Baylor Alumni Association
and Subsidiary
Consolidated Financial Statements
May 31, 2013 and 2012
(With Independent Auditor's Report Thereon)

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Baylor Alumni Association and Subsidiary:

We have audited the accompanying consolidated statements of financial position of Baylor Alumni Association and Subsidiary (the Association) as of May 31, 2013 and 2012, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Baylor Alumni Association and Subsidiary as of May 31, 2013 and 2012, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Uncertainty Regarding the Future Outcome of Transition Agreement

As discussed in Note 11 to the consolidated financial statements, the Association membership will vote on September 7, 2013 to determine whether to adopt a Transition Agreement with Baylor University, which would significantly impact the operation of the Association and ultimately result in the dissolution of the Association. Our opinion is not modified with respect to this uncertainty.

Jaynes, Reitmeier, Boyd & Therrell, P.C.

September 3, 2013

Baylor Alumni Association
and Subsidiary

Consolidated Statements of Financial Position

May 31, 2013 and 2012

		2013	2012
Assets			
Cash	$	287,821	271,370
Accounts receivable		18,616	16,110
Due from Baylor University		698	5,833
Contribution receivable		290,000	300,000
Prepaid expenses		11,325	13,338
Cash restricted/designated for endowments		464,228	466,259
Investments		4,894,475	4,093,336
Restricted agency funds received for the benefit of others		41,786	24,093
Beneficial interest in trust		720,000	600,000
Land		9,296	9,296
Equipment		343,322	329,198
Works of art and other historical treasures		160,273	163,923
Less accumulated depreciation		(314,704)	(301,780)
Total assets	$	6,927,136	5,990,976
Liabilities and Net Assets			
Liabilities:			
Accounts payable	$	29,957	18,195
Accrued expenses		52,391	39,943
Agency funds received for benefit of others		41,786	24,093
Total liabilities		124,134	82,231
Net assets:			
Unrestricted:			
Designated for endowment		3,252,996	2,587,865
Undesignated		832,125	707,590
		4,085,121	3,295,455
Temporarily restricted		60,952	54,664
Permanently restricted		2,656,929	2,558,626
Total net assets		6,803,002	5,908,745
Total liabilities and net assets	$	6,927,136	5,990,976

See accompanying notes to consolidated financial statements.

Baylor Alumni Association and Subsidiary

Consolidated Statement of Activities

Year Ended May 31, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Annual membership dues	$ 275,049	-	-	275,049
Life membership dues	117,177	-	-	117,177
Sustaining membership gifts	212,067	-	-	212,067
Other contributions	592,528	850	98,303	691,681
Endowment earnings distributed	265,522	-	-	265,522
Commissions on ring sales	62,325	-	-	62,325
Baylor Line advertising and underwriting	23,559	-	-	23,559
Royalties	87,362	-	-	87,362
Lifelong learning	66,884	-	-	66,884
Other events	103,338	60,102	-	163,440
Miscellaneous revenues	7,712	-	-	7,712
Net assets released from restriction	54,664	(54,664)	-	-
Total revenues	1,868,187	6,288	98,303	1,972,778
Expenses:				
Program:				
Membership services	1,048,770	-	-	1,048,770
Management and general	383,997	-	-	383,997
Fund-raising	310,058	-	-	310,058
Total expenses	1,742,825	-	-	1,742,825
Change in net assets before other changes	125,362	6,288	98,303	229,953
Other changes:				
Gains on investments, net of distributions	431,647	-	-	431,647
Contribution of beneficial interest in trust	120,000	-	-	120,000
Interest and dividends	116,307	-	-	116,307
Loss on disposal of property	(3,650)	-	-	(3,650)
Total other changes	664,304	-	-	664,304
Change in net assets	789,666	6,288	98,303	894,257
Net assets at beginning of year	3,295,455	54,664	2,558,626	5,908,745
Net assets at end of year	$ 4,085,121	60,952	2,656,929	6,803,002

See accompanying notes to consolidated financial statements.

