UNIVERSITY OF KENTUCKY®

Alumni Association

2015 Financial Statements

University of Kentucky
Alumni Association
Financial Statements
Years Ended June 30, 2015 and 2014

CONTENTS PAGE

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Independent Auditor's Report

Board of Directors
University of Kentucky Alumni Association
Lexington, Kentucky

We have audited the accompanying financial statements of the University of Kentucky Alumni Association (Association), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

Louisville, Kentucky
October 2, 2015

UNIVERSITY OF KENTUCKY
ALUMNI ASSOCIATION
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2015 AND 2014

	2015	2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,277,349	$ 950,378
Accounts receivable	14,249	20,652
Accrued interest receivable	78,479	67,246
Prepaid expenses	40,839	47,647
Total current assets	1,410,916	1,085,923
Long-term investments	18,958,968	19,198,036
Equipment, furniture, and vehicles Less accumulated depreciation of $394,118 and $365,526 for 2015 and 2014, respectively	38,570	63,935
Total assets	$ 20,408,454	$ 20,347,894
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Athletic ticket and other deposits	$ 41,940	$ 30,447
Accounts payable	12,933	660
Deferred revenue	555,000	555,000
Total current liabilities	609,873	586,107
Deferred revenue	832,500	1,387,500
Total liabilities	1,442,373	1,973,607
NET ASSETS		
Unrestricted		
Undesignated	319,962	303,601
Designated	18,616,119	18,040,686
Total unrestricted net assets	18,936,081	18,344,287
Permanently restricted	30,000	30,000
Total net assets	18,966,081	18,374,287
Total liabilities and net assets	$ 20,408,454	$ 20,347,894

See notes to financial statements

UNIVERSITY OF KENTUCKY
ALUMNI ASSOCIATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

	Unrestricted	Permanently Restricted	Total
REVENUES AND OTHER ADDITIONS			
In-kind contributions			
University of Kentucky	$ 1,252,084		$ 1,252,084
Membership dues	1,001,401		1,001,401
Alumni projects	470,562		470,562
Royalties	816,546		816,546
Gifts and contributions	8,100		8,100
Advertising	55,391		55,391
Fundraising, net of expenses of $3,527	23,304		23,304
Investment return	1,008,581	$ 147	1,008,728
Net assets released from restrictions	147	(147)	-
Total revenues and other additions	4,636,116	-	4,636,116
EXPENSES			
Program services			
Alumni relations	1,718,438	-	1,718,438
Publications	719,204	-	719,204
Awards and scholarships	72,191	-	72,191
Total program services	2,509,833	-	2,509,833
Gifts to UK and its affiliated corporations	421,952	-	421,952
Management and general expenses	1,006,720	-	1,006,720
Investment expenses	105,817	-	105,817
Total expenses	4,044,322	-	4,044,322
Change in net assets	591,794	-	591,794
NET ASSETS, beginning of year	18,344,287	30,000	18,374,287
NET ASSETS, end of year	$ 18,936,081	$ 30,000	$ 18,966,081

See notes to financial statements

UNIVERSITY OF KENTUCKY
ALUMNI ASSOCIATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

	Unrestricted	Permanently Restricted	Total
REVENUES AND OTHER ADDITIONS			
In-kind contributions			
University of Kentucky	$ 1,160,446		$ 1,160,446
Membership dues	1,152,740		1,152,740
Alumni projects	449,559		449,559
Royalties	760,719		760,719
Gifts and contributions	22,539		22,539
Advertising	64,718		64,718
Fundraising, net of expenses of $4,889	31,380		31,380
Investment return	2,697,990	$ 128	2,698,118
Net assets released from restrictions	128	(128)	-
Total revenues and other additions	6,340,219	-	6,340,219
EXPENSES			
Program services			
Alumni relations	1,732,473	-	1,732,473
Publications	651,701	-	651,701
Awards and scholarships	78,354	-	78,354
Total program services	2,462,528	-	2,462,528
Gifts to UK and its affiliated corporations	158,721	-	158,721
Management and general expenses	984,293	-	984,293
Investment expenses	101,020	-	101,020
Total expenses	3,706,562	-	3,706,562
Change in net assets	2,633,657	-	2,633,657
NET ASSETS, beginning of year	15,710,630	30,000	15,740,630
NET ASSETS, end of year	$ 18,344,287	$ 30,000	$ 18,374,287

