319,962
Designated	19,646,217	19,329,690
Total unrestricted net assets	19,906,861	19,649,652
Permanently restricted	30,000	30,000
Total net assets	19,936,861	19,679,652
Total current liabilities and net assets	\$ 19,982,727	\$ 20,408,454

See notes to financial statements



**UNIVERSITY OF KENTUCKY  
ALUMNI ASSOCIATION  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUES AND OTHER ADDITIONS</b>			
In-kind contributions			
University of Kentucky	\$ 1,268,758	\$ -	\$ 1,268,758
Membership dues	823,107	-	823,107
Alumni projects	465,987	-	465,987
Royalties	900,474	-	900,474
Gifts and contributions	40,884	-	40,884
Advertising	69,837	-	69,837
Fundraising, net of expenses of \$6,815	21,046	-	21,046
Investment return	264,033	-	264,033
Total revenues and other additions	<u>3,854,126</u>	<u>-</u>	<u>3,854,126</u>
<b>EXPENSES</b>			
Program services			
Alumni relations	1,658,523	-	1,658,523
Publications	673,043	-	673,043
Awards and scholarships	74,209	-	74,209
Total program services	<u>2,405,775</u>	<u>-</u>	<u>2,405,775</u>
Gifts to UK and its affiliated corporations	85,508	-	85,508
Management and general expenses	1,001,925	-	1,001,925
Investment expenses	103,709	-	103,709
Total expenses	<u>3,596,917</u>	<u>-</u>	<u>3,596,917</u>
Change in net assets	257,209	-	257,209
NET ASSETS, beginning of year	<u>19,649,652</u>	<u>30,000</u>	<u>19,679,652</u>
NET ASSETS, end of year	<u>\$ 19,906,861</u>	<u>\$ 30,000</u>	<u>\$ 19,936,861</u>

See notes to financial statements

**UNIVERSITY OF KENTUCKY  
ALUMNI ASSOCIATION  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2015  
(Restated - Note 9)**

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUES AND OTHER ADDITIONS</b>			
In-kind contributions			
University of Kentucky	\$ 1,252,084	\$ -	\$ 1,252,084
Membership dues	1,001,401	-	1,001,401
Alumni projects	470,562	-	470,562
Royalties	1,530,117	-	1,530,117
Gifts and contributions	8,100	-	8,100
Advertising	55,391	-	55,391
Fundraising, net of expenses of \$3,527	23,304	-	23,304
Investment return	1,008,728	-	1,008,728
Total revenues and other additions	<u>5,349,687</u>	<u>-</u>	<u>5,349,687</u>
<b>EXPENSES</b>			
Program services			
Alumni relations	1,718,438	-	1,718,438
Publications	719,204	-	719,204
Awards and scholarships	72,191	-	72,191
Total program services	<u>2,509,833</u>	<u>-</u>	<u>2,509,833</u>
Gifts to UK and its affiliated corporations	421,952	-	421,952
Management and general expenses	1,006,720	-	1,006,720
Investment expenses	105,817	-	105,817
Total expenses	<u>4,044,322</u>	<u>-</u>	<u>4,044,322</u>
Change in net assets	1,305,365	-	1,305,365
NET ASSETS, beginning of year	<u>18,344,287</u>	<u>30,000</u>	<u>18,374,287</u>
NET ASSETS, end of year	<u>\$ 19,649,652</u>	<u>\$ 30,000</u>	<u>\$ 19,679,652</u>

See notes to financial statements

**UNIVERSITY OF KENTUCKY  
ALUMNI ASSOCIATION  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015 (Restated - Note 9)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 257,209	\$ 1,305,365
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	25,875	28,990
Net realized and unrealized (gains) losses on investments	157,182	(594,678)
Changes in asset and liability accounts:		
Athletic ticket and other deposits	(451)	11,493
Accounts and interest receivable	9,235	(4,830)
Accounts payable	(8,556)	12,273
Deferred revenue	(673,929)	(1,268,571)
Prepaid expenses	10,672	6,808
Net cash provided (used) by operating activities	(222,763)	(503,150)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of equipment	(6,831)	(3,625)
Proceeds from sale of investments	3,022,286	5,981,082
Purchase of investments	(2,979,236)	(5,147,336)
Net cash provided (used) by investing activities	36,219	830,121
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(186,544)	326,971
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	1,277,349	950,378
<b>CASH AND CASH EQUIVALENTS, end of year</b>	\$ 1,090,805	\$ 1,277,349

See notes to financial statements



**UNIVERSITY OF KENTUCKY  
ALUMNI ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**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, 2016, 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 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, 2016 and 2015.