Baylor Alumni Association
and Subsidiary

Consolidated Statement of Activities

Year Ended May 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:				
Annual membership dues	$ 253,585	-	-	253,585
Life membership dues	96,672	-	-	96,672
Sustaining membership gifts	214,880	-	-	214,880
Other contributions	660,070	5,350	362,840	1,028,260
Endowment earnings distributed	262,943	-	-	262,943
Commissions on ring sales	66,600	-	-	66,600
Baylor Line advertising and underwriting	38,036	-	-	38,036
Royalties	79,021	-	-	79,021
Lifelong learning	60,733	-	-	60,733
Homecoming events	6,800	-	-	6,800
Other events	92,541	49,314	-	141,855
Miscellaneous revenues	24,136	-	-	24,136
Net assets released from restriction	59,630	(59,630)	-	-
Total revenues	1,915,647	(4,966)	362,840	2,273,521
Expenses:				
Program:				
Membership services	1,103,910	-	-	1,103,910
Management and general	405,428	-	-	405,428
Fund-raising	306,981	-	-	306,981
Total expenses	1,816,319	-	-	1,816,319
Change in net assets before other changes	99,328	(4,966)	362,840	457,202
Other changes:				
Gains (losses) on investments, net of distributions	(599,140)	-	(2,855)	(601,995)
Contribution of beneficial interest in trust	400,000	-	-	400,000
Interest and dividends	122,087	-	-	122,087
Total other changes	(77,053)	-	(2,855)	(79,908)
Change in net assets	22,275	(4,966)	359,985	377,294
Net assets at beginning of year	3,273,180	59,630	2,198,641	5,531,451
Net assets at end of year	$ 3,295,455	54,664	2,558,626	5,908,745

See accompanying notes to consolidated financial statements.

Baylor Alumni Association
and Subsidiary

Consolidated Statement of Functional Expenses

Year Ended May 31, 2013

	Program Membership Services	Management and General	Fund-raising	Total
Computer charges	$ -	19,869	-	19,869
Telephone	-	17,414	-	17,414
Insurance	-	9,957	-	9,957
Travel and meals	3,486	4,947	21,424	29,857
Guest services	3,547	-	13,629	17,176
Processing charges	-	15,405	-	15,405
Advertising and promotion	6,826	-	12,932	19,758
Catering for special events	83,823	-	13,845	97,668
Printing	100,200	1,430	220	101,850
Postage	37,698	1,137	-	38,835
Supplies	14,465	8,198	-	22,663
Professional fees:				
Baylor Line	109,062	-	-	109,062
Other	49,617	37,173	-	86,790
Contributions	8,932	-	-	8,932
Event supplies	24,314	-	320	24,634
Rent/lease	52,305	7,004	-	59,309
Personnel costs	496,058	238,697	247,538	982,293
Depreciation	-	12,924	-	12,924
Contract labor	2,600	775	-	3,375
Scholarships	55,357	-	-	55,357
Miscellaneous	480	9,067	150	9,697
	$ 1,048,770	383,997	310,058	1,742,825

See accompanying notes to consolidated financial statements.

Baylor Alumni Association
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Consolidated Statement of Functional Expenses

Year Ended May 31, 2012

	Program: Membership Services	Management and General	Fund-raising	Total
Computer charges	$ -	20,183	-	20,183
Telephone	-	18,485	-	18,485
Insurance	-	9,517	-	9,517
Travel and meals	6,343	1,892	17,974	26,209
Guest services	14,436	2,674	12,772	29,882
Processing charges	-	13,992	-	13,992
Advertising and promotion	5,372	-	6,000	11,372
Catering for special events	90,522	740	14,844	106,106
Printing	109,342	2,353	3,785	115,480
Postage	36,242	1,545	924	38,711
Supplies	9,042	9,959	2,248	21,249
Professional fees:				
Baylor Line	102,554	-	-	102,554
Other	118,808	36,973	3,028	158,809
Contributions	-	2,882	-	2,882
Event supplies	30,097	109	1,593	31,799
Rent/lease	53,182	5,525	7,139	65,846
Personnel costs	463,391	245,881	236,424	945,696
Depreciation	-	16,107	-	16,107
Contract labor	3,506	905	100	4,511
Scholarships	60,000	-	-	60,000
Miscellaneous	1,073	15,706	150	16,929
	$ 1,103,910	405,428	306,981	1,816,319

See accompanying notes to consolidated financial statements.

