2012 Financial Statements

Alumni Association

UK
UNIVERSITY OF
KENTUCKY®

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, 2012 and 2011, 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 audits 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.

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, 2012 and 2011, 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 4, 2012

UNIVERSITY OF KENTUCKY
ALUMNI ASSOCIATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2012 AND 2011

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 643,885	$ 866,045
Accounts receivable	45,766	15,972
Accrued interest receivable	61,303	58,838
Prepaid expenses	17,780	61,014
Total current assets	768,734	1,001,869
Long-term investments	15,626,567	15,885,582
Equipment, furniture, and vehicles		
Less accumulated depreciation of $328,014 and $329,015 for 2012 and 2011, respectively	162,833	86,637
Total assets	$ 16,558,134	$ 16,974,088
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Athletic ticket and other deposits	$ 48,158	$ 42,931
Accounts payable	2,074	5,325
Deferred revenue	555,000	555,000
Current maturities of capital lease	6,379	6,379
Total current liabilities	611,611	609,635
Deferred revenue	2,497,500	3,052,500
Capital lease	-	6,379
Total liabilities	3,109,111	3,668,514
NET ASSETS		
Unrestricted		
Undesignated	368,186	346,500
Designated	13,050,837	12,929,074
Total unrestricted net assets	13,419,023	13,275,574
Permanently restricted	30,000	30,000
Total net assets	13,449,023	13,305,574
Total liabilities and net assets	$ 16,558,134	$ 16,974,088

See notes to financial statements

UNIVERSITY OF KENTUCKY
ALUMNI ASSOCIATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER ADDITIONS				
In-kind contributions				
University of Kentucky	$ 1,107,828			$ 1,107,828
Membership dues	890,877			890,877
Alumni projects	384,330			384,330
Royalties	769,884			769,884
Gifts and contributions	9,180			9,180
Advertising	82,041			82,041
Fundraising, net of expenses of $25,423	78,271			78,271
Investment return	431,609		$ 183	431,792
Net assets released from restrictions	183		(183)	-
Total revenues and other additions	3,754,203	$ -	-	3,754,203
EXPENSES				
Program services				
Alumni relations	864,920		-	864,920
Publications	175,983		-	175,983
Awards and scholarships	129,553		-	129,553
Total program services	1,170,456	-	-	1,170,456
Gifts to UK and its affiliated corporations	422,723		-	422,723
Management and general expenses	1,928,789		-	1,928,789
Investment expenses	88,786		-	88,786
Total expenses	3,610,754	-	-	3,610,754
Change in net assets	143,449	-	-	143,449
NET ASSETS, beginning of year	13,275,574	-	30,000	13,305,574
NET ASSETS, end of year	$ 13,419,023	$ -	$ 30,000	$ 13,449,023

See notes to financial statements

UNIVERSITY OF KENTUCKY
ALUMNI ASSOCIATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER ADDITIONS				
In-kind contributions				
University of Kentucky	$ 1,117,648			$ 1,117,648
Membership dues	1,078,754			1,078,754
Alumni projects	348,732			348,732
Royalties	714,563			714,563
Gifts and contributions	13,682			13,682
Advertising	72,467			72,467
Fundraising, net of expenses of $365	10,491			10,491
Investment return	2,922,037	$ 409	$ 256	2,922,702
Net assets released from restrictions and reclassifications	63,774	(59,315)	(4,459)	-
Total revenues and other additions	6,342,148	(58,906)	(4,203)	6,279,039
EXPENSES				
Program services				
Alumni relations	916,618	-	-	916,618
Publications	206,284	-	-	206,284
Awards and scholarships	55,363	-	-	55,363
Total program services	1,178,265	-	-	1,178,265
Gifts to UK and its affiliated corporations	194,836	-	-	194,836
Management and general expenses	1,917,856	-	-	1,917,856
Investment expenses	88,011	-	-	88,011
Total expenses	3,378,968	-	-	3,378,968
Change in net assets	2,963,180	(58,906)	(4,203)	2,900,071
NET ASSETS, beginning of year	10,312,394	58,906	34,203	10,405,503
NET ASSETS, end of year	$ 13,275,574	$ -	$ 30,000	$ 13,305,574

