

2012 Financial Statements

Center on Aging Foundation, Inc.



**University of Kentucky
Center on Aging Foundation, Inc.
A Component Unit of the University of Kentucky**

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Directors
University of Kentucky
Center on Aging Foundation, Inc.
Lexington, Kentucky

We have audited the accompanying basic financial statements of the University of Kentucky Center on Aging Foundation, Inc. (Foundation), a not-for-profit corporation affiliated with and a component unit of the University of Kentucky, as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Board of Directors
University of Kentucky
Center on Aging Foundation, Inc.
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Our audit was performed for the purpose of forming an opinion on the basic financial statements as a whole. The board of directors listing as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

September 28, 2012

Management's Discussion and Analysis

The University of Kentucky Center on Aging Foundation's (the Foundation) Management's Discussion and Analysis (MD&A) of its financial condition provides an overview of the financial performance of the Foundation for the years ended June 30, 2012 and 2011. Management has prepared this discussion, which provides summary financial information, along with the financial statements and related footnotes. MD&A should be read in conjunction with the accompanying financial statements.

Financial Highlights

Assets and net assets of the Foundation decreased \$42,345 or 79% during the year ended June 30, 2012 as a result of operating expenses in excess of operating revenues.

Using the Annual Report

This financial report consists of three financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*.

One of the most important questions asked about the Foundation's finances is whether the Foundation is better off as a result of the year's activities. One key to answering this question is the financial statements of the Foundation. The Statement of Net Assets; Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows present financial information on the Foundation in a format similar to that used by corporations and present a long-term view of the Foundation's finances. The Foundation's net assets (the difference between assets and liabilities) are one sign of the Foundation's financial health. Over time, increases or decreases in net assets indicate the improvement or erosion of the Foundation's financial health.

The Statement of Net Assets includes all assets and liabilities. It is prepared on the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. Gifts and investment income are classified as operating revenues because fundraising activities represent the Foundation's primary operating purpose.

Another important factor to consider when evaluating financial viability is the Foundation's ability to meet financial obligations as they become due. The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, capital, financing and investing activities.

Reporting Entity

The University of Kentucky Center on Aging Foundation, Inc. is a not-for-profit Kentucky corporation formed to support the educational, research and clinical activities of multi-disciplinary gerontology programs of the University of Kentucky (the University), and to foster the development of education, research and service in the field of aging across the many disciplines within the total University community. The Foundation is considered to be an affiliate and component unit of the University because all Board members are related to the University as faculty or staff and/or are appointed by the President of the University, and certain officers of the Foundation are officers of the University.

Condensed Financial Information

Statements of Net Assets

	<u>2012</u>	<u>2011</u>	<u>2010</u>
ASSETS			
Current assets	\$ 11,512	\$ 53,857	\$ 101,497
Total assets	<u>11,512</u>	<u>53,857</u>	<u>101,497</u>
LIABILITIES			
Current liabilities	<u>249</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>249</u>	<u>-</u>	<u>-</u>
NET ASSETS			
Restricted			
Expendable	<u>11,263</u>	<u>53,857</u>	<u>101,497</u>
Total net assets	<u>\$ 11,263</u>	<u>\$ 53,857</u>	<u>\$ 101,497</u>

Assets. As of June 30, 2012, the Foundation's total assets, consisting of cash and cash equivalents, amounted to \$11,512, a decrease of \$42,345 over the prior year. The decrease was primarily due to operating expenses exceeding operating revenue.

Liabilities. Liabilities totaled \$249 as of June 30, 2012, which consisted of accounts payable.

Net Assets. Net assets at June 30, 2012 totaled \$11,263, nearly 100% of total assets, all of which were restricted net assets. Total net assets decreased by \$42,594 during the year ended June 30, 2012. The decrease was primarily due to operating expenses exceeding operating revenues.

2011 Versus 2010. Total assets and total net assets both decreased by \$47,640 when comparing fiscal 2011 with fiscal 2010 due to an increase in grants to the University.