Baylor Alumni Association
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Consolidated Statements of Cash Flows

Years Ended May 31, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Change in net assets	$ 894,257	377,294
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Contributions to permanent endowments	(98,303)	(362,840)
Depreciation expense	12,924	16,107
Net realized and unrealized loss (gain) on investments	(697,169)	339,052
Beneficial interest in trust contributions	(120,000)	(400,000)
Loss on disposal of property	3,650	-
Increase in accounts receivable	(2,506)	(926)
Decrease (increase) in due from Baylor University	5,135	(3,308)
Decrease (increase) in contribution receivable	10,000	(300,000)
Decrease (increase) in prepaid expenses	2,013	(1,731)
Increase in accounts payable	11,762	4,574
Increase (decrease) in accrued expenses	12,448	(3,040)
Net cash provided by (used in) operating activities	34,211	(334,818)
Cash flows from investing activities:		
Net sale (purchase) of investments	(103,970)	(115,647)
Net change in cash restricted /designated for endowments	2,031	55,900
Capital expenditures	(14,124)	-
Net cash used in investing activities	(116,063)	(59,747)
Cash flows from financing activities:		
Proceeds from contributions to permanent endowments	98,303	362,840
Net cash provided by financing activities	98,303	362,840
Net increase (decrease) in cash	16,451	(31,725)
Cash at beginning of year	271,370	303,095
Cash at end of year	$ 287,821	271,370

See accompanying notes to consolidated financial statements.

Baylor Alumni Association
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Notes to Consolidated Financial Statements

May 31, 2013 and 2012

(1) Summary of Significant Accounting Policies

(a) Organization

Baylor Alumni Association and Subsidiary (collectively, the Association) was organized to provide support for benevolent, charitable, and educational undertakings by extending financial and other aid to Baylor University and to students thereof, by generally encouraging sentiments favorable to education and by promoting union of and good fellowship among former students. The Association serves as the general alumni organization of Baylor University, coordinates all alumni activities and maintains the administrative agency and executive personnel needed to provide for continuity of alumni activity and interest. Revenues are derived mainly from annual and life membership dues, royalties, charitable contributions and investment income.

Baylor Alumni Association is a non-profit Texas corporation without capital stock. Baylor Alumni Association's wholly-owned subsidiary, Baylor Alumni Service Enterprises, Inc. (the Corporation), was incorporated by Baylor Alumni Association on September 12, 1980 under the Texas Nonprofit Corporation Act. Under the provisions of the Act, no shares of stock are issued to represent ownership. The initial capital contribution to establish the Corporation was provided by the Baylor Alumni Association, and any net income inures to the benefit of the Baylor Alumni Association. The Corporation was formed to handle certain sales and related expenses, promotional activities, and any other projects that Baylor Alumni Association might deem appropriate. The Corporation had no operating activity for 2013 and 2012. The officers and directors of the Corporation serve in the same capacity as officers and directors of the Baylor Alumni Association.

(b) Basis of Presentation

The consolidated financial statements include the accounts of the Association and its wholly-owned subsidiary, Baylor Alumni Service Enterprises, Inc. All significant intercompany transactions and accounts have been eliminated in consolidation.

(c) Cash Equivalents

For purposes of the consolidated statements of cash flows, the Association considers all highly liquid assets with original maturities of three months or less to be cash equivalents. Cash and cash equivalents designated for long-term purposes or received with donor-imposed restrictions limiting their use to long-term

**Baylor Alumni Association
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Notes to Consolidated Financial Statements
(Continued)

(1) Summary of Significant Accounting Policies (continued)

(c) Cash Equivalents (continued)

purposes are not considered cash and cash equivalents for purposes of the statement of cash flows. There were no cash equivalents at May 31, 2013 and 2012.

