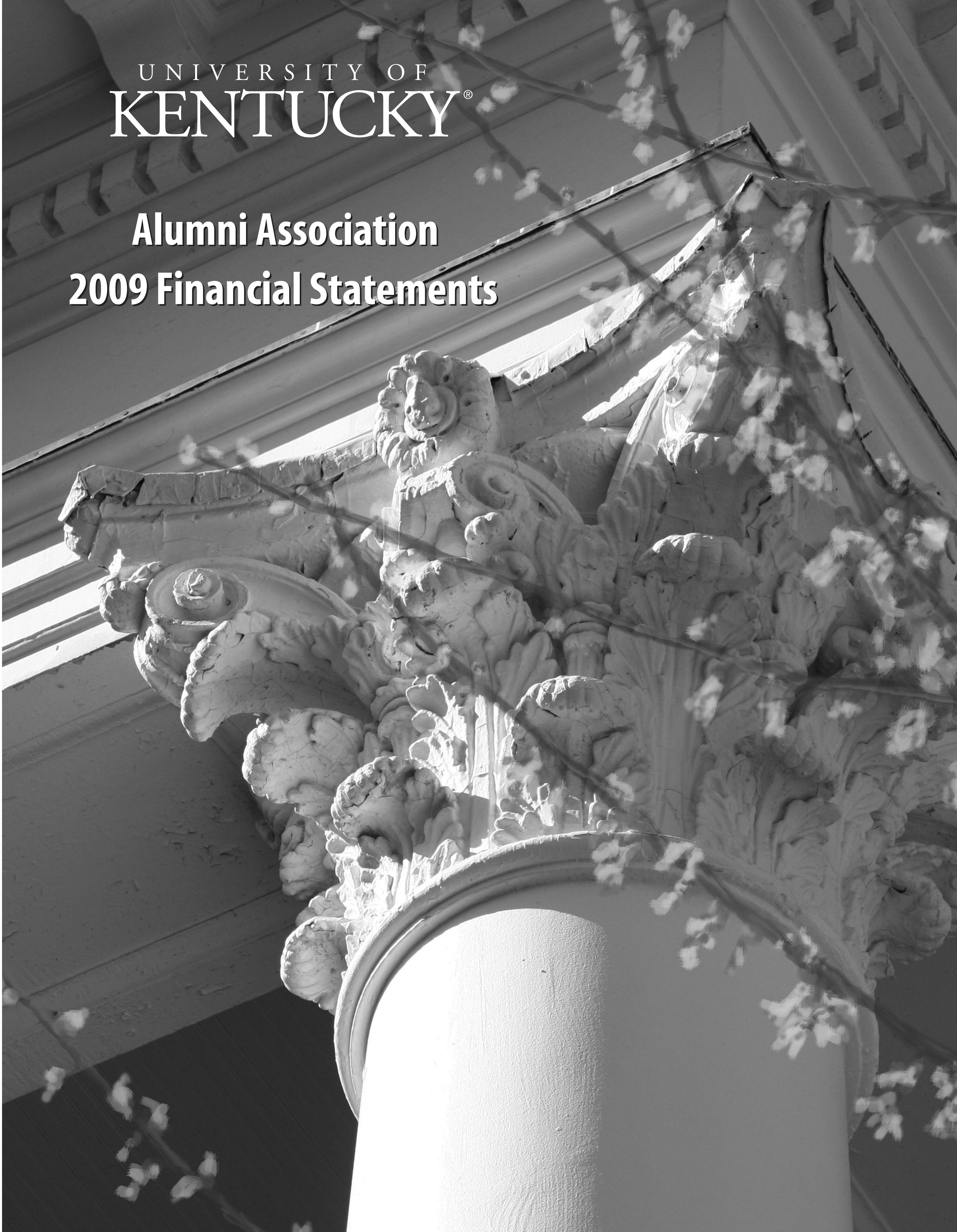
UNIVERSITY OF KENTUCKY

Alumni Association
2009 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 statements of financial position of the University of Kentucky Alumni Association (Association) as of June 30, 2009 and 2008, and the related statements of activities and cash flows for the years 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 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 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 audits provide a reasonable basis for our opinion.

As discussed in Note 3, in 2009 the Association changed its method of accounting for fair value measurements in accordance with Statement of Financial Accounting Standards No. 157.

