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UNIVERSITY OF
KENTUCKY[®]
2013 Financial Statements
Alumni Association

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University of Kentucky Alumni Association

CONTENTS	PAGE
Independent Auditor's Report	1
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4 - 5
Statements of Cash Flows	6
Notes to Financial Statements	7

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, 2013 and 2012, 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 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
Page 2

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, 2013 and 2012, 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
August 19, 2013

**UNIVERSITY OF KENTUCKY
ALUMNI ASSOCIATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012**

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,079,878	\$ 643,885
Accounts receivable	20,146	45,766
Accrued interest receivable	68,264	61,303
Prepaid expenses	35,044	17,780
Total current assets	1,203,332	768,734
Long-term investments	17,046,263	15,626,567
Equipment, furniture, and vehicles		
Less accumulated depreciation of \$351,114 and \$328,014 for 2013 and 2012, respectively	41,232	162,833
Total assets	\$ 18,290,827	\$ 16,558,134
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Athletic ticket and other deposits	\$ 42,209	\$ 48,158
Accounts payable	10,488	2,074
Deferred revenue	555,000	555,000
Current maturities of capital lease	-	6,379
Total current liabilities	607,697	611,611
Deferred revenue	1,942,500	2,497,500
Total liabilities	2,550,197	3,109,111
NET ASSETS		
Unrestricted		
Undesignated	277,943	368,186
Designated	15,432,687	13,050,837
Total unrestricted net assets	15,710,630	13,419,023
Permanently restricted	30,000	30,000
Total net assets	15,740,630	13,449,023
Total liabilities and net assets	\$ 18,290,827	\$ 16,558,134

See notes to financial statements

**UNIVERSITY OF KENTUCKY
ALUMNI ASSOCIATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND OTHER ADDITIONS			
In-kind contributions			
University of Kentucky	\$ 1,181,390		\$ 1,181,390
Membership dues	1,031,322		1,031,322
Alumni projects	384,444		384,444
Royalties	751,008		751,008
Gifts and contributions	9,692		9,692
Advertising	70,630		70,630
Fundraising, net of expenses of \$5,014	36,039		36,039
Investment return	2,374,920	\$ 93	2,375,013
Net assets released from restrictions	93	(93)	-
Total revenues and other additions	<u>5,839,538</u>	<u>-</u>	<u>5,839,538</u>
EXPENSES			
Program services			
Alumni relations	1,542,553	-	1,542,553
Publications	641,589	-	641,589
Awards and scholarships	<u>78,150</u>	<u>-</u>	<u>78,150</u>
Total program services	2,262,292	-	2,262,292
Gifts to UK and its affiliated corporations	231,100	-	231,100
Management and general expenses	961,451	-	961,451
Investment expenses	<u>93,088</u>	<u>-</u>	<u>93,088</u>
Total expenses	<u>3,547,931</u>	<u>-</u>	<u>3,547,931</u>
Change in net assets	2,291,607	-	2,291,607
NET ASSETS, beginning of year	<u>13,419,023</u>	<u>30,000</u>	<u>13,449,023</u>
NET ASSETS, end of year	<u>\$ 15,710,630</u>	<u>\$ 30,000</u>	<u>\$ 15,740,630</u>

See notes to financial statements

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

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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	<u>3,754,203</u>	<u>-</u>	<u>3,754,203</u>
EXPENSES			
Program services			
Alumni relations	1,430,647	-	1,430,647
Publications	679,146	-	679,146
Awards and scholarships	129,553	-	129,553
Total program services	<u>2,239,346</u>	<u>-</u>	<u>2,239,346</u>
Gifts to UK and its affiliated corporations	422,723	-	422,723
Management and general expenses	859,899	-	859,899
Investment expenses	88,786	-	88,786
Total expenses	<u>3,610,754</u>	<u>-</u>	<u>3,610,754</u>
Change in net assets	143,449	-	143,449
NET ASSETS, beginning of year	<u>13,275,574</u>	<u>30,000</u>	<u>13,305,574</u>
NET ASSETS, end of year	<u>\$ 13,419,023</u>	<u>\$ 30,000</u>	<u>\$ 13,449,023</u>