(d) Investments

Investments are measured at fair value in the consolidated statements of financial position. Investment income (including gains and losses on investments, interest, and dividends) is included in the consolidated statements of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

(e) Equipment, Works of Art and other Historical Treasures

Purchased equipment, works of art and other historical treasures are stated at cost as of the date of acquisition. Assets which are received from donations are recorded at fair value at the date of the gift. Equipment is depreciated on the straight-line method over the estimated useful lives of the assets. Depreciation on works of art and other historical treasures is not recorded. The Association capitalizes all acquisitions with a value greater than $1,000. Costs of maintenance and repairs are charged to operations as incurred.

(f) Temporarily Restricted Net Assets

At May 31, 2013 and 2012, temporarily restricted net assets of $60,952 and $54,664, respectively, were donor restricted for scholarships.

(g) Permanently Restricted Net Assets

Permanently restricted net assets are restricted to investment in perpetuity. The endowment funds are maintained with other investments administered by an independent trustee.

The Association has established a permanently restricted endowment fund in conjunction with its Sesquicentennial fund-raising campaign. The purpose of the campaign is to raise enough contributions to “endow” various employment

Baylor Alumni Association and Subsidiary

Notes to Consolidated Financial Statements
(Continued)

(1) Summary of Significant Accounting Policies (continued)

(g) Permanently Restricted Net Assets (continued)

positions as well as programs sponsored by the Association so that they will be self-sustaining in future years through income earned on the restricted net assets. The Abner V. McCall endowment fund was established so that investment income of the permanently restricted net assets would be available for general operations of the Association. Various other donors have made contributions to establish endowed scholarship funds so that the investment income earned from the permanently restricted net assets would be available for scholarships provided by the Association.

(h) Designated Net Assets

Certain assets received by the Association, which are unrestricted in nature, have been designated by the Board of Directors for a particular purpose. These commitments are presented separately in the net assets of the Association as being designated.

The Board has designated $1 per membership from the annual membership dues for the scholarship fund of Baylor University. The scholarship amounts for 2013 and 2012 of $2,932 and $2,782, respectively, were paid and/or accrued to Baylor University as of May 31, 2013 and 2012. In addition, all of the life membership dues and investment income not used for current year operations are designated for the unrestricted endowment fund of the Association.

(i) Fair Value Hierarchy

Generally accepted accounting principles establish a fair value hierarchy that prioritizes the inputs to valuation techniques used for fair value measurements of nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the consolidated financial statements. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

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Notes to Consolidated Financial Statements
(Continued)

(1) Summary of Significant Accounting Policies (continued)

(i) Fair Value Hierarchy (continued)

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Association has the ability to access at the measurement date.

- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

- Level 3 inputs are unobservable inputs for the asset or liability.

(j) Support and Expenses

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The Association reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. Donor restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

The Association reports gifts of land and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Association reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

(k) Advertising

Advertising costs, except for costs associated with direct-response advertising, are charged to operations when incurred. Advertising costs charged to operations were $19,758 and $11,372 for the years ended May 31, 2013 and 2012, respectively.

Baylor Alumni Association
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Notes to Consolidated Financial Statements
(Continued)

(1) Summary of Significant Accounting Policies (continued)

(l) Income Taxes

Baylor Alumni Association qualifies as a non-profit organization under Section 501(c)(3) of the Internal Revenue Code. Therefore, the Association is generally exempt from federal and state income taxes.

The Association recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Association is no longer subject to U.S. federal and state income tax examinations by tax authorities for years including and subsequent to 2010.

The Association records interest related to unrecognized tax benefits and penalties in management and general expenses. There were no interest and penalties for 2013 and 2012.

