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UNIVERSITY OF  
KENTUCKY®

*Alumni Association*

**2008 Financial Statements**

# University of Kentucky Alumni Association

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## Independent Accountants' Report

Board of Directors  
University of Kentucky  
Alumni Association  
Lexington, Kentucky

We have audited the accompanying statement of financial position of the University of Kentucky Alumni Association (Association) as of June 30, 2008, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Association as of and for the year ended June 30, 2007, were audited by other accountants whose report dated November 30, 2007, expressed an unqualified opinion on those statements.

We conducted our audit 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2008 financial statements referred to above present fairly, in all material respects, the financial position of the Association as of June 30, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*BKD, LLP*

January 6, 2009

**UNIVERSITY OF KENTUCKY  
ALUMNI ASSOCIATION  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2008 AND 2007**

	2008	2007
<b>ASSETS</b>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,969,870	\$ 809,197
Accounts receivable	15,086	340
Accrued interest receivable	72,097	-
Prepaid expenses	2,611	-
Investments	9,979,709	10,004,105
Total current assets	12,039,373	10,813,642
LONG TERM INVESTMENTS		
Equipment, furniture and vehicles	4,585,361	3,575,182
Less accumulated depreciation of \$306,270 and \$346,044 for 2008 and 2007, respectively	17,677	33,705
Total assets	\$ 16,642,411	\$ 14,422,529
<b>LIABILITIES AND NET ASSETS</b>		
CURRENT LIABILITIES		
Athletic ticket deposits	\$ 41,638	
Accounts payable	70,100	
Deferred revenue	5,272,500	
Total current liabilities	5,384,238	
NET ASSETS		
Unrestricted		
Undesignated	90,067	\$ 48,237
Designated	11,074,997	14,277,110
Total unrestricted net assets	11,165,064	14,325,347
Temporarily restricted	58,906	62,096
Permanently restricted	34,203	35,086
Total net assets	11,258,173	14,422,529
Total liabilities and net assets	\$ 16,642,411	\$ 14,422,529

See notes to financial statements

**UNIVERSITY OF KENTUCKY  
ALUMNI ASSOCIATION  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUES AND OTHER ADDITIONS</b>				
In-kind contributions				
University of Kentucky	\$ 1,147,060			\$ 1,147,060
Membership dues	829,313			829,313
Alumni projects	434,034			434,034
Royalties	441,318			441,318
Gifts and contributions	5,760			5,760
Advertising	108,583			108,583
Fundraising, net of expenses of \$12,668	21,639			21,639
Investment return	(1,419,786)	\$ 2,010	\$ 1,117	(1,416,659)
Total revenues and other additions	<u>1,567,921</u>	<u>2,010</u>	<u>1,117</u>	<u>1,571,048</u>
<b>EXPENSES</b>				
Program services				
Alumni relations	1,047,734			1,047,734
Publications	296,897			296,897
Awards and scholarships	113,189	5,200	2,000	120,389
Total program services	<u>1,457,820</u>	<u>5,200</u>	<u>2,000</u>	<u>1,465,020</u>
Gifts to UK and its affiliated corporations	1,376,263	-	-	1,376,263
Management and general expenses	1,808,218	-	-	1,808,218
Investment expenses	85,903	-	-	85,903
Total expenses	<u>4,728,204</u>	<u>5,200</u>	<u>2,000</u>	<u>4,735,404</u>
Change in net assets	<u>(3,160,283)</u>	<u>(3,190)</u>	<u>(883)</u>	<u>(3,164,356)</u>
NET ASSETS, beginning of year	<u>14,325,347</u>	<u>62,096</u>	<u>35,086</u>	<u>14,422,529</u>
NET ASSETS, end of year	<u>\$ 11,165,064</u>	<u>\$ 58,906</u>	<u>\$ 34,203</u>	<u>\$ 11,258,173</u>