See notes to financial statements

UNIVERSITY OF KENTUCKY
ALUMNI ASSOCIATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 591,794	$ 2,633,657
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	28,990	24,375
Net realized and unrealized (gains) losses on investments	(594,678)	(2,273,098)
Interest and dividends restricted for long term investment	(147)	(128)
Changes in asset and liability accounts:		
Athletic ticket and other deposits	11,493	(11,762)
Accounts and interest receivable	(4,830)	512
Accounts payable	12,273	(9,828)
Deferred revenue	(555,000)	(555,000)
Prepaid expenses	6,808	(12,603)
Net cash provided (used) by operating activities	(503,297)	(203,875)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(3,625)	(47,078)
Proceeds from sale of investments	5,981,082	6,611,881
Purchase of investments	(5,147,336)	(6,490,556)
Net cash provided (used) by investing activities	830,121	74,247
CASH FLOWS FROM FINANCING ACTIVITIES:		
Interest and dividends restricted for permanent reinvestment	147	128
Net cash provided (used) by financing activities	147	128
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	326,971	(129,500)
CASH AND CASH EQUIVALENTS, beginning of year	950,378	1,079,878
CASH AND CASH EQUIVALENTS, end of year	$ 1,277,349	$ 950,378

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.

Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

Equipment, Furniture and Vehicles. Equipment, furniture and vehicles are stated at cost or fair value at date of gift, if donated. Those items with a unit cost of $1,000 or more and having an estimated useful life of greater than one year are capitalized. Depreciation is computed by the straight-line method over the estimated useful lives of the assets, generally 3-10 years.

Long-lived Asset Impairment. The Association evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended June 30, 2015 and 2014.

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 2011.

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 a royalty per successful credit card application over the next ten years. Such royalties are recognized when received.

Temporarily and Permanently Restricted Net Assets. Temporarily restricted net assets are those whose use by the Association has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Association in perpetuity.

Contributions. Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as restricted revenue and net assets. When a donor-stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as a net asset released from restrictions. Gifts 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.

Transfers Between Fair Value Hierarchy Levels. Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs), and Level 3 (significant unobservable inputs) are recognized on the actual transfer date.

Reclassifications. Certain reclassifications have been made to the 2014 financial statements to conform to the 2015 financial statement presentation. These reclassifications had no effect on net earnings.

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, 2015 and 2014:

	2015	2014
U.S. government obligations	$ 972,409	$ 1,337,992
Corporate, municipal and foreign bonds	4,964,503	4,125,117
Common stocks		
Consumer discretionary	2,338,275	2,033,125
Financial common stocks	2,028,825	1,822,490
Information technology stocks	1,762,544	1,407,994
Other	2,308,282	2,517,930
Mutual funds		
Small cap funds	383,766	197,085
International funds	3,127,037	3,525,535
Other	299,119	-
Exchange-traded funds	679,208	2,080,768
Certificates of deposit	95,000	150,000
Total	$ 18,958,968	$ 19,198,036

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

Components of investment income for the years ended June 30, 2015 and 2014 are as follows:

	2015	2014
Interest and dividends received	$ 414,050	$ 425,020
Realized gains and losses	849,718	1,739,829
Unrealized gains and losses	(255,040)	533,269
Total	$ 1,008,728	$ 2,698,118

The Association invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statements of financial position.

3. DISCLOSURES ABOUT FAIR VALUE OF ASSETS AND LIABILITIES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following tables presents the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2015 and 2014:

	2015			
	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. government obligations	$ 972,409		$ 972,409	
Corporate bonds, municipal, and foreign bonds	$ 4,964,503		$ 4,964,503	
Common stocks				
Consumer discretionary	$ 2,338,275	$ 2,338,275		
Financial common stocks	$ 2,028,825	$ 2,028,825		
Information technology stocks	$ 1,762,544	$ 1,762,544		
Other	$ 2,308,282	$ 2,308,282		
Mutual funds				
Small cap funds	$ 383,766	$ 383,766		
International funds	$ 3,127,037	$ 3,127,037		
Other	$ 299,119	$ 299,119		
Exchange traded funds	$ 679,208	$ 679,208		

	2014			
	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. government obligations	$ 1,337,992		$ 1,337,992	
Corporate bonds, municipal, and foreign bonds	$ 4,125,117		$ 4,125,117	
Common stocks				
Consumer discretionary	$ 2,033,125	$ 2,033,125		
Financial common stocks	$ 1,822,490	$ 1,822,490		
Information technology stocks	$ 1,407,994	$ 1,407,994		
Other	$ 2,517,930	$ 2,517,930		
Mutual funds				
Small cap funds	$ 197,085	$ 197,085		
International funds	$ 3,525,535	$ 3,525,535		
Exchange traded funds	$ 2,080,768	$ 2,080,768		

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2015.

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 common stock, mutual funds and exchange-traded 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.

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 $852,084 and $760,446 in 2015 and 2014, respectively.

The Association offices are housed in the Helen G. King Alumni House, which is owned by the University and used by the Association at no charge. The Association has recognized the fair rental value of the house of $400,000, in both 2015 and 2014, 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 $1,252,084 and $1,160,446 in 2015 and 2014, respectively.