(m) Fund-raising Expenses

Fund-raising expenses consist primarily of membership development and solicitation activities through direct mail and telephone initiatives, as well as personnel costs and direct expenses of the Sesquicentennial campaign and Hall of Fame scholarship fundraiser.

(n) Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

(o) Agency Transactions

The Association recognizes an asset and corresponding liability for funds received in connection with agency transactions. The financial effects of transactions related to agency funds are recorded as changes in the funds held for agencies liability and are not included in the consolidated statements of activities.

**Baylor Alumni Association
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Notes to Consolidated Financial Statements
(Continued)

(1) Summary of Significant Accounting Policies (continued)

(p) Use of Estimates

Management has made estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities in the preparation of these consolidated financial statements. Significant items subject to such estimates and assumptions include the carrying value of equipment and fair values of investments and beneficial interest in trust. Actual results could differ from those estimates and assumptions.

(2) Investments

At May 31, 2013 and 2012, the Association's investments consisted entirely of the Group Investment Fund of the Baptist Foundation of Texas (the Fund). The Fund is measured at fair value using a Level 2 input (as defined in Note 1(i)). This input consists of the net asset value per share of the Fund. The Fund's long-term asset allocation is well diversified, investing in global equities, fixed income, real estate and private equity. Using the Fund's asset allocation percentages at May 31, 2013 and 2012, the Association's investment would have been allocated as follows:

	2013	2012
Equity securities - domestic	$ 1,481,068	1,229,229
Equity securities - international	1,528,544	1,079,822
Debt securities	900,094	824,398
Real estate	306,884	340,566
Private equity	223,188	199,345
Money market	454,697	419,976
	$ 4,894,475	4,093,336

(3) Beneficial Interest in Trust

During 2009, a perpetual charitable trust (the Trust) was established by an outside grantor, whereby, the Association, along with four other organizations, was named a beneficiary. Each year 50% of the Trust income will be distributed to the beneficiaries based on their stated proration and the remaining 50% will be reinvested into the corpus of the Trust. The Association's pro-rata share is 20%. The Trust term is 50 years and at the end of the term all mineral and royalty assets of the Trust will be distributed to Baylor University and the remainder of all assets will be distributed to all the beneficiaries based on the same proportionate share as the income distributions.

Baylor Alumni Association
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Notes to Consolidated Financial Statements
(Continued)

(3) Beneficial Interest in Trust (continued)

Funding of the Trust came from the estate of the grantor upon death, which occurred in December 2010. As of May 31, 2012, the executor was in the process of satisfying the estate's liabilities and certain specific bequests and obtaining valuations of certain mineral interests. At May 31, 2012 the fair value of the Trust was updated and was estimated to be in the range of \$3,000,000 to \$3,500,000. Due to the uncertainty of this estimate management elected to use a conservative calculation of 20% of \$3,000,000 to determine the fair value of \$600,000 for its beneficial interest at May 31, 2012. The change of \$400,000 in the estimated fair value of the beneficial interest at May 31, 2012 was recognized as contribution revenue in the 2012 consolidated statement of activities.

During 2013, the estate was fully settled and the fair value of the Trust was determined to be \$3,624,560. Accordingly, management has recognized \$720,000, approximately 20% of the Trust fair value, for its beneficial interest at May 31, 2013. The change of \$120,000 from the estimated fair value of the beneficial interest at May 31, 2012 was recognized as contribution revenue in the 2013 consolidated statement of activities.

In determining the fair value of its beneficial interest management used the fair value of the assets in the Trust. Because there is no market in which the beneficial interest in the Trust can trade, there are no observable inputs available to establish the fair value. Therefore, the inputs used are considered Level 3 inputs (as defined in Note 1(i)). Using the Trust's asset allocation percentages at May 31, 2013, the Association's beneficial interest in the Trust assets would have been allocated as follows:

Equity securities	$	318,000
Debt securities		109,000
Real estate		90,000
Money market		153,000
Other		50,000
	$	720,000

(4) Endowment

The Association's endowment consists of approximately 22 individual funds established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. As a result, 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 (decrements) to the permanent endowment made in accordance with the direction of the applicable donor gift instrument.