See notes to financial statements

**UNIVERSITY OF KENTUCKY
ALUMNI ASSOCIATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 2,291,607	\$ 143,449
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	23,100	23,553
Capital asset gift to the University of Kentucky	98,500	-
Net realized and unrealized (gains) losses on investments	(1,955,711)	(44,549)
Interest and dividends restricted for long term investment	(93)	(183)
Changes in asset and liability accounts:		
Athletic ticket deposits	(5,949)	5,227
Accounts and interest receivable	18,659	(32,259)
Accounts payable	8,414	(3,251)
Deferred revenue	(555,000)	(555,000)
Prepaid expenses	(17,264)	43,234
Net cash provided (used) by operating activities	<u>(93,737)</u>	<u>(419,779)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	-	(99,749)
Proceeds from sale of investments	2,869,225	2,230,888
Purchase of investments	(2,333,209)	(1,927,324)
Net cash provided (used) by investing activities	<u>536,016</u>	<u>203,815</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments under capital lease	(6,379)	(6,379)
Interest and dividends restricted for permanent reinvestment	93	183
Net cash provided (used) by financing activities	<u>(6,286)</u>	<u>(6,196)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	435,993	(222,160)
CASH AND CASH EQUIVALENTS, beginning of year	<u>643,885</u>	<u>866,045</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 1,079,878</u>	<u>\$ 643,885</u>
 Supplemental cash flow disclosure:		
 Noncash investing and financing transactions:		
Capital asset gift to the University of Kentucky	<u>\$ 98,500</u>	<u>\$ -</u>

See notes to financial statements

UNIVERSITY OF KENTUCKY ALUMNI ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012

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 2009.

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 Statements 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. 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.

Reclassifications. Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 financial statement presentation. These reclassifications had no effect on the change in net assets.

Subsequent Events. Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

2. INVESTMENTS

The following table summarizes the fair value of the investments as of June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
U.S. government obligations	\$ 1,549,049	\$ 2,672,541
Corporate, municipal and foreign bonds	2,660,615	1,665,679
Common stocks		
Consumer Discretionary	1,230,117	1,220,942
Financial common stocks	1,111,480	836,980
Other	2,431,640	1,641,506
Mutual funds		
Small cap funds	179,123	241,030
Mid cap funds	180,208	289,235
Large cap funds	2,043,568	2,010,440
International funds	2,550,802	2,032,107
Exchange-traded funds	2,904,661	2,876,107
Certificates of deposit	205,000	140,000
Total	<u>\$ 17,046,263</u>	<u>\$ 15,626,567</u>

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

Components of investment income for the years ended June 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Interest and dividends received	\$ 419,302	\$ 387,243
Realized gains and losses	481,218	231,792
Unrealized gains and losses	1,474,493	(187,243)
Total	<u>\$ 2,375,013</u>	<u>\$ 431,792</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

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. There have been no significant changes in the valuation techniques during the year ended June 30, 2013.

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, mutual funds and exchange-traded funds. 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 investments securities will occur in the near term and that such change could materially affect the amounts reported in the statements of financial position. 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, 2013 and 2012:

	2013			
	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)
Cash equivalents - money market funds	\$ 4,930	\$ 4,930		
US government obligations	\$ 1,549,049		\$ 1,549,049	
Corporate, municipal and foreign bonds	\$ 2,660,615		\$ 2,660,615	
Common stocks				
Consumer discretionary	\$ 1,230,117	\$ 1,230,117		
Financial common stocks	\$ 1,111,480	\$ 1,111,480		
Other	\$ 2,431,640	\$ 2,431,640		
Mutual funds				
Small cap funds	\$ 179,123	\$ 179,123		
Mid cap funds	\$ 180,208	\$ 180,208		
Large cap funds	\$ 2,043,568	\$ 2,043,568		
International funds	\$ 2,550,802	\$ 2,550,802		
Exchange-traded funds	\$ 2,904,661	\$ 2,904,661		

	2012			
	Fair Value Measurements Using			
	Fair Value	Quoted Prices	Significant	Significant
		in Active	Other	Unobservable
	Markets for	Observable	Inputs	
	Identical Assets	Inputs	Inputs	
	(Level 1)	(Level 2)	(Level 3)	
Cash equivalents -				
money market funds	\$ 35,018	\$ 35,018		
US government				
obligations	\$ 2,672,541		\$ 2,672,541	
Corporate, municipal and				
foreign 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				
Small cap funds	\$ 241,030	\$ 241,030		
Mid cap funds	\$ 289,235	\$ 289,235		
Large cap funds	\$ 2,010,440	\$ 2,010,440		
International funds	\$ 2,032,107	\$ 2,032,107		
Exchange-traded funds	\$ 2,876,107	\$ 2,876,107		

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 \$781,390 and \$797,828 in 2013 and 2012, 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 and \$310,000 in 2013 and 2012, respectively, 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 \$1,181,390 and \$1,107,828 in 2013 and 2012, respectively.