Statements of Revenues, Expenses and Changes in Net Assets

	<u>2012</u>	<u>2011</u>	<u>2010</u>
OPERATING REVENUES			
Operating revenue	\$ 106,340	\$ 95,864	\$ 89,560
Total operating revenues	<u>106,340</u>	<u>95,864</u>	<u>89,560</u>
OPERATING EXPENSES			
Educational and general	148,934	61,842	47,832
Grants to the University of Kentucky	-	81,662	-
Total operating expenses	<u>148,934</u>	<u>143,504</u>	<u>47,832</u>
OPERATING INCOME (LOSS)	(42,594)	(47,640)	41,728
Net assets, beginning of year	<u>53,857</u>	<u>101,497</u>	<u>59,769</u>
Net assets, end of year	<u>\$ 11,263</u>	<u>\$ 53,857</u>	<u>\$ 101,497</u>

2012. The Foundation's most significant operating revenue was private gifts of \$86,060 while sales related to fundraising activities totaled \$20,227. Gift revenue increased \$11,573 due to an increase in the contributions and sponsorships associated with the annual dinner.

Operating expenses totaled \$148,934, of which all was used for educational and general expenses for institutional support. An increase of \$5,430 in operating expenses was primarily due to a \$87,092 increase in general expenses and offset by a \$81,662 decrease in grants to the University of Kentucky.

2011 Versus 2010. Operating expenses totaled \$143,504, of which \$61,842 was for educational and general expenses for institutional support and \$81,662 related to a grant to the University of Kentucky. An increase of \$95,672 was primarily due to an \$81,662 increase in transfers to the University of Kentucky's endowment fund and a \$14,010 increase in fundraising expenses.

Statements of Cash Flows

Another way to assess the financial health of an organization is to look at the Statement of Cash Flows. The primary purpose of the Statement of Cash Flows is to provide information about the cash receipts and cash payments made by the Foundation during the period. The Statement of Cash Flows also helps financial statement readers assess the Foundation's:

- ability to generate future net cash flows,
- ability to meet obligations as they become due, and
- need for external financing.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
CASH PROVIDED (USED) BY:			
Operating activities	\$ (42,345)	\$ (47,640)	\$ 41,615
Net increase (decrease) in cash and cash equivalents	(42,345)	(47,640)	41,615
Cash and cash equivalents, beginning of year	<u>53,857</u>	<u>101,497</u>	<u>59,882</u>
Cash and cash equivalents, end of year	<u>\$ 11,512</u>	<u>\$ 53,857</u>	<u>\$ 101,497</u>

The largest cash receipt in the operating activities group relates to private gifts of \$86,010. Other cash receipts totaled \$20,280. Cash payments for operating activities of \$148,584 were made to vendors and contractors.

2011 Versus 2010. Net cash decreased \$47,640 as of June 30, 2011 compared to an increase of \$41,615 as of June 30, 2010, primarily due to an increase in grants to the University and more payments to vendors and contractors.

Capital Asset and Debt Administration

Capital Assets. Capital assets purchased by the Foundation are granted to the University of Kentucky at the time of acquisition.

Debt. The Foundation had no debt at or during the year ended June 30, 2012.

Factors Impacting Future Periods

Due to current economic conditions, donations to the Foundation could be negatively impacted, thus affecting future financial results of the Foundation.

UNIVERSITY OF KENTUCKY CENTER ON AGING FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY
STATEMENTS OF NET ASSETS
JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 11,512	\$ 53,857
Total current assets	<u>11,512</u>	<u>53,857</u>
Total assets	<u>11,512</u>	<u>53,857</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	<u>249</u>	<u>-</u>
Total current liabilities	<u>249</u>	<u>-</u>
Total liabilities	<u>249</u>	<u>-</u>
NET ASSETS		
Restricted expendable	<u>11,263</u>	<u>53,857</u>
Total net assets	<u>\$ 11,263</u>	<u>\$ 53,857</u>

See notes to financial statements

**UNIVERSITY OF KENTUCKY CENTER ON AGING FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
Gifts	\$ 86,060	\$ 74,487
Investment income (loss)	53	137
Sales related to fundraising activities	<u>20,227</u>	<u>21,240</u>
Total operating revenues	<u>106,340</u>	<u>95,864</u>
OPERATING EXPENSES		
Educational and general:		
Institutional support	<u>148,934</u>	<u>61,842</u>
Total educational and general	148,934	61,842
Grants to (from) the University of Kentucky for noncapital purposes	<u>-</u>	<u>81,662</u>
Total operating expenses	<u>148,934</u>	<u>143,504</u>
Net income (loss) from operations	(42,594)	(47,640)
NET ASSETS, beginning of year	<u>53,857</u>	<u>101,497</u>
NET ASSETS, end of year	<u><u>\$ 11,263</u></u>	<u><u>\$ 53,857</u></u>