Baylor Alumni Association and Subsidiary

Notes to Consolidated Financial Statements (Continued)

(4) Endowment (continued)

The Association has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Association must hold in perpetuity as well as board-designated funds. Under this policy the endowment assets are invested in a manner that is intended to produce a real rate of return of at least 5% net of expenses, on an annualized basis. Actual returns in any given year_may vary from this amount. Investment income from permanent endowments for non-scholarship funds, which includes interest and dividends as well as realized and unrealized gains and losses, are included in unrestricted net assets. Investment losses from permanent endowments for scholarship funds are charged to permanently restricted net assets, while investment income in excess of accumulated investment losses is included in temporarily restricted net assets for the use of scholarships.

Investment income from the designated endowment available to be spent for operations in 2013 and 2012 was $265,522 and $262,943, respectively, and was based on the Association's spending policy discussed above.

The following is the composition of endowment net assets by type of fund as of May 31, 2013 and 2012:

	Unrestricted, Designated	Permanently Restricted	Total
At May 31, 2013:			
Donor-restricted endowments	$ -	2,656,929	2,656,929
Board designated endowment	3,252,996	-	3,252,996
	$ 3,252,996	2,656,929	5,909,925

	Unrestricted, Designated	Permanently Restricted	Total
At May 31, 2012:			
Donor-restricted endowments	$ -	2,558,626	2,558,626
Board designated endowment	2,587,865	-	2,587,865
	$ 2,587,865	2,558,626	5,146,491

**Baylor Alumni Association
and Subsidiary**

Notes to Consolidated Financial Statements
(Continued)

(4) Endowment (continued)

Changes in endowment net assets for the years ended May 31, 2013 and 2012 follow:

	Unrestricted, Designated	Permanently Restricted	Total
For the year ended May 31, 2013:			
Endowment net assets, beginning of year	$ 2,587,865	2,558,626	5,146,491
Contributions and additions	117,177	98,303	215,480
Investment gains	813,476	-	813,476
Distributed earnings	(265,522)	-	(265,522)
Endowment net assets, end of year	$ 3,252,996	2,656,929	5,909,925
For the year ended May 31, 2012:			
Endowment net assets, beginning of year	$ 2,968,246	2,198,641	5,166,887
Contributions and additions	96,672	362,840	459,512
Investment losses	(214,110)	(2,855)	(216,965)
Distributed earnings	(262,943)	-	(262,943)
Endowment net assets, end of year	$ 2,587,865	2,558,626	5,146,491

(5) Related Party Transactions

Baylor University provides various services to the Association for which the costs are reimbursed by the Association. Expenses reflected in the accompanying consolidated financial statements that relate to these services for the years ended May 31, 2013 and 2012 were $22,619 and $22,647, respectively.

The Association receives investment income on certain endowment funds administered by Baylor University. Investment income received by the Association from these endowments for the years ended May 31, 2013 and 2012 totaled $30,953 and $30,829, respectively.

(5) Related Party Transactions (continued)

The Association made contributions of approximately $60,789 and $62,882 to Baylor University during 2013 and 2012, respectively. The funds for these contributions were contributed to the Association from its members.

In 1994, the Association and Baylor University entered into an agreement which allowed the Association the exclusive use of the Hughes-Dillard Alumni Center building for an indefinite term. In 1995, it was agreed that the Association would be responsible for the expenses of any future renovations or additions to the building. Subsequently the Association raised the required funds of approximately $3 million to renovate and expand the building. In exchange, Baylor University allows the Association to occupy the building at no charge and the Association is also not required to reimburse Baylor University for the operating costs related to the building. The construction for the expansion was completed in 1999. Under the agreement, if Baylor University terminates the Association's right to use the office building, they must provide the Association with another building comparable in size, condition and location. Due to the indefinite term of the agreement and the difficulty in calculating the fair value of the forgone occupancy costs of the building, these amounts are not recorded in the consolidated financial statements. As discussed in Note 11, subsequent to year end Baylor University did terminate the Association's right to use the office building and under mutual agreement the Association vacated the building.