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, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

BKD, LLP

September 21, 2009

UNIVERSITY OF KENTUCKY
ALUMNI ASSOCIATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2009 AND 2008

	2009	2008
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,646,311	$ 1,969,870
Accounts receivable	6,635	15,086
Accrued interest receivable	61,954	72,097
Prepaid expenses	6,496	2,611
Investments	7,478,449	9,979,709
Total current assets	9,199,845	12,039,373
LONG TERM INVESTMENTS	4,348,566	4,585,361
Equipment, furniture, and vehicles		
Less accumulated depreciation of $318,441		
and $306,270 for 2009 and 2008, respectively	10,619	17,677
Total assets	$ 13,559,030	$ 16,642,411
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Athletic ticket deposits	$ 13,611	$ 41,638
Accounts payable	42,297	70,100
Deferred revenue	555,000	555,000
Total current liabilities	610,908	666,738
NONCURRENT LIABILITIES		
Deferred revenue	4,162,500	4,717,500
Total noncurrent liabilities	4,162,500	4,717,500
Total liabilities	4,773,408	5,384,238
NET ASSETS		
Unrestricted		
Undesignated	129,826	90,067
Designated	8,562,687	11,074,997
Total unrestricted net assets	8,692,513	11,165,064
Temporarily restricted	58,906	58,906
Permanently restricted	34,203	34,203
Total net assets	8,785,622	11,258,173
Total liabilities and net assets	$ 13,559,030	$ 15,975,673

See notes to financial statements

UNIVERSITY OF KENTUCKY
ALUMNI ASSOCIATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER ADDITIONS				
In-kind contributions				
University of Kentucky	$ 1,051,262			$ 1,051,262
Membership dues	1,095,909			1,095,909
Alumni projects	436,736			436,736
Royalties	692,980			692,980
Gifts and contributions	8,842			8,842
Advertising	90,556			90,556
Fundraising, net of expenses of $844	7,909			7,909
Investment return	(2,312,458)	$ 1,692	$ 1,057	(2,309,709)
Net assets released from restrictions	2,749	(1,692)	(1,057)	-
Total revenues and other additions	1,074,485	-	-	1,074,485
EXPENSES				
Program services				
Alumni relations	1,066,031	-	-	1,066,031
Publications	327,352	-	-	327,352
Awards and scholarships	40,743	-	-	40,743
Total program services	1,434,126	-	-	1,434,126
Gifts to the Hilary J. Boone Center	234,376	-	-	234,376
Gifts to UK and its affiliated corporations	92,998	-	-	92,998
Management and general expenses	1,702,541	-	-	1,702,541
Investment expenses	82,995	-	-	82,995
Total expenses	3,547,036	-	-	3,547,036
Change in net assets	(2,472,551)	-	-	(2,472,551)
NET ASSETS, beginning of year	11,165,064	58,906	34,203	11,258,173
NET ASSETS, end of year	$ 8,692,513	$ 58,906	$ 34,203	$ 8,785,622

See notes to financial statements

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER ADDITIONS				
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)
Net assets released from restrictions	7,200	(5,200)	(2,000)	-
Total revenues and other additions	1,575,121	(3,190)	(883)	1,571,048
EXPENSES				
Program services				
Alumni relations	1,047,734	-	-	1,047,734
Publications	296,897	-	-	296,897
Awards and scholarships	120,389	-	-	120,389
Total program services	1,465,020	-	-	1,465,020
Gifts to the Hilary J. Boone Center	276,263	-	-	276,263
Gifts to UK and its affiliated corporations	1,100,000	-	-	1,100,000
Management and general expenses	1,808,218	-	-	1,808,218
Investment expenses	85,903	-	-	85,903
Total expenses	4,735,404	-	-	4,735,404
Change in net assest	(3,160,283)	(3,190)	(883)	(3,164,356)
NET ASSETS, beginning of year	14,325,347	62,096	35,086	14,422,529
NET ASSETS, end of year	$11,165,064	$ 58,906	$ 34,203	$ 11,258,173

See notes to financial statements

UNIVERSITY OF KENTUCKY
ALUMNI ASSOCIATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ (2,472,551)	$ (3,164,356)
Adjustments to reconcile change in net assets to		
net cash provided (used) by operating activities:		
Depreciation	12,171	16,028
Net realized and unrealized (gains) losses on investments	2,730,780	1,905,516
Interest and dividends restricted for long term investment	(2,749)	(3,127)
Changes in asset and liability accounts:		
Athletic ticket deposits	(28,027)	41,638
Accounts and interest receivable	18,594	(86,843)
Accounts payable	(27,803)	70,100
Deferred revenue	(555,000)	5,272,500
Prepaid expenses	(3,885)	(2,611)
Net cash provided by operating activities	(328,470)	4,048,845
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(5,113)	
Proceeds from sale of investments	4,964,153	4,737,824
Purchase of investments	(4,956,878)	(7,629,123)
Net cash provided (used) by investing activities	2,162	(2,891,299)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Interest and dividends restricted for permanent reinvestment	2,749	3,127
Net cash provided (used) by financing activities	2,749	3,127
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(323,559)	1,160,673
CASH AND CASH EQUIVALENTS, beginning of year	1,969,870	809,197
CASH AND CASH EQUIVALENTS, end of year	$ 1,646,311	$ 1,969,870

See notes to financial statements

UNIVERSITY OF KENTUCKY ALUMNI ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 and 2008

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 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. Certificates of deposit are stated at cost plus accrued interest, which approximates market 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.

