



# Mining Engineering Foundation, Inc.

UNIVERSITY OF KENTUCKY • 2021 FINANCIAL STATEMENTS



**University of Kentucky**  
**Mining Engineering Foundation, Inc.**  
**A Component Unit of the University of Kentucky**  
**Financial Statements**  
**Years Ended June 30, 2021 and 2020**

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## Independent Auditor's Report

Board of Directors  
University of Kentucky  
Mining Engineering Foundation, Inc.  
Lexington, Kentucky

We have audited the accompanying financial statements of the University of Kentucky Mining Engineering Foundation, Inc. (Foundation), a not-for-profit corporation affiliated with and a component unit of the University of Kentucky (University), as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statement as listed in the table of contents.

### ***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 Foundation as of June 30, 2021 and 2020, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a 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.

#### ***Other Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Foundation's basic financial statements. 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.

The board of directors listing has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

***BKD, LLP***

Louisville, Kentucky  
October 8, 2021

**UNIVERSITY OF KENTUCKY  
MINING ENGINEERING FOUNDATION, INC.  
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2021 AND 2020**

The University of Kentucky Mining Engineering Foundation, Inc.'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, 2021 and 2020. 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**

- Total assets increased \$539,263 or 27.1% due to an increase in endowment investments of \$512,042 and an increase in cash and cash equivalents of \$27,221.
- Total liabilities decreased \$66 due to a decrease in accrued payroll.
- Net position increased \$539,329 to \$2,526,970 which represented nearly 100.0% of total assets.
- Operating revenues increased \$602,438 or 12,774.3% due to realized and unrealized investment gains.
- Operating expenses increased \$69 due to an increase in grants to the University of Kentucky (the University) for noncapital purposes of \$1,036 offset by a decrease in instruction expense of \$967.

**Using the Financial Statements**

This financial report consists of three financial statements: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; 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 Position; Statement of Revenues, Expenses and Changes in Net Position; 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 position (the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources) is one sign of the Foundation's financial health. Over time, increases or decreases in net position indicate the improvement or erosion of the Foundation's financial health.

The Statement of Net Position includes all assets, deferred outflows of resources, liabilities, and deferred inflows of resources. 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 Position presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating. Gifts and endowment and investment income (loss) are classified as operating revenues (losses) 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, noncapital financing, capital and related financing and investing activities.

### Reporting Entity

The University of Kentucky Mining Engineering Foundation, Inc. is a not-for-profit Kentucky corporation formed to establish a continuing partnership between the University and the mining industry of the Commonwealth of Kentucky for the enhancement and improvement of the Mining Engineering Department of the College of Engineering. The Foundation is considered to be an affiliate and component unit of the University because all Board of Directors 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 Position

	2021	2020	2019
<b>ASSETS</b>			
Current assets	\$ 103,121	\$ 75,900	\$ 49,663
Noncurrent assets	2,424,666	1,912,624	2,005,479
Total assets	2,527,787	1,988,524	2,055,142
<b>LIABILITIES</b>			
Current liabilities	817	883	661
Total liabilities	817	883	661
<b>NET POSITION</b>			
Restricted			
Nonexpendable	677,976	673,976	673,776
Expendable	1,848,994	1,313,665	1,380,705
Total net position	\$ 2,526,970	\$ 1,987,641	\$ 2,054,481

**Assets.** As of June 30, 2021, the Foundation's assets totaled \$2,527,787. Endowment investments represented 95.9% of the Foundation's assets.

Total assets increased \$539,263 during the year ended June 30, 2021. Endowment investments increased \$512,042 due to favorable market conditions. Cash and cash equivalents increased \$27,221.

**Liabilities.** At June 30, 2021, the Foundation's liabilities totaled \$817.

**Net Position.** Net position at June 30, 2021 totaled \$2,526,970, or nearly 100.0% of total assets, all of which were restricted.

Total net position increased \$539,329 during the year ended June 30, 2021. Expendable restricted net position increased \$535,329 due to investment gains of \$597,722 offset by educational and general expenses and grants to the University for noncapital purposes of \$62,393. Nonexpendable restricted net position increased \$4,000 due to additions to permanent endowment.