(6) Intentions to Give

During 2013 and 2012, the Association received contributions from various donors totaling $37,803 and $47,340, respectively, for the Sesquicentennial Campaign, as more fully described in Note 1(g). In addition, various donors have made pledges (intentions to give) for future contributions to the campaign. These intentions to give will not be reflected as contributions in the accompanying consolidated statements of activities until the pledges are collected.

(7) Contribution Receivable

A contribution receivable is recognized at fair value when the donor makes a promise to give to the Association that is, in substance, unconditional. The $290,000 contribution receivable as of May 31, 2013 is due as follows: 2014, $93,333; 2015, $93,333; 2016, $93,334; and 2017, $10,000.

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(8) Leases

The Association has a noncancelable operating lease for postage equipment that expires in one year and a noncancelable operating lease for a copier that expires in 4 years. The Association also leased other equipment, storage space and facilities for special events throughout the year. Rental expenses for 2013 and 2012 were $59,309 and $65,846, respectively. Future minimum lease payments under the noncancelable operating leases are as follows: 2014, $4,272; 2015, $4,272; 2016, $4,272; 2017, $2,039; and 2018, $918.

(9) Employee Benefit Plan

The Association sponsors a 403(b)(9) defined contribution plan. All employees who have attained the age of 21, are not a student, are full-time employees, and have one year of service are eligible for the plan. The plan allows employees to make voluntary pre-tax salary contributions up to an annually defined maximum as allowed by the Internal Revenue Code. Employer contributions to the plan were suspended in 2012.

(10) Business and Credit Concentrations

At May 31, 2013 and 2012, and periodically throughout the years then ended, the Association maintained balances in deposit accounts at a financial institution in excess of federally insured limits.

(11) Transition Agreement

On May 31, 2013, the Association's executive committee and Baylor University (the University) representatives, after approximately a year of discussions and deliberation, entered into a certain agreement (the Transition Agreement) that would transfer all operations not related to the communication programs (including the Baylor Line magazine and Between the Lines email) of the Association to the University. If approved by the Associations membership, the agreement would result in the termination of all other agreements between the Association and the University and the ultimate legal dissolution of the Association. Additionally, a new 501(c)(3) organization, Baylor Line Corporation, would be created that would publish the Baylor Line magazine and the Between the Lines email newsletter. This organization would be independent from the University, and maintain the editorial independence of the publications. A vote of the Association members will take place on September 7, 2013 to determine whether the Transition Agreement is adopted. Two-thirds of the members voting on September 7 must vote to approve the Transition Agreement for the changes to occur.

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Notes to Consolidated Financial Statements
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(11) Transition Agreement (continued)

In conjunction with the Transition Agreement, the University issued the Association a notice of unilateral termination of several legal agreements, including the 1993 license agreement (which allows the Association the exclusive use of the names Baylor University Alumni Association, Baylor Alumni Association and The Baylor Line) and the 1994 agreement concerning the Hughes-Dillard Alumni Center (see subsequent disposal of Hughes-Dillard Alumni Center below). If the Association does not vote for the proposal, it faces an uncertain future and the distinct possibility of litigation.

On May 31, 2013, the Association's executive committee signed an agreement between the University and the Association to vacate the Hughes-Dillard Alumni Center. According to this agreement, the University needs the Hughes-Dillard Alumni Center and the property on which it is located for the purposes of connecting the Baylor Stadium, currently under construction, to the University campus to provide an on campus football experience. The Association was willing to support Baylor's stadium project and vacated the premises on July 3, 2013. Subsequent to that date the Hughes-Dillard Alumni Center was demolished.

(12) Subsequent Events

Subsequent events have been evaluated through September 3, 2013 which is the date the consolidated financial statements were available to be issued.