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 and Deferred Revenue. During fiscal year 2008, the Association entered into an agreement with a bank to provide a list of members' data in exchange for an initial payment of \$5,550,000, which was recorded as deferred revenue and recognized as revenue over the contract term of ten years, on the straight-line basis. The Association also received royalties per successful credit card application, which were recognized when received. On February 23, 2015, the bank terminated the agreement effective September 30, 2015 and the remaining deferred revenue of \$673,929 was recognized in fiscal year 2016.

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 revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as restricted revenue and net assets. When a donor-stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as a net asset released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as unrestricted revenue and net assets.

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 an affiliate.

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. 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.

Reclassifications. Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 financial statement presentation. These reclassifications had no effect on the change in net assets.

Subsequent Events. Subsequent events have been evaluated through the date of the Independent Auditor's Report, 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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
U.S. government obligations	\$ 704,607	\$ 972,409
Corporate, municipal and foreign bonds	5,878,122	4,964,503
Common stocks		
Consumer discretionary	2,058,052	2,338,275
Financial common stocks	1,770,793	2,028,825
Information technology stocks	1,677,895	1,762,544
Other	2,266,739	2,308,282
Mutual funds		
Small cap funds	739,496	383,766
International funds	2,826,258	3,127,037
Other	-	299,119
Exchange/Traded funds	631,774	679,208
Certificates of deposit	205,000	95,000
Total	<u>\$ 18,758,736</u>	<u>\$ 18,958,968</u>

Investments are classified as long term assets on the statements of financial position.

Components of investment income for the years ended June 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Interest and dividends received	\$ 421,215	\$ 414,050
Realized gains and losses	104,420	849,718
Unrealized gains and losses	(261,602)	(255,040)
Total	<u>\$ 264,033</u>	<u>\$ 1,008,728</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.

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, 2016:

	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	\$ 704,607	\$ -	\$ 704,607	\$ -
Corporate, municipal, and foreign bonds	5,878,122	-	5,878,122	-
Common stocks				
Consumer discretionary	2,058,052	2,058,052	-	-
Financial common stocks	1,770,793	1,770,793	-	-
Information technology stocks	1,677,895	1,677,895	-	-
Other	2,266,739	2,266,739	-	-
Mutual funds				
Small cap funds	739,496	739,496	-	-
International funds	2,826,258	2,826,258	-	-
Other	-	-	-	-
Exchange/Traded funds	631,774	631,774	-	-
Total assets at fair value	<u>\$ 18,553,736</u>	<u>\$ 11,971,007</u>	<u>\$ 6,582,729</u>	<u>\$ -</u>

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, 2015:

	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	\$ 972,409	\$ -	\$ 972,409	\$ -
Corporate, municipal, and foreign bonds	4,964,503	-	4,964,503	-
Common stocks				
Consumer discretionary	2,338,275	2,338,275	-	-
Financial common stocks	2,028,825	2,028,825	-	-
Information technology stocks	1,762,544	1,762,544	-	-
Other	2,308,282	2,308,282	-	-
Mutual funds				
Small cap funds	383,766	383,766	-	-
International funds	3,127,037	3,127,037	-	-
Other	299,119	299,119	-	-
Exchange/Traded funds	679,208	679,208	-	-
Total assets at fair value	<u>\$ 18,863,968</u>	<u>\$ 12,927,056</u>	<u>\$ 5,936,912</u>	<u>\$ -</u>

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, 2016.

- 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 securities 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 these financial statements as a contribution from the University and as management and general expenses, totaled \$868,758 and \$852,084 in 2016 and 2015, 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 2016 and 2015, as a contribution from the University and as management and general expenses in the financial statements. The total contribution by the University to the Association was \$1,268,758 and \$1,252,084 in 2016 and 2015, respectively.

The following expenses incurred by the Association were paid to the University:

	<u>2016</u>	<u>2015</u>
Athletic tickets (alumni relations)	\$ 321,543	\$ 290,031
Gifts for Stadium Pavilion and Library furnishings	-	329,880
Gifts to the University and its affiliated corporations	85,508	92,072
Scholarships (awards and scholarships)	74,209	72,191
	<u>\$ 481,260</u>	<u>\$ 784,174</u>

#### 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 5 percent of eligible compensation. The Association's share of the cost of these benefits was \$94,989 and \$97,110 in 2016 and 2015, respectively.

#### 5. 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 currently plans to contribute amounts to the trust fund sufficient to fully fund the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of Government Accounting Standards Board Statement 45.

The Association has recognized its share of the contribution in employee benefit costs and has no additional liability for this benefit at June 30, 2016 and 2015.

## 6. 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's 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 of Directors and is separated for investment purposes.

Designated unrestricted net assets as of June 30, 2016 and 2015 are as follows:

	2016	2015 (Restated - Note 9)
Investment Fund	\$ 8,045,320	\$ 7,551,897
Life Membership Fund	11,587,539	11,764,435
Student Activities Fund	13,358	13,358
Total	<u>\$ 19,646,217</u>	<u>\$ 19,329,690</u>

### Restricted net assets

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.