See notes to financial statements

**UNIVERSITY OF KENTUCKY  
ALUMNI ASSOCIATION  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2007**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES AND OTHER ADDITIONS</b>				
In-kind contributions				
University of Kentucky	\$ 981,772			\$ 981,772
Membership dues	888,809			888,809
Alumni projects	307,487			307,487
Royalties	103,453			103,453
Gifts and contributions	8,926			8,926
Advertising	90,104			90,104
Investment return	1,834,735	\$ 2,859	\$ 1,680	1,839,274
Other, net	7,028	-	-	7,028
Total revenues and other additions	4,222,314	2,859	1,680	4,226,853
<b>EXPENSES</b>				
Program services				
Alumni relations	843,361			843,361
Publications	315,013			315,013
Awards and scholarships	5,074	8,264	3,650	16,988
Total program services	1,163,448	8,264	3,650	1,175,362
Management and general expenses	1,625,735	-	-	1,625,735
Investment expenses	80,048	-	-	80,048
Total expenses	2,869,231	8,264	3,650	2,881,145
Change in net assets	1,353,083	(5,405)	(1,970)	1,345,708
NET ASSETS, beginning of year	12,972,264	67,501	37,056	13,076,821
NET ASSETS, end of year	\$ 14,325,347	\$ 62,096	\$ 35,086	\$ 14,422,529

See notes to financial statements

**UNIVERSITY OF KENTUCKY  
ALUMNI ASSOCIATION  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (3,164,356)	\$ 1,345,708
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	16,028	22,595
Net realized and unrealized (gains) losses on investments	1,905,516	(1,495,987)
Interest and dividends restricted for long term investment	(3,127)	(4,539)
Changes in asset and liability accounts:		
Athletic ticket deposits	41,638	(26,210)
Accounts receivable	(86,843)	(340)
Accounts payable	70,100	-
Deferred revenue	5,272,500	-
Prepaid expenses	(2,611)	-
Net cash provided (used) by operating activities	<u>4,048,845</u>	<u>(158,773)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	-	(6,838)
Proceeds from sale of investments	4,737,824	1,461,110
Purchase of investments	(7,629,123)	(1,251,266)
Net cash provided (used) by investing activities	<u>(2,891,299)</u>	<u>203,006</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Interest and dividends restricted for permanent reinvestment	<u>3,127</u>	<u>4,539</u>
Net cash provided (used) by financing activities	<u>3,127</u>	<u>4,539</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,160,673	48,772
CASH AND CASH EQUIVALENTS, beginning of year	<u>809,197</u>	<u>760,425</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 1,969,870</u></u>	<u><u>\$ 809,197</u></u>

See notes to financial statements

## NOTES TO FINANCIAL STATEMENTS

### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Reporting Entity

The University of Kentucky Alumni Association (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 Association prepares its financial statements in accordance with the provisions of Statement of Financial Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." SFAS No. 117 establishes external financial reporting standards for not-for-profit organizations that include three separate classes of net assets.

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. As required by SFAS No. 117, 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 a maturity of three months or less.

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

Equipment, Furniture and Vehicles. Equipment, furniture and vehicles are recorded at cost or fair value at date of gift, if donated. Depreciation is computed by the straight-line method over the estimated useful lives of the assets, generally 5–7 years.

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 federal income tax under the Internal Revenue Code, as a 501(c)(3) organization.

Royalties and deferred revenue. During 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 is recognized as revenue ratably over the contract term of ten years, on the straight line basis. The Association will receive \$30 per successful credit card application over the next ten years. Such royalties are recognized when received.



Contributions: Gifts of cash and other assets received without donor stipulations are reported as unrestricted 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 statement of activities as a net asset released from restrictions. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as temporarily restricted and released from restriction.

Concentrations of Credit Risk: The Association maintains cash deposits including checking and money market accounts in banks insured by the Federal Deposit Insurance Corporation (FDIC). None of the Association's investments that are insured by the FDIC exceed the insurance limit. Investments are maintained in a brokerage account insured by the Securities Investor Protection Corporation (SPIC). Accounts are insured up to \$500,000 by SPIC against broker insolvency or other non-market related legal events. The SPIC insurance limit for cash accounts is \$100,000. The Association's cash investment account exceeds this limit by approximately \$1,792,000.

Membership Dues: The majority of Association members pay dues annually. The membership dues are realized when received.

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

Reclassifications: Certain 2007 amounts have been reclassified to conform with the 2008 financial statement presentation. Such reclassification has no effect on the change in net assets.