Uncertain Tax Position. In accordance with Financial Accounting Standards Board (FASB) Staff Position No. FIN 48-3, the Association has elected to defer the effective date of FASB Interpretation No 48 (FIN-48), *Accounting for Uncertainty in Income Taxes,* until its fiscal year ending June 30, 2010. The Association has continued to account for any uncertain tax positions in accordance with literature that was authoritative immediately prior to the effective date of FIN 48, such as FASB Statement No. 109, *Accounting for Income Taxes* and FASB Statement No. 5, *Accounting for Contingencies*.

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 over the contract term of ten years, on the straight-line basis. The Association will also 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 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 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 and certificates of deposit in banks insured by the Federal Deposit Insurance Corporation (FDIC). Effective October 3, 2008, these deposits are insured by each institution in the amount of $250,000 per customer, which is currently set to expire December 31, 2013. The financial institution holding the Association's cash accounts is participating in the FDIC's transaction account guarantee program. Under that program, through December 31, 2009, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. 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 against brokerage firm insolvency or other non-market related legal events up to $500,000 per customer of which $100,000 is for uninvested cash.

Membership Dues. The Alumni Association membership consists mainly of members who pay dues annually. The membership dues are realized in a one-year term.

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.

Subsequent Events. Subsequent events have been evaluated through September 21, 2009, which is the date the financial statements were available to be issued.

Reclassifications. Certain 2008 balances have been reclassified to conform with the 2009 financial statement presentation. Such reclassifications had no effect on the change in net assets.

2. INVESTMENTS

The following table summarizes the fair value of the investments as of June 30, 2009 and 2008:

	2009	2008
U.S. government obligations	$ 2,631,098	$ 2,447,619
Corporate bonds	1,717,468	2,137,742
Common stocks	2,302,684	6,994,105
Mutual funds	4,975,765	2,985,604
Certificates of deposit	200,000	-
Total	$ 11,827,015	$ 14,565,070

Investments are classified as follows:

	2009	2008
Current assets	$ 7,478,449	$ 9,979,709
Long term assets	4,348,566	4,585,361
Total	$ 11,827,015	$ 14,565,070

Components of investment income for the years ended June 30, 2009 and 2008 are as follows:

	2009	2008
Interest and dividends received	$ 421,071	$ 488,857
Realized gains and losses	(982,270)	416,179
Unrealized gains and losses	(1,748,510)	(2,321,695)
Total	$ (2,309,709)	$ (1,416,659)

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

Effective July 1, 2008, the Association adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 has been applied prospectively as of the beginning of the year.

FAS 157 defines fair value as 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. FAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. 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.

Following is a description of the inputs and valuation method used for instruments 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 instruments pursuant to the valuation hierarchy.

Cash equivalents and investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include cash equivalents – money market funds, common stock, and mutual funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include corporate bonds and U.S. government obligations.

The following table presents the fair value measurements of instruments recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the FAS 157 fair value hierarchy in which the fair value measurements fall at June 30, 2009:

		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)
Cash equivalents - money market funds	$ 7,079	$ 7,079		
Investments	$ 11,627,015	$ 7,278,449	$ 4,348,566	$ -

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. From time to time the University contributes to the cost of building remodeling and renovations when performed. 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 $775,262 and $871,060 in 2009 and 2008, 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 2009 and 2008, 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 $1,051,262 and $1,147,060 in 2009 and 2008, respectively.

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

	2009	2008
Athletic tickets (alumni relations)	$ 322,400	$ 325,536
Gifts to the Hilary J. Boone Center	234,376	276,263
Gifts to the University and its affiliated corporations	92,998	1,100,000
Scholarships (awards and scholarships)	40,743	120,389
	$ 690,517	$ 1,822,188

As of June 30, 2009 and 2008, respectively, amounts due to the University for class ring sales were $27,164 and $0.

5. 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 percent of eligible compensation and employees contribute 5 percent of eligible compensation. The Association's share of the cost of these benefits was $87,970 and $90,237 in 2009 and 2008, 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, 2009 and 2008.

7. NET ASSETS

Designated unrestricted net assets

Designated unrestricted net assets include the Investment Fund, the Life Membership Fund, and the Student Activities Fund. The Ready Reserve Fund was converted from a money market account with funds held in reserve for emergencies, into a merchant services bank account used for processing online event registrations. 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 Student Activities Fund net assets are used to provide scholarships to worthy students at the University. 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.