**2020 Versus 2019.** Total assets decreased \$66,618 when comparing fiscal year 2020 with fiscal year 2019 due to a decrease in endowment investments of \$92,855 offset by an increase in cash and cash equivalents of \$26,237. Total net position decreased \$66,840 from June 30, 2019 to June 30, 2020. Expendable restricted

net position decreased \$67,040 due to investment losses, educational and general expenses, and grants to the University for noncapital purposes. Nonexpendable restricted net position increased \$200 due to additions to permanent endowments.

**Statements of Revenues, Expenses and Changes in Net Position**

	<u>2021</u>	<u>2020</u>	<u>2019</u>
<b>OPERATING REVENUES (LOSSES)</b>			
Operating revenues (loss)	\$ 597,722	\$ (4,716)	\$ 110,288
Total operating revenues (losses)	<u>597,722</u>	<u>(4,716)</u>	<u>110,288</u>
<b>OPERATING EXPENSES</b>			
Educational and general	43,740	44,707	57,265
Grants to the University of Kentucky - noncapital	18,653	17,617	16,095
Total operating expenses	<u>62,393</u>	<u>62,324</u>	<u>73,360</u>
<b>NET INCOME (LOSS) FROM OPERATIONS</b>	<u>535,329</u>	<u>(67,040)</u>	<u>36,928</u>
<b>NONOPERATING REVENUES</b>			
Additions to permanent endowments	4,000	200	6,400
Total nonoperating revenues	<u>4,000</u>	<u>200</u>	<u>6,400</u>
<b>INCREASE (DECREASE) IN NET POSITION</b>	539,329	(66,840)	43,328
<b>NET POSITION, beginning of year</b>	<u>1,987,641</u>	<u>2,054,481</u>	<u>2,011,153</u>
<b>NET POSITION, end of year</b>	<u>\$ 2,526,970</u>	<u>\$ 1,987,641</u>	<u>\$ 2,054,481</u>

**2021.** Operating revenues (losses) are comprised entirely of investment income of \$597,722. Operating revenues (losses) increased \$602,438 from the previous year due to realized and unrealized gains on endowment investments. The endowment pool posted a total gain of 30.2% for fiscal year 2021 compared to a total loss of 3.2% for fiscal year 2020.

Operating expenses totaled \$62,393, of which 70.1% was used for educational and general expenses related to instruction and the remaining 29.9% was used to provide grants to the University for noncapital purposes.

**2020 Versus 2019.** Net income from operations decreased \$103,968 when comparing fiscal year 2020 to fiscal year 2019. Total operating revenue decreased \$115,004 due to realized and unrealized losses on endowment investments. Total operating expenses decreased \$11,036 due to a decrease in educational and general expenses offset by an increase in grants to the University for noncapital purposes.

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.

### Statements of Cash Flows

	2021	2020	2019
<b>CASH PROVIDED (USED) BY:</b>			
Operating activities	\$ (62,459)	\$ (62,102)	\$ (73,219)
Noncapital financing activities	4,000	200	6,400
Investing activities	85,680	88,139	79,630
Net increase in cash and cash equivalents	27,221	26,237	12,811
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	75,900	49,663	36,852
<b>CASH AND CASH EQUIVALENTS, end of year</b>	\$ 103,121	\$ 75,900	\$ 49,663

**2021.** Cash payments for operating activities were reimbursements to the University for salaries and benefits totaling \$33,325, grants to the University for noncapital purposes of \$18,653, and payments to vendors and contractors for goods and services of \$10,481.

Cash receipts provided by noncapital financing activities relate to gifts to the permanent endowment of \$4,000.

Cash provided by investing activities includes \$591,903 from the sale of investments and \$20,132 from interest and dividend income, net of \$526,355 expended on the purchases of investments.

**2020 Versus 2019.** In fiscal year 2020, cash increased \$26,237 compared to an increase of \$12,811 in fiscal year 2019. The increase in cash was primarily related to a decrease in cash used by operating activities and an increase in cash provided by investing activities, offset by a decreases in cash provided by noncapital financing.