See notes to financial statements

**UNIVERSITY OF KENTUCKY CENTER ON AGING FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Private gifts	\$ 86,060	\$ 74,487
Payments to vendors and contractors	(148,584)	(61,842)
Salaries, wages and benefits reimbursements to the University of Kentucky	(101)	-
Grants (to) from the University of Kentucky for noncapital purposes	-	(81,662)
Other receipts (payments)	<u>20,280</u>	<u>21,377</u>
Net cash provided (used) by operating activities	<u>(42,345)</u>	<u>(47,640)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(42,345)</u>	<u>(47,640)</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>53,857</u>	<u>101,497</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 11,512</u>	<u>\$ 53,857</u>
Reconciliation of net income (loss) from operations to net cash provided (used) by operating activities:		
Net income (loss) from operations	\$ (42,594)	\$ (47,640)
Adjustments to reconcile net income (loss) from operations to net cash provided (used) by operating activities:		
Change in assets and liabilities:		
Accounts payable and accrued liabilities	<u>249</u>	<u>-</u>
Net cash provided (used) by operating activities	<u>\$ (42,345)</u>	<u>\$ (47,640)</u>

See notes to financial statements

NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The University of Kentucky Center on Aging Foundation, Inc. (the Foundation) is a not-for-profit Kentucky corporation formed to support the educational, research and clinical activities of multi-disciplinary gerontology programs of the University of Kentucky (the University), and to foster the development of education, research and service in the field of aging across the many disciplines within the total University community. The Foundation is considered to be an affiliate and component unit of the University because all Board members are related to the University as faculty or staff and/or are appointed by the President of the University, and certain officers of the Foundation are officers of the University.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). GASB establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following net assets categories:

- Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Restricted:
 - Nonexpendable* – Net assets subject to externally imposed stipulations that they be maintained permanently by the Foundation.
 - Expendable* – Net assets whose use by the Foundation is subject to externally imposed stipulations that can be fulfilled by actions of the Foundation pursuant to those stipulations or that expire by the passage of time.
- Unrestricted: Net assets whose use by the Foundation is not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

The financial statement presentation is intended to provide a comprehensive, entity-wide perspective of the Foundation's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows.

During the year ended June 30, 2012, the Foundation adopted Statement of Governmental Accounting Standards Board (GASB) No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that statement for business-type activities to apply post-November 30, 1989, FASB statements and interpretations that do not conflict with or contradict GASB pronouncements. GASB No. 62 has been applied retrospectively and had no impact on the Foundation's net assets, changes in net assets or financial reporting disclosures.

Summary of Significant Accounting Policies

Accrual Basis. The financial statements have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when an obligation has been incurred.

Cash and Cash Equivalents. The Foundation considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Income Taxes. The Foundation has been granted exemption from federal income taxation pursuant to the provisions of Internal Revenue Code section 501(c)(3).

Restricted Asset Spending Policy. The Foundation's policy is that restrictions on assets cannot be fulfilled by the expenditure of unrestricted funds for similar purposes. The determination of whether restricted or unrestricted funds are expended for a particular purpose is made on a case-by-case basis. Restricted funds remain restricted until spent for the intended purpose.

Operating Activities. The Foundation defines operating activities, as reported on the Statement of Revenues, Expenses and Changes in Net Assets, as those that generally result from exchange transactions, such as payments received for providing goods and services and payments made for services and goods received. Gifts and investment income are also classified as operating revenues because fundraising activities represent the Foundation's primary purpose.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to use estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

2. DEPOSITS AND INVESTMENTS

The fair value of deposits and investments, by type, at June 30, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Cash on deposit with the University of Kentucky	<u>\$ 11,512</u>	<u>\$ 53,857</u>

Deposit and investment policies. The Foundation follows the deposit and investment policies established by the University's Board of Trustees. Such policies are developed to establish and maintain sound financial management practices for the investment and management of the Foundation's funds.

For purposes of investment management, the Foundation's deposits and investments can be grouped into one significant category: Cash on deposit with the University, which the University invests in deposits and repurchase agreements with banks and the Commonwealth of Kentucky.