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

	2015	2014
Athletic tickets (alumni relations)	$ 290,031	$ 267,744
Feasibility study for new Alumni Center	-	60,000
Gifts for Stadium Pavilion and Library furnishings	329,880	-
Gifts to the University and its affiliated corporations	92,072	98,721
Scholarships (awards and scholarships)	72,191	78,354
	$ 784,174	$ 504,819

5. RETIREMENT PLAN

Eligible staff members of the Association are participants in the University of Kentucky Retirement Plan. Under this plan, the Association and plan participants make contributions to provide retirement benefits for employees. All payments are vested immediately for employees hired before January 1, 2010. For employees hired after January 1, 2010, employer contributions are vested after three years. The Association contributes 10 percent of eligible compensation and employees contribute 5 percent of eligible compensation. The Association's share of the cost of these benefits was $97,110 and $94,288 in 2015 and 2014, 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% 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, 2015 and 2014.

7. NET ASSETS

Designated unrestricted net assets

Designated unrestricted net assets include the Investment Fund, the Life Membership Fund, and the Student Activities Fund. Investment Fund net assets are designated for investment as quasi-endowments. The Life Membership Fund net assets consist of proceeds from life membership dues. The board's intention is to utilize the Life Membership Fund assets to support life membership expenses for annual dues. The Student Activities Fund net assets are used to provide scholarships to worthy students at the University. The board's intention is to utilize the net assets of the Investment Fund and the Student Activities Fund for current operations. Each fund has been designated by the Board of Directors and is separated for investment purposes.

Designated unrestricted net assets as of June 30, 2015 and 2014 are as follows:

	2015	2014
Investment Fund	$ 11,764,435	$ 11,412,995
Life Membership Fund	6,838,326	6,614,333
Student Activities Fund	13,358	13,358
Total	$ 18,616,119	$ 18,040,686

Restricted net assets

Restricted net assets include the Teague/Penniston Scholarship Fund, which has been restricted as to the nature of expenditures by the donor. An endowment fund has been established by the will of Colonel Lloyd E. Teague in the amount of $30,000, the income from which is to be used to fund two scholarships. One scholarship is in the name of Colonel Lloyd E. Teague and the other is in the name of Colonel Louis T. Penniston. Scholarships are to be awarded annually.

Following is a summary of activity in restricted net assets for the years ended June 30, 2015 and 2014:

	2015	2014
Revenues	$ 147	$ 128
Net assets released from restrictions	(147)	(128)
Net increase for the year	-	-
Net assets, beginning of year	30,000	30,000
Net assets, end of year	$ 30,000	$ 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.

	2015	2014
Purpose restrictions accomplished		
Awards and scholarships expenses	$ 147	$ 128
Total net assets released from restriction and reclassified	$ 147	$ 128

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, 2015 and 2014 were:

	2015		
	Unrestricted	Permanently Restricted	Total
Donor-restricted endowment funds		$ 30,000	$ 30,000
Board-designated endowment funds	$ 18,616,119	-	18,616,119
Total endowment funds	$ 18,616,119	$ 30,000	$ 18,646,119

	2014		
	Unrestricted	Permanently Restricted	Total
Donor-restricted endowment funds		$ 30,000	$ 30,000
Board-designated endowment funds	$ 18,040,686	-	18,040,686
Total endowment funds	$ 18,040,686	$ 30,000	$ 18,070,686

Changes in endowment net assets for the years ended June 30, 2015 were as follows:

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 18,040,686	$ -	$ 30,000	$ 18,070,686
Royalty income	555,165	-	-	555,165
Investment return:				
Investment income	412,778	-	147	412,925
Net appreciation (depreciation)	594,678	-	-	594,678
Total investment return	1,007,456	-	147	1,007,603
Appropriation of endowment assets for expenditure	(105,625)	-	(147)	(105,772)
Transfers for operations	(881,563)	-	-	(881,563)
Endowment net assets, end of year	$ 18,616,119	$ -	$ 30,000	$ 18,646,119

Changes in endowment net assets for the years ended June 30, 2014 were as follows:

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 15,432,687	$ -	$ 30,000	$ 15,462,687
Royalty income	555,100			555,100
Investment return:				
Investment income	423,990	-	128	424,118
Net appreciation (depreciation)	2,273,098	-	-	2,273,098
Total investment return	2,697,088	-	128	2,697,216
Appropriation of endowment assets for expenditure	(100,856)	-	(128)	(100,984)
Transfers for operations	(543,333)	-	-	(543,333)
Endowment net assets, end of year	$ 18,040,686	$ -	$ 30,000	$ 18,070,686

Amounts of donor-restricted endowment funds classified as permanently restricted net assets at June 30, 2015 and 2014, consisted of:

	2015	2014
Permanently restricted net assets - portion of perpetual endowment fund required to be retained permanently by explicit donor stipulation	$ 30,000	$ 30,000
Total	$ 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 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.

UNIVERSITY OF KENTUCKY

150 YEARS

1865 - 2015

Office of the Treasurer
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Lexington, KY, 40506-0005

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