### **Capital Assets and Debt Administration**

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

**Debt.** The Foundation had no debt at or during the years ended June 30, 2021 or 2020.

### **Factors Impacting Future Periods**

While the COVID-19 pandemic continues to impact the economy, the duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

**UNIVERSITY OF KENTUCKY MINING ENGINEERING FOUNDATION, INC.**  
**A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY**  
**STATEMENTS OF NET POSITION**  
**JUNE 30, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 103,121	\$ 75,900
Total current assets	<u>103,121</u>	<u>75,900</u>
<b>Noncurrent Assets</b>		
Endowment investments	<u>2,424,666</u>	<u>1,912,624</u>
Total noncurrent assets	<u>2,424,666</u>	<u>1,912,624</u>
Total assets	<u>2,527,787</u>	<u>1,988,524</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	<u>817</u>	<u>883</u>
Total current liabilities	<u>817</u>	<u>883</u>
Total liabilities	<u>817</u>	<u>883</u>
<b>NET POSITION</b>		
<b>Restricted</b>		
Nonexpendable	677,976	673,976
Expendable	<u>1,848,994</u>	<u>1,313,665</u>
Total restricted	<u>2,526,970</u>	<u>1,987,641</u>
Total net position	<u>\$ 2,526,970</u>	<u>\$ 1,987,641</u>

See notes to financial statements

**UNIVERSITY OF KENTUCKY MINING ENGINEERING FOUNDATION, INC.  
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
<b>OPERATING REVENUES (LOSSES)</b>		
Investment income (loss)	\$ 597,722	\$ (4,716)
Total operating revenues (losses)	<u>597,722</u>	<u>(4,716)</u>
<b>OPERATING EXPENSES</b>		
Educational and general:		
Instruction	<u>43,740</u>	<u>44,707</u>
Total educational and general	43,740	44,707
Grants to the University of Kentucky for noncapital purposes	<u>18,653</u>	<u>17,617</u>
Total operating expenses	<u>62,393</u>	<u>62,324</u>
Net income (loss) from operations	<u>535,329</u>	<u>(67,040)</u>
<b>NONOPERATING REVENUES</b>		
Additions to permanent endowments	<u>4,000</u>	<u>200</u>
Total nonoperating revenues	<u>4,000</u>	<u>200</u>
<b>INCREASE (DECREASE) IN NET POSITION</b>	539,329	(66,840)
<b>NET POSITION, beginning of year</b>	<u>1,987,641</u>	<u>2,054,481</u>
<b>NET POSITION, end of year</b>	<u>\$ 2,526,970</u>	<u>\$ 1,987,641</u>

See notes to financial statements

**UNIVERSITY OF KENTUCKY MINING ENGINEERING FOUNDATION, INC.  
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Payments to vendors and contractors	\$ (10,481)	\$ (11,434)
Salaries, wages and benefits reimbursements to the University of Kentucky	(33,325)	(33,051)
Grants to the University of Kentucky for noncapital purposes	<u>(18,653)</u>	<u>(17,617)</u>
Net cash used by operating activities	<u>(62,459)</u>	<u>(62,102)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Private gifts for endowment purposes	<u>4,000</u>	<u>200</u>
Net cash provided by noncapital financing activities	<u>4,000</u>	<u>200</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	591,903	859,875
Interest and dividends on investments	20,132	22,189
Purchases of investments	<u>(526,355)</u>	<u>(793,925)</u>
Net cash provided by investing activities	<u>85,680</u>	<u>88,139</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	27,221	26,237
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>75,900</u>	<u>49,663</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 103,121</u>	<u>\$ 75,900</u>
<b>Reconciliation of net income (loss) from operations to net cash used by operating activities:</b>		
Net income (loss) from operations	\$ 535,329	\$ (67,040)
Adjustments to reconcile net income (loss) from operations to net cash used by operating activities:		
Investment (income) loss	(597,722)	4,716
Change in assets and liabilities:		
Accounts payable and accrued liabilities	<u>(66)</u>	<u>222</u>
<b>Net cash used by operating activities</b>	<u>\$ (62,459)</u>	<u>\$ (62,102)</u>

See notes to financial statements

**UNIVERSITY OF KENTUCKY  
MINING ENGINEERING FOUNDATION, INC.  
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The University of Kentucky Mining Engineering Foundation, Inc. (the Foundation) is a not-for-profit Kentucky corporation formed to establish a continuing partnership between the University of Kentucky (the University) and the mining industry of the Commonwealth of Kentucky (the Commonwealth) for the enhancement and improvement of the Mining Engineering Department of the College of Engineering. The Foundation is considered to be an affiliate and component unit of the University because the Board of Directors 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 position categories:

- Net investment in capital assets: 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 position subject to externally imposed stipulations that it be maintained permanently by the Foundation. Such assets include the Foundation's permanent endowment funds.
  - Expendable* - Net position 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 position whose use by the Foundation is not subject to externally imposed stipulations. Unrestricted net position 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, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, expenses, changes in net position and cash flows.