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

	2013	2012
Athletic tickets (alumni relations)	\$ 278,308	\$ 289,227
Wildcat Sculpture	98,500	-
Wildcat Alumni Plaza	-	190,900
Gifts to the University and its affiliated corporations	132,600	231,823
Scholarships (awards and scholarships)	78,150	129,553
	<u>\$ 587,558</u>	<u>\$ 841,503</u>

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 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 \$93,042 and \$95,645 in 2013 and 2012, 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, 2013 and 2012.

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 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 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. Peniston. Scholarships are to be awarded annually.

Following is a summary of activity in restricted net assets for the years ended June 30, 2013 and 2012:

	2013	2012
Revenues	\$ 93	\$ 183
Net assets released from restrictions	(93)	(183)
Net increase for the year	-	-
Net assets, beginning of year	30,000	30,000
Net assets, end of year	<u>\$ 30,000</u>	<u>\$ 30,000</u>

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.

	2013	2012
Purpose restrictions accomplished		
Awards and Scholarships expenses	\$ 93	\$ 183
Total net assets released from restriction and reclassified	<u>\$ 93</u>	<u>\$ 183</u>

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, 2013 and 2012 were:

	2013		
	Unrestricted	Permanently Restricted	Total
Donor-restricted endowment funds		\$ 30,000	\$ 30,000
Board-designated endowment funds	\$ 15,432,687	-	15,432,687
Total endowment funds	<u>\$ 15,432,687</u>	<u>\$ 30,000</u>	<u>\$ 15,462,687</u>

	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	<u>\$ 13,050,837</u>	<u>\$ 30,000</u>	<u>\$ 13,080,837</u>

Changes in endowment net assets for the years ended June 30, 2013 and 2012 were:

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 13,050,837		\$ 30,000	\$ 13,080,837
Investment return:				
Investment income	960,459		93	960,552
Net appreciation (depreciation)	1,955,711		-	1,955,711
Total investment return	2,916,170	-	93	2,916,263
Appropriation of endowment assets for expenditure	(92,950)		(93)	(93,043)
Transfers for operations	(441,370)		-	(441,370)
Endowment net assets, end of year	<u>\$ 15,432,687</u>	<u>\$ -</u>	<u>\$ 30,000</u>	<u>\$ 15,462,687</u>

	2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
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	<u>\$ 13,050,837</u>	<u>\$ -</u>	<u>\$ 30,000</u>	<u>\$ 13,080,837</u>

Amounts of donor-restricted endowment funds classified as permanently restricted net assets at June 30, 2013 and 2012, consisted of:

	2013	2012
Permanently restricted net assets - portion of perpetual endowment fund required to be retained permanently by explicit donor stipulation	\$ 30,000	\$ 30,000
	<u>\$ 30,000</u>	<u>\$ 30,000</u>

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

The Association has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the Association must hold in perpetuity or for donor-specified periods, as well as those of board-designated endowment funds. Under the Association's policies, endowment assets are invested in a manner that is intended to produce results that exceed the Russell 2000 Index while assuming a low level of investment risk.

To satisfy its long-term rate of return objectives, the Association relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Association targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Association has a policy (the spending policy) based on the market value of the Investment Fund as of April 1 of the current year. Five percent of the fund will be budgeted in the following fiscal year's general operating budget and up to an additional three percent of the fund may be earmarked for capital needs. The investment objective is to maximize total return of the fund over time, subject to risk constraints. A balance of equity and fixed income investments will be utilized. Equity investments are intended to provide long-term capital appreciation and a growing stream of income. Fixed income investments are intended to provide a stable stream of current income and to reduce the overall volatility of investment returns.

9. 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 years. The Association incurred \$24,111 and \$47,402 of rent expense for the years ended June 30, 2013 and 2012, respectively. The Association leased this property for the benefit of the University and the Association. The University and the Association used this property for various activities including: student recruitment, development events, alumni activities, meetings, and athletic events. The lease expired January 31, 2013 and was not renewed.



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