



2017 Financial Statements

 University of
Kentucky®

Alumni Association

**University of Kentucky
Alumni Association
Financial Statements
Years Ended June 30, 2017 and 2016**

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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, 2017 and 2016, 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.

Board of Directors
University of Kentucky Alumni Association
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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, 2017 and 2016, 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
October 16, 2017

**UNIVERSITY OF KENTUCKY
ALUMNI ASSOCIATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 873,903	\$ 1,090,805
Accounts receivable	16,914	3,721
Accrued interest receivable	81,383	79,772
Prepaid expenses	33,296	30,167
Total current assets	<u>1,005,496</u>	<u>1,204,465</u>
Long-term investments	20,563,400	18,758,736
Equipment, furniture, and vehicles		
Less accumulated depreciation of \$406,635 and \$418,565 for 2017 and 2016, respectively	<u>8,529</u>	<u>19,526</u>
Total assets	<u><u>\$ 21,577,425</u></u>	<u><u>\$ 19,982,727</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Athletic ticket and other deposits	\$ 17,630	\$ 41,489
Accounts payable	<u>6,674</u>	<u>4,377</u>
Total current liabilities	<u>24,304</u>	<u>45,866</u>
NET ASSETS		
Unrestricted		
Undesignated	226,197	260,644
Designated	<u>21,296,924</u>	<u>19,646,217</u>
Total unrestricted net assets	21,523,121	19,906,861
Permanently restricted	<u>30,000</u>	<u>30,000</u>
Total net assets	<u>21,553,121</u>	<u>19,936,861</u>
Total current liabilities and net assets	<u><u>\$ 21,577,425</u></u>	<u><u>\$ 19,982,727</u></u>

See notes to financial statements

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

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND OTHER ADDITIONS			
In-kind 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	<u>5,169,657</u>	<u>-</u>	<u>5,169,657</u>
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	<u>2,334,024</u>	<u>-</u>	<u>2,334,024</u>
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	<u>3,553,397</u>	<u>-</u>	<u>3,553,397</u>
Change in net assets	1,616,260	-	1,616,260
NET ASSETS, beginning of year	<u>19,906,861</u>	<u>30,000</u>	<u>19,936,861</u>
NET ASSETS, end of year	<u>\$ 21,523,121</u>	<u>\$ 30,000</u>	<u>\$ 21,553,121</u>

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>
REVENUES AND OTHER ADDITIONS			
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>
EXPENSES			
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
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,616,260	\$ 257,209
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	10,997	25,875
Net realized and unrealized (gains) losses on investments	(1,636,826)	157,182
Changes in asset and liability accounts:		
Athletic ticket and other deposits	(23,859)	(451)
Accounts and interest receivable	(14,804)	9,235
Accounts payable	2,297	(8,556)
Deferred revenue	-	(673,929)
Prepaid expenses	(3,129)	10,672
Net cash provided (used) by operating activities	<u>(49,064)</u>	<u>(222,763)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	-	(6,831)
Proceeds from sale of investments	1,438,892	3,022,286
Purchase of investments	<u>(1,606,730)</u>	<u>(2,979,236)</u>
Net cash provided (used) by investing activities	<u>(167,838)</u>	<u>36,219</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(216,902)	(186,544)
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,090,805</u>	<u>1,277,349</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 873,903</u>	<u>\$ 1,090,805</u>

See notes to financial statements

**UNIVERSITY OF KENTUCKY
ALUMNI ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

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, 2017, 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, 2017 and 2016.

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 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. 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.

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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
U.S. government obligations	\$ 310,398	\$ 704,607
Corporate, municipal and foreign bonds	6,209,136	5,878,122
Common stocks		
Consumer discretionary	2,186,732	2,058,052
Financial common	2,312,132	1,770,793
Information technology	2,205,189	1,677,895
Other	2,227,122	2,266,739
Mutual funds		
Small cap	802,185	739,496
International	3,507,489	2,826,258
Exchange-traded funds	593,014	631,774
Certificates of deposit	210,003	205,000
Total	<u>\$ 20,563,400</u>	<u>\$ 18,758,736</u>

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

Components of investment income for the years ended June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Interest and dividends received	\$ 439,820	\$ 421,215
Realized gains and losses	69,602	104,420
Unrealized gains and losses	1,567,224	(261,602)
Total	<u>\$ 2,076,646</u>	<u>\$ 264,033</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, 2017:

	2017			
	Fair Value	Fair Value Measurements Using		
		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	<u>\$20,353,397</u>	<u>\$ 13,833,863</u>	<u>\$ 6,519,534</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, 2016:

	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	1,770,793	1,770,793	-	-
Information technology	1,677,895	1,677,895	-	-
Other	2,266,739	2,266,739	-	-
Mutual funds				
Small cap	739,496	739,496	-	-
International	2,826,258	2,826,258	-	-
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>

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, 2017.

- 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 \$889,398 and \$868,758 in 2017 and 2016, 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 2017 and 2016, 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 \$1,289,398 and \$1,268,758 in 2017 and 2016, respectively.

The following expenses incurred by the Association were paid to the University during the years ended June 30, 2017 and 2016:

	2017	2016
Athletic tickets (alumni relations)	\$ 315,827	\$ 321,543
Gifts to the University and its affiliated corporations	100,513	85,508
Scholarships (awards and scholarships)	61,161	74,209
Total	<u>\$ 477,501</u>	<u>\$ 481,260</u>

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 \$94,717 and \$94,989 in 2017 and 2016, 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 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, 2017 and 2016.

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'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, 2017 and 2016 are as follows:

	2017	2016
Investment Fund	\$ 8,817,109	\$ 8,045,320
Life Membership Fund	12,466,457	11,587,539
Student Activities Fund	13,358	13,358
Total	<u>\$ 21,296,924</u>	<u>\$ 19,646,217</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.

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, 2017 and 2016 were as follows:

	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

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

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

	2017			
	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

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

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
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)
Total investment return	263,284			263,284
Appropriation of endowment assets for expenditure	(103,637)	-	-	(103,637)
Appropriation of endowment assets for operating expenditure - special allocation	(517,049)	-	-	(517,049)
Endowment net assets, end of year	<u>\$ 19,646,217</u>	<u>\$ -</u>	<u>\$ 30,000</u>	<u>\$ 19,676,217</u>

Amounts of donor-restricted endowment funds classified as permanently restricted net assets at June 30, 2017 and 2016, consisted of:

	2017	2016
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 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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