## 2. INVESTMENTS

The following table summarizes the fair value of the investments as of June 30, 2008 and 2007:

	2008	2007
US Treasury obligations		\$ 1,500,581
Corporate bonds and U.S. government obligations	\$ 4,585,361	2,074,601
Common stocks	6,994,105	10,004,105
Mutual funds	2,985,604	-
Total	<u>\$ 14,565,070</u>	<u>\$ 13,579,287</u>

Investments are classified as follows:

	2008	2007
Current assets	\$ 9,979,709	\$ 10,004,105
Long-term assets	4,585,361	3,575,182
Total	<u>\$ 14,565,070</u>	<u>\$ 13,579,287</u>

Components of investment return for the years ended June 30, 2008 and 2007 are as follows:

	2008	2007
Interest and dividends received	\$ 488,857	\$ 343,287
Realized gains and losses	416,179	265,435
Unrealized gains and losses	(2,321,695)	1,230,552
Total	<u>\$ (1,416,659)</u>	<u>\$ 1,839,274</u>

The fair value of the Association's investment portfolio is subject to the volatility in the securities and other investment markets. The fair value of Investment has decreased significantly since June 30, 2008. As of November 30, 2008, the fair value of investments was \$12,579,019.

### 3. RELATED PARTY TRANSACTIONS

The Association cooperates with the University in maintaining alumni relations and records, including providing information about alumni members to the University. The University provides support for the operations and management of the Alumni Association. The fair value of the University's support, reflected in these financial statements as a contribution from the University and as management and general expenses, totaled \$871,060 and \$705,772 in 2008 and 2007, 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 \$276,000 in 2008 and 2007, 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 \$1,147,060 and \$981,772 in 2008 and 2007, respectively.

Included in accounts payable in the statement of financial position are \$50,000 and \$0 as of June 30, 2008 and 2007, respectively, that are due to the University for scholarships.

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

	<u>2008</u>	<u>2007</u>
Athletic tickets (Alumni relations)	\$ 325,536	\$ 235,566
Boone Center renovations (Gifts to UK and its affiliated corporations)	276,263	-
Other gifts to UK and its affiliated corporations	1,100,000	-
Scholarships (Award and scholarships)	120,389	16,988
	<u>\$ 1,822,188</u>	<u>\$ 252,554</u>

### 4. PENSION PLANS

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 fully vested retirement benefits for employees. The Association contributes 10% of eligible compensation and employees contribute 5% of eligible compensation. The Association's share of the cost of these benefits was \$90,237 and \$78,930 in 2008 and 2007, 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 GASB 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, 2008.

## 6. UNRESTRICTED NET ASSETS

Designated unrestricted net assets include the Investment Fund, the King House Fund, the Life Membership Fund, the Student Activities Fund, and the Ready Reserve Fund. Investment Fund net assets are designated for investment as quasi-endowments. King House Fund net assets are designated for capital expenditures relating to the Helen G. King Alumni House. The Life Membership Fund net assets consist of proceeds from life membership dues. The Student Activities Fund net assets are used to provide scholarships to worthy students at the University. The Ready Reserve Fund net assets represent a distribution received from the Inga Kirby Trust. Each fund has been designated by the Board of Directors and is separated for investment purposes. However, the net assets of the funds may be used for current operations.

Following is a summary of activity in the designated unrestricted net assets for the year ended June 30, 2008:

	Investment Fund	King House	Life Membership	Student Activities	Ready Reserve	Total
Revenues	\$ (343,523)	\$ 63	\$ (876,756)	\$ 3,069	\$ 91,960	\$ (1,125,187)
Transfers (out)	(1,713,337)	-	(350,998)	(13,940)	(84,000)	(2,162,275)
Transfer (in)	179,702	-	-	-	-	179,702
Expenses	(34,920)	(1,063)	(50,983)	-	(7,387)	(94,353)
Net increase (decrease) for the year	(1,912,078)	(1,000)	(1,278,737)	(10,871)	573	(3,202,113)
Net assets, beginning of the year	5,049,298	1,000	9,143,783	66,336	16,693	14,277,110
Net assets, end of year	\$ 3,137,220	\$ -	\$ 7,865,046	\$ 55,465	\$ 17,266	\$ 11,074,997

Following is a summary of activity in the designated unrestricted net assets for the year ended June 30, 2007:

	Investment Fund	King House	Life Membership	Student Activities	Ready Reserve	Total
Revenues	\$ 661,764	\$ 37	\$ 1,167,300	\$ 3,678	\$ 458	\$ 1,833,237
Transfers (out)	(239,711)	-	(87,240)	-	-	(326,951)
Expenses	(29,277)	(156)	(50,771)	-	(1,117)	(81,321)
Net increase (decrease) for the year	392,776	(119)	1,029,289	3,678	(659)	1,424,965
Net assets, beginning of the year	4,656,522	1,119	8,114,494	62,658	17,352	12,852,145
Net assets, end of year	\$ 5,049,298	\$ 1,000	\$ 9,143,783	\$ 66,336	\$ 16,693	\$ 14,277,110

## 7. RESTRICTED NET ASSETS

Restricted net assets include the Awards and Scholarships Fund, the Class of 1933 Scholarships Fund, the Class of 1938 Scholarships Fund and the Teague Scholarship Fund, all of which have been restricted as to the nature of expenditures by the donors. The Awards and Scholarships Fund net assets must be used to provide scholarships to worthy students at the University. The Class of 1933 and 1938 Scholarship funds are net assets donated by these graduating classes of the University and are also to be used for scholarships to worthy students at the University. 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. Peniston. Scholarships are to be awarded annually.

Following is a summary of activity in the restricted net assets for the year ended June 30, 2008:

	Awards and Scholarship	Class of 1933 Scholarship	Class of 1938 Scholarship	Total Temporarily Restricted	Permanently Restricted Teague Scholarship
Revenues	\$ 1,340	\$ 372	\$ 298	\$ 2,010	\$ 1,117
Net assets released from restrictions	(963)	(3,000)	(1,237)	(5,200)	(2,000)
Net increase (decrease) for the year	377	(2,628)	(939)	(3,190)	(883)
Net assets, beginning of the year	18,640	34,517	8,939	62,096	35,086
Net assets, end of year	\$ 19,017	\$ 31,889	\$ 8,000	\$ 58,906	\$ 34,203

Following is a summary of activity in the restricted net assets for the year ended June 30, 2007:

	Awards and Scholarship	Class of 1933 Scholarship	Class of 1938 Scholarship	Total Temporarily Restricted	Permanently Restricted Teague Scholarship
Revenues	\$ 908	\$ 1,588	\$ 363	\$ 2,859	\$ 1,680
Net assets released from restrictions	(4,214)	(3,650)	(400)	(8,264)	(3,650)
Net decrease for the year	(3,306)	(2,062)	(37)	(5,405)	(1,970)
Net assets, beginning of the year	21,946	36,579	8,976	67,501	37,056
Net assets, end of year	\$ 18,640	\$ 34,517	\$ 8,939	\$ 62,096	\$ 35,086

## 8. WILLIAM T. YOUNG LIBRARY

The Association agreed to act as a conduit for the University in the construction of a new library on the campus of the University. Accordingly, the Lexington-Fayette Urban County Government issued bonds in December 1994, and refunding bonds in July 1998, on behalf of the Association to fund construction. The University of Kentucky Athletic Association (Athletic Association) agreed to assume full responsibility for the debt service associated with the bond issue. Payment of the bonds is also guaranteed by the Kentucky Medical Services Foundation, Inc, a related organization of the University, and the bonds are collateralized by the related land and library building. The Association had the responsibility for construction of the library building and the bonds were issued in the Association's name. The University has the right to full utilization of the library building, which was completed in 1998. When the bonds are fully paid, legal title will be transferred to the University.

As the Athletic Association has the primary responsibility for the debt service on the bonds, both the library building and bonds are included in the Athletic Association's financial statements.

## 9. OPERATING LEASE OBLIGATION

The Association entered into a leasing agreement with Mueller Properties LLC to lease the first level of the Mueller Building located in Louisville, KY. The term of this lease is for a period of five (5) years. The Association began payment mid-year, and incurred \$19,757 of rent expense for the year ended June 30, 2008. The Association leased this property for the benefit of the University and the Association. The University and the Association have and will continue to use this property for various activities including: student recruitment, Development events, alumni activities, meetings, and athletic events.

Following is a schedule of minimum lease payments related to this lease for future years:

Year ending June 30,		
2009	\$	45,453
2010		45,453
2011		45,453
2012		46,817
2013		28,129
Total minimum lease payments	\$	<u>211,306</u>



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