**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. Cash and cash equivalents of the Foundation's endowment fund are included in noncurrent endowment investments.

Pooled Endowment Funds. All endowments are managed in a consolidated investment pool, which consists of more than 2,400 named funds. All contributing endowments participate in the income and appreciation of the pool on a per unit basis commensurate with their contribution to the pool. New endowments purchase units in the pool at the current unit value, which is calculated each month based on the fair value of the pool investments divided by the number of pool units outstanding. The market value method of accounting for pooled endowment funds is employed to ensure proper distribution of market price changes, realized gains (losses) on sales, accrued income earned, and distribution of investment earnings for expenditure by participating funds.

In accordance with the Kentucky Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted by the Commonwealth in July 2010, the University employs a total return method for establishing investment objectives and spending policies designed to achieve financial equilibrium for endowment funds over the long term. The University makes expenditure decisions in accordance with UPMIFA and donor gift agreements. UPMIFA prescribes guidelines for expenditure of a donor-restricted endowment fund (in the absence of overriding, explicit donor stipulations) and focuses on the entirety of a donor-restricted endowment fund, that is, both the original gift amount(s) and net appreciation. In accordance with the standard of prudence prescribed by UPMIFA and consistent with industry standards, the University has adopted a spending policy with the long-term objective to maintain the purchasing power of each endowment and provide a predictable and sustainable level of income to support current operations.

The adopted spending policy is a “hybrid” policy, which includes both the market value of the endowment and the current level of inflation in determining spending each year. Annual spending is calculated by taking a weighted average comprising 60% of the prior year’s spending, adjusted for inflation, and 40% of the amount that results when the target annual spending rate of four percent is applied to the average market value of the endowment over the preceding 36 months. The spending amount determined by the formula is constrained so that the calculated rate is at least 3.5 percent, and not more than five percent, of the current endowment market value.

The University also utilizes an endowment management fee to support internal management and fundraising costs related to the endowment. The University’s annual endowment management fee was 0.90% for the years ended June 30, 2021 and 2020.

To protect endowment funds from permanent impairment of value, spending and management fee withdrawals are suspended on endowments with a market value less than the contributed value by more than 20%. Additionally, endowments with a market value less than the contributed value by more than 10% undergo a formal review to determine the appropriate level of spending in accordance with various factors set forth in UPMIFA. All donor restrictions and stipulations prevail in decisions regarding preservation and spending of endowment funds.

The amount of gross spending policy distribution in accordance with the University’s endowment spending policy was \$70,899 and \$70,017 for the years ended June 30, 2021 and 2020, respectively.

Investments. Investments in marketable securities are carried at fair value. See footnote 2 for more information on the fair value determination. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income (loss) in the Statements of Revenues, Expenses and Changes in Net Position.

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 Position, as those that generally result from exchange transactions, such as payments received for providing goods and services and payments made for goods and services received. Gifts and endowment and investment income are also classified as operating revenues because fundraising activities represent the Foundation's primary operating 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. The accompanying financial statements include estimates for items such as accrued expenses for payroll and other liability accounts.

## 2. DEPOSITS AND INVESTMENTS

The fair value of deposits and investments, by type, at June 30, 2021 and 2020 are as follows:

	2021	2020
Cash and cash equivalents on deposit with the University	\$ 103,121	\$ 75,900
Investment in University pooled endowment fund	2,424,666	1,912,624
Total	\$ 2,527,787	\$ 1,988,524

Fair Value. 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 a measurement date. The framework for measuring fair value established by generally accepted accounting principles provides a fair value hierarchy as follows:

- 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 supported by little or no market activity and are significant to the fair value of the assets or liabilities.