Cash on deposit with the University is managed based on the University's Operating Fund Investment Policy.

Deposit and investment risks. The Foundation's deposits and investments are exposed to various risks as discussed in more detail below.

Credit Risk. Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligation, causing the Foundation to experience a loss of principal. Cash on deposit with the University is governed by policy that minimizes risk in several ways. Deposits are governed by state law which requires full collateralization for balances exceeding amounts covered by the Federal Deposit Insurance Corporation. On November 9, 2010, the FDIC Board of Directors issued a final rule to implement Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act that provides temporary unlimited deposit insurance coverage for noninterest-bearing transaction accounts at all FDIC-insured depository institutions (the "Dodd-Frank Provision"). The separate coverage for noninterest-bearing transaction accounts became effective on December 31, 2010 and terminates on December 31, 2012. The Foundation's deposit are non-interest bearing and are fully insured by FDIC coverage. Credit risk on repurchase agreements is mitigated by requiring the issuing financial institution's pledge of specific U.S.

treasury or agency securities, held in the name of the University by the Federal Reserve Bank. Credit risk on repurchase agreements with the Commonwealth of Kentucky (the Commonwealth) is mitigated by the Commonwealth's requirement that providers of overnight repurchase agreements collateralize these investments at 102% of face value with U.S. treasury or agency securities, pledged in the name of the Commonwealth.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Foundation will not be able to recover the value of its investment or collateral securities that are in possession of an outside party. Cash on deposit with the University is invested in deposits and repurchase agreements in the University's name. Deposits and repurchase agreements with the Commonwealth are held in the Commonwealth's name. The University maintains records evidencing the Foundation's ownership interest in such balances.

Concentrations of Credit Risk. Foundation investments can be exposed to a concentration of credit risk if significant amounts are invested in any one issuer. Cash on deposit with the University is not limited as to the maximum amount that may be deposited or invested in one issuer. However, all such deposits in excess of Federal Depository Insurance are required to be fully collateralized by U.S. treasury and/or U.S. agency securities or other similar investments as provided by KRS 41.240.

At June 30, 2012, the Foundation had no underlying investments in any one issuer that represent more than 5% of total investments.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Cash on deposit with the University has limited exposure to interest rate risk due to the short term nature of the investment. The University requires that all deposits and repurchase agreements be available for use on the next business day.

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The Foundation is not exposed to foreign currency risk.

3. RISK MANAGEMENT

The Foundation is exposed to various risks of loss related to torts and errors and omissions. These risks are covered by extension of coverage by the University's participation in an insurance risk retention group and self-insurance. Claims against directors and officers for wrongful acts (errors and omissions) are insured through a risk retention group. There have been no significant reductions in insurance coverage from 2011 to 2012. Settlements have not exceeded insurance coverage during the past three years.

4. SUPPORT GENERATED FOR THE UNIVERSITY OF KENTUCKY

One of the primary functions of the Foundation is to raise funds to support the gerontology programs of the University. During the fiscal years ended June 30, 2012 and 2011, fundraising efforts by the Foundation resulted in donations to the University totaling \$42,258 and \$2,056,176 respectively. As of June 30, 2012, the market value of endowments established through these efforts is \$9,830,739.

5. CURRENT ECONOMIC CONDITION

The current economic situation continues to present not-for-profit organizations with difficult circumstances and challenges, which in some cases have resulted in large declines in donations. These conditions may potentially contribute to a decline in donations to the Foundation based on variables such as the draw of the annual speaker or a need for donors to be more conservative in giving. Since the Foundation is funded by donations received at the annual dinner, such conditions could significantly impact the Foundation's primary source of revenue. The financial statements have been prepared using values and information currently available to the Foundation.

BOARD OF DIRECTORS

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UK
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KENTUCKY

The University of Kentucky is committed to a policy of providing opportunities to people regardless of economic or social status and will not discriminate on the basis of race, color, ethnic origin, creed, religion, political belief, sex, sexual orientation, marital status, age veteran status, or physical or mental disability.

The University of Kentucky is an Equal Opportunity University. Questions concerning compliance with regulations may be directed to the Equal Opportunity Office, 13 Main Building, University of Kentucky, Lexington, KY 40506-0032. (859) 257-8927 or at www.uky.edu/evpfa/eo

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