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/Penniston 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 years ended June 30, 2009:

	Awards & Scholarship	Class of 1933 Scholarship	Class of 1938 Scholarship	Total Temporarily Restricted	Permanently Restricted Teague Scholarship
Revenues	$ 1,057	$ 352	$ 282	$ 1,692	$ 1,057
Net assets released from restrictions	(1,057)	(352)	(282)	(1,692)	(1,057)
Net increase (decrease) for the year	-	-	-	-	-
Net assets, beginning of year	19,017	31,889	8,000	58,906	34,203
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 years ended June 30, 2008:

	Awards & 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 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

Net assets released from restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2009	2008
Purpose restrictions accomplished		
Awards and Scholarships expenses	$ 2,749	$ 7,200

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 Management of Institutional Funds Act (UMIFA) 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 UMIFA. In accordance with UMIFA, 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, 2009 and 2008, was:

	2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds		$ 58,906	$ 34,203	$ 93,109
Board-designated endowment funds	$ 8,562,687	-	-	8,562,687
Total endowment funds	$ 8,562,687	$ 58,906	$ 34,203	$ 8,655,796

	2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds		$ 58,906	$ 34,203	$ 93,109
Board-designated endowment funds	$ 11,074,997	-	-	11,074,997
Total endowment funds	$ 11,074,997	$ 58,906	$ 34,203	$ 11,168,106

Changes in endowment net assets for the year ended June 30, 2009 were:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$11,074,997	$ 58,906	$ 34,203	$ 11,168,106
Investment return:				
Investment income	983,766	1,692	1,057	986,515
Net appreciation (depreciation)	(2,730,780)	-	-	(2,730,780)
Total investment return	(1,747,014)	1,692	1,057	(1,744,265)
Appropriation of endowment assets for expenditure	(82,995)	(1,692)	(1,057)	(85,744)
Transfers for operations	(682,301)	-	-	(682,301)
Endowment net assets, end of year	$ 8,562,687	$ 58,906	$ 34,203	$ 8,655,796

Changes in endowment net assets for the year ended June 30, 2008 were:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$14,277,110	$ 62,096	$ 35,086	$ 14,374,292
Investment return:				
Investment income	780,329	2,010	1,117	783,456
Net appreciation (depreciation)	(1,905,516)	-	-	(1,905,516)
Total investment return	(1,125,187)	2,010	1,117	(1,122,060)
Appropriation of endowment assets for expenditure	(94,353)	(5,200)	(2,000)	(101,553)
Transfers for operations	(1,982,573)	-	-	(1,982,573)
Endowment net assets, end of year	$ 11,074,997	$ 58,906	$ 34,203	$ 11,168,106

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at June 30, 2009 and 2008, consisted of:

	2009	2008
Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation	$ 34,203	$ 34,203
Temporarily restricted net assets:		
Term endowment funds	58,906	58,906
	$ 93,109	$ 93,109

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. The Association expects its endowment funds to provide an average rate of return of approximately 10 percent annually over time. Actual returns in any given year may vary from this amount.

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 (5%) of the fund will be budgeted in the following fiscal year's general operating budget and up to an additional 3 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.

9. 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 (LFUCG) 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 (the Athletic Association) agreed to assume full responsibility for the debt service associated with the bond issue. As the Athletic Association had the primary responsibility for the debt service on the bonds, both the library building and bonds were included in the Athletic Association's financial statements at June 30, 2008.

The Lexington-Fayette Urban County Government Series 1998 bonds were defeased in March 2009 with proceeds from General Receipts Series A bonds. The liability for the new bond rests with the University and the related assets were transferred from the Athletic Association to the University. Neither the Athletic Association nor the Alumni Association have any further responsibilities under the bond indenture.

10. 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 incurred $45,453 and $19,757 of rent expense for the years ended June 30, 2009 and 2008, respectively. The Association leased this property for the benefit of the University and the Association. The University and the Association 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,	
2010	45,453
2011	45,453
2012	46,817
2013	28,129
	165,852

11. CURRENT ECONOMIC CONDITIONS

The current economic environment presents not-for-profit organizations with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments, declines in gifts and, to a lesser extent, a decline in advertising revenue. The financial statements have been prepared using values and information currently available to the Association.

Current economic and financial market conditions have made it difficult for many donors to continue to contribute to not-for-profit organizations. A significant decline in contribution revenue from donations or a decline in membership could have an adverse impact on the Association's future operating results.

In addition, given the volatility of current economic conditions, the values of assets recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values that could negatively impact the Association's ability to meet or maintain sufficient liquidity.

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