See notes to financial statements

UNIVERSITY OF KENTUCKY
ALUMNI ASSOCIATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 143,449	$ 2,900,071
Adjustments to reconcile change in net assets to		
net cash provided (used) by operating activities:		
Depreciation	23,553	14,246
Net realized and unrealized (gains) losses on investments	(44,549)	(2,542,454)
Interest and dividends restricted for long term investment	(183)	(665)
Changes in asset and liability accounts:		
Athletic ticket deposits	5,227	(11,688)
Accounts and interest receivable	(32,259)	9,014
Accounts payable	(3,251)	(35,643)
Deferred revenue	(555,000)	(555,000)
Prepaid expenses	43,234	(29,591)
Net cash provided (used) by operating activities	(419,779)	(251,710)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(99,749)	(71,075)
Proceeds from sale of investments	2,230,888	5,735,296
Purchase of investments	(1,927,324)	(5,499,417)
Net cash provided (used) by investing activities	203,815	164,804
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments under capital lease	(6,379)	(6,379)
Interest and dividends restricted for permanent reinvestment	183	665
Net cash provided (used) by financing activities	(6,196)	(5,714)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(222,160)	(92,620)
CASH AND CASH EQUIVALENTS, beginning of year	866,045	958,665
CASH AND CASH EQUIVALENTS, end of year	$ 643,885	$ 866,045
NONCASH TRANSACTIONS:		
Equipment purchased with capital lease	$ -	$ 19,137

See notes to financial statements

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.

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 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.

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. With a few exceptions, the Association is no longer subject to U.S. federal examinations by tax authorities for years before 2008.

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), with insurance limits of $250,000. Effective December 31, 2010 through December 31, 2012, deposits held in all noninterest-bearing transaction accounts will be insured, regardless of the amount in the account, at all FDIC insured institutions. 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 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.

Reclassifications. Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 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 Accountants' 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, 2012 and 2011:

	2012	2011
U.S. government obligations	$ 2,672,541	$ 2,494,183
Corporate bonds	1,665,679	1,758,334
Common stocks		
Consumer discretionary	1,220,942	867,978
Financial common stocks	836,980	738,651
Other	1,641,506	1,693,068
Mutual funds		
Mid cap funds	289,235	738,724
Large cap funds	2,010,440	1,800,556
International funds	2,032,107	1,851,168
Other	241,030	405,215
Exchange traded funds	2,876,107	3,362,705
Certificates of deposit	140,000	175,000
Total	$ 15,626,567	$ 15,885,582

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

Components of investment income for the years ended June 30, 2012 and 2011 are as follows:

	2012	2011
Interest and dividends received	$ 387,243	$ 380,248
Realized gains and losses	231,792	1,041,229
Unrealized gains and losses	(187,243)	1,501,225
Total	$ 431,792	$ 2,922,702

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

ASC Topic 820, Fair Value Measurements, 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. Topic 820 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 valuation methodologies and inputs 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 Topic 820 fair value hierarchy in which the fair value measurements fall at June 30, 2012:

	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	$ 35,018	$ 35,018		
US government obligations	$ 2,672,541		$ 2,672,541	
Corporate bonds	$ 1,665,679		$ 1,665,679	
Common stocks				
Consumer discretionary	$ 1,220,942	$ 1,220,942		
Financial common stocks	$ 836,980	$ 836,980		
Other	$ 1,641,506	$ 1,641,506		
Mutual funds				
Mid cap funds	$ 289,235	$ 289,235		
Large cap funds	$ 2,010,440	$ 2,010,440		
International funds	$ 2,032,107	$ 2,032,107		
Other	$ 241,030	$ 241,030		
Exchange traded funds	$ 2,876,107	$ 2,876,107		

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 Topic 820 fair value hierarchy in which the fair value measurements fall at June 30, 2011:

	2011			
	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	$ 34,940	$ 34,940		
US government				
obligations	$ 2,494,183		$ 2,494,183	
Corporate bonds	$ 1,758,334		$ 1,758,334	
Common stocks				
Consumer discretionary	$ 867,978	$ 867,978		
Financial common stocks	$ 738,651	$ 738,951		
Other	$ 1,693,068	$ 1,693,068		
Mutual funds				
Mid cap funds	$ 738,724	$ 738,724		
Large cap funds	$ 1,800,556	$ 1,800,556		
International funds	$ 1,851,168	$ 1,851,168		
Other	$ 405,215	$ 405,215		
Exchange traded funds	$ 3,362,705	$ 3,362,705		

4. LONG-TERM DEBT

On July 13, 2010, the Association entered into a three year lease agreement with Dell Financial Services for the lease of twenty five computers. Payments are due in yearly installments, with two payments made in 2012 and 2011 and the final payment of $6,379 remaining. This resulted in a current capital lease payable of this amount. At the conclusion of the lease, the Association will be eligible to purchase the computers from Dell at a cost of $1.

5. 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 $797,828 and $807,648 in 2012 and 2011, 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 $310,000 in 2012 and 2011, 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 $1,107,828 and $1,117,648 in 2012 and 2011, respectively.