## 7. 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, 2016 and 2015 were:

	2016		
	Unrestricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 30,000	\$ 30,000
Board-designated endowment funds	19,646,217	-	19,646,217
<b>Total endowment funds</b>	<b>\$ 19,646,217</b>	<b>\$ 30,000</b>	<b>\$ 19,676,217</b>

  

	2015 (Restated - Note 9)		
	Unrestricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 30,000	\$ 30,000
Board-designated endowment funds	19,329,690	-	19,329,690
<b>Total endowment funds</b>	<b>\$ 19,329,690</b>	<b>\$ 30,000</b>	<b>\$ 19,359,690</b>

Changes in endowment net assets for the year ended June 30, 2016 were as follows:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 19,329,690	\$ -	\$ 30,000	\$ 19,359,690
Royalty income	673,929			673,929
Investment return:				
Investment income	420,466			420,466
Net appreciation (depreciation)	(157,182)			(157,182)
<b>Total investment return</b>	<b>263,284</b>	<b>-</b>	<b>-</b>	<b>263,284</b>
Appropriation of endowment assets for expenditure	(103,637)			(103,637)
Transfers for operations	(517,049)			(517,049)
<b>Endowment net assets, end of year</b>	<b>\$ 19,646,217</b>	<b>\$ -</b>	<b>\$ 30,000</b>	<b>\$ 19,676,217</b>

Changes in endowment net assets for the year ended June 30, 2015 were as follows:

	2015 (Restated - Note 9)			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 18,040,686	\$ -	\$ 30,000	\$ 18,070,686
Royalty income	1,268,736			1,268,736
Investment return:				
Investment income	412,925			412,925
Net appreciation (depreciation)	594,678			594,678
Total investment return	1,007,603	-	-	1,007,603
Appropriation of endowment assets for expenditure	(105,772)			(105,772)
Transfers for operations	(881,563)			(881,563)
Endowment net assets, end of year	<u>\$ 19,329,690</u>	<u>\$ -</u>	<u>\$ 30,000</u>	<u>\$ 19,359,690</u>

Amounts of donor-restricted endowment funds classified as permanently restricted net assets at June 30, 2016 and 2015, consisted of:

	2016	2015
Permanently restricted net assets - portion of perpetual endowment fund required to be retained permanently by explicit donor stipulation	\$ 30,000	\$ 30,000
Total	<u>\$ 30,000</u>	<u>\$ 30,000</u>

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 Russell 2000 Index 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.

## 8. RESTATEMENT OF PRIOR YEAR'S FINANCIAL STATEMENTS

During 2016, the Association discovered that royalty income, current deferred revenue and noncurrent deferred revenue related to a bank agreement were recognized incorrectly in the year ended June 30, 2015 as a result of an amendment to the agreement in February 2015. The 2015 change in net assets increased by \$713,571 in connection with this restatement.

The items restated for the year ended June 30, 2015 were as follows:

	<u>As Restated</u>	<u>As Previously Reported</u>	<u>Effect of Change</u>
<b>Statement of Financial Position:</b>			
Deferred revenue - current	\$ 673,929	\$ 555,000	\$ 118,929
Total current liabilities	\$ 728,802	\$ 609,873	\$ 118,929
Deferred revenue - noncurrent	\$ -	\$ 832,500	\$ (832,500)
Total liabilities	\$ 728,802	\$ 1,442,373	\$ (713,571)
Net assets unrestricted - undesignated	\$ 19,329,690	\$ 18,616,119	\$ 713,571
Total unrestricted net assets	\$ 19,649,652	\$ 18,936,081	\$ 713,571
Total net assets	\$ 19,679,652	\$ 18,966,081	\$ 713,571
<b>Statement of Activities:</b>			
Royalties - unrestricted	\$ 1,530,117	\$ 816,546	\$ 713,571
Royalties - total	\$ 1,530,117	\$ 816,546	\$ 713,571
Total revenues and other additions - unrestricted	\$ 5,349,687	\$ 4,636,116	\$ 713,571
Total revenues and other additions - total	\$ 5,349,687	\$ 4,636,116	\$ 713,571
Change in net assets - unrestricted	\$ 1,305,365	\$ 591,794	\$ 713,571
Change in net assets - total	\$ 1,305,365	\$ 591,794	\$ 713,571
Net assets, end of year - unrestricted	\$ 19,649,652	\$ 18,936,081	\$ 713,571
Net assets, end of year - total	\$ 19,679,652	\$ 18,966,081	\$ 713,571
<b>Statement of Cash Flow:</b>			
Cash flows from operating activities			
Change in net assets	\$ 1,305,365	\$ 591,794	\$ 713,571
Deferred revenue	\$ (1,268,571)	\$ (555,000)	\$ (713,571)



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