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

	2012	2011
Athletic tickets (alumni relations)	$ 289,227	$ 257,416
Wildcat Alumni Plaza	190,900	-
Gifts to the University and its affiliated corporations	231,823	194,836
Scholarships (awards and scholarships)	129,553	55,363
	$ 841,503	$ 507,615

6. 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 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 five 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 $95,645 and $89,529 in 2012 and 2011, respectively.

7. 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, 2012 and 2011.

8. 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 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, 2012 and 2011:

	2012				
	Awards & Scholarship	Class of 1933 Scholarship	Class of 1938 Scholarship	Total Temporarily Restricted	Permanently Restricted Teague Scholarship
Revenues					$ 183
Net assets released from restrictions					(183)
Net assets reclassifications					-
Net increase (decrease) for the year					-
Net assets, beginning of year	$ -	$ -	$ -	$ -	30,000
Net assets, end of year	$ -	$ -	$ -	$ -	$ 30,000

	2011				
	Awards & Scholarship	Class of 1933 Scholarship	Class of 1938 Scholarship	Total Temporarily Restricted	Permanently Restricted Teague Scholarship
Revenues	$ 256	$ 85	$ 68	$ 409	$ 256
Net assets released from restrictions	(256)	(85)	(68)	(409)	(256)
Net assets reclassifications	(19,017)	(31,889)	(8,000)	(58,906)	(4,203)
Net increase (decrease) for the year	(19,017)	(31,889)	(8,000)	(58,906)	(4,203)
Net assets, beginning of year	19,017	31,889	8,000	58,906	34,203
Net assets, end of year	$ -	$ -	$ -	$ -	$ 30,000

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. In addition, certain net assets were reclassified to designated unrestricted by the Association during 2011 based on a revised understanding of the original designation.

	2012	2011
Purpose restrictions accomplished		
Awards and Scholarships expenses	$ 183	$ 256
Association restrictions reclassified	-	63,518
Total net assets released from restriction and reclassified	$ 183	$ 63,774

9. 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, 2012 and 2011 were:

	2012		
	Unrestricted	Permanently Restricted	Total
Donor-restricted endowment funds		$ 30,000	$ 30,000
Board-designated endowment funds	$ 13,050,837	-	13,050,837
Total endowment funds	$ 13,050,837	$ 30,000	$ 13,080,837

	2011		
	Unrestricted	Permanently Restricted	Total
Donor-restricted endowment funds		$ 30,000	$ 30,000
Board-designated endowment funds	$ 12,929,074	-	12,929,074
Total endowment funds	$ 12,929,074	$ 30,000	$ 12,959,074

Changes in endowment net assets for the years ended June 30, 2012 and 2011 were:

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 12,929,074		$ 30,000	$ 12,959,074
Investment return:				
Investment income	929,639		183	929,822
Net appreciation (depreciation)	44,549		-	44,549
Total investment return	974,188		183	974,371
Appropriation of endowment assets for expenditure	(88,585)		(183)	(88,768)
Transfers for operations	(763,840)		-	(763,840)
Endowment net assets, end of year	$ 13,050,837	$ -	$ 30,000	$ 13,080,837

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 9,916,425	$ 58,906	$ 34,203	$ 10,009,534
Investment return:				
Investment income	920,176	409	256	920,841
Net appreciation (depreciation)	2,542,454	-	-	2,542,454
Total investment return	3,462,630	409	256	3,463,295
Appropriation of endowment assets for expenditure	(87,345)	(409)	(256)	(88,010)
Reclassification of net assets	129,912	(58,906)	(4,203)	66,803
Transfers for operations	(492,548)	-	-	(492,548)
Endowment net assets, end of year	$ 12,929,074	$ -	$ 30,000	$ 12,959,074

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at June 30, 2012 and 2011, consisted of:

	2012	2011
Permanently restricted net assets - portion of perpetual endowment fund required to be retained permanently by explicit donor stipulation	$ 30,000	$ 30,000
	$ 30,000	$ 30,000

The donor-restricted net assets are invested in certificates of deposit or money market funds and the value does not fall below the original principal.

The Association has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the Association must hold in perpetuity or for donor-specified periods, as well as those of board-designated endowment funds. Under the Association's policies, endowment assets are invested in a manner that is intended to produce results that exceed the 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 (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.

10. OPERATING LEASE OBLIGATION

In fiscal year 2009 the Association entered into a leasing agreement with Mueller Properties LLC for 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 $47,402 and $46,021 of rent expense for the years ended June 30, 2012 and 2011, 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. The lease expires January 31, 2013. It is not anticipated that the lease will be renewed.

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

Year ending June 30, 2013	$ 28,129
Total minimum lease payments	$ 28,129

11. CURRENT ECONOMIC CONDITIONS

The current economic situation continues to present 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.

UNIVERSITY OF KENTUCKY

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