Cash and cash equivalents on deposit with the University are based on the historical cost and therefore is not classified in the fair value hierarchy. The investment in University pooled endowment fund is derived based on the per unit calculation as described in footnote 1, thus is deemed to be a level 3 investment. For more information regarding the fair value measurements, refer to the University's financial statements, footnote 2. There have been no significant changes in the valuation techniques during the year ended June 30, 2021.

The composition of the University's pooled endowment fund based upon fair value at June 30, 2021 and 2020 is as follows:

	2021	2020
Cash and cash equivalents	1.3 %	0.3 %
Diversifying strategies	16.3 %	14.0 %
Global equity - hedged	—	5.9 %
Global equity - international	16.9 %	14.8 %
Global equity - private	21.6 %	19.9 %
Global equity - U.S.	17.6 %	15.2 %
Global fixed income - high quality/rate sensitive	5.7 %	6.0 %
Global fixed income - private credit	2.5 %	2.8 %
Global fixed income - public credit	3.9 %	5.0 %
Real assets - private	9.2 %	10.5 %
Real assets - public	5.0 %	5.6 %
Total	100.0 %	100.0 %

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 two significant categories:

- Cash and cash equivalents on deposit with the University, which the University invests in deposits with banks and the Commonwealth. The University also invests cash on deposit in money market funds and the University's pooled endowment fund.
- Endowment investments in the University's pooled endowment fund.

Cash and cash equivalents on deposit with the University are managed based on the University's Operating Fund Investment Policy established by the treasurer of the University.

Endowment investments are managed within guidelines established by the University's Endowment Investment Policy, as approved by the Investment Committee of the University's Board of Trustees, which governs the University's pooled endowment fund.

Deposit and Investment Risks. The Foundation's deposits and investments are exposed to various risks, including credit, interest rate and foreign currency risk, as discussed in more detail below. 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 affect the investment amounts in the Statements of Net Position.

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. As a means of limiting its exposure to losses arising from credit risk, the University's investment policies limit the exposure of its various investment types, as follows:

- Cash and cash equivalents on deposit with the University are governed by policy that minimizes risk in several ways. The University's deposits, in Federal Deposit Insurance Corporation (FDIC) insured financial institutions, are covered up to \$250,000 at each FDIC insured institution. State law requires that deposits in excess of this coverage be fully collateralized, therefore depository institutions issue a

- pledge of specific U.S. Treasury or agency securities, held in the name of the University by the Federal Reserve Bank, to cover all amounts over the \$250,000 coverage.
- Deposits with the Commonwealth consist of securities eligible for short-term investments under state law. The University invests a portion of its operating cash in a diversified pool of money market funds. Fund investments include U.S. Treasury and agency securities, certificates of deposit, commercial paper, repurchase agreements and other short-term fixed income securities.
  - Endowment managers are permitted to use derivative instruments to limit credit risk.

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 the possession of an outside party. As a means of limiting its exposure to losses arising from custodial credit risk, the University's investment policies limit the exposure of its various investment types, as follows:

- Cash and cash equivalents on deposit with the University invested in deposits and money market funds are held in the University's name by various financial institutions. Deposits with the Commonwealth are held in the Commonwealth's name. The University maintains records evidencing the Foundation's ownership interest in such balances.
- Endowment investments are held in the University's name by the University's custodian. The University maintains records of the Foundation's ownership interest (units) in the University's pooled endowment fund.

Concentrations of Credit Risk. The Foundation's investments can be exposed to a concentration of credit risk if significant amounts are invested in any one issuer. As a means of limiting its exposure to concentrations of credit risk, the University's investment policies limit concentrations in various investment types, as follows:

- Cash and cash equivalents on deposit with the University are not limited as to the maximum amount that may be invested in one issuer. However, the University's cash deposits in excess of federal deposit 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.
- The University's endowment fixed income managers are limited to a maximum investment in any one issuer of no more than five percent of total investments excluding sovereign debt of governments belonging to the Organization for Economic Cooperation and Development and U.S. agencies.

At June 30, 2021, the Foundation had no underlying investments in any one issuer which represented more than five percent of total investments, other than U.S. Treasury and agency obligations.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from increasing interest rates, the University's investment policies limit the maturity of its various investment types, as follows:

- Cash and cash equivalents on deposit with the University have limited exposure to interest rate risk due to the short-term nature of the investment. The University requires that all deposits and money market funds be available for use on the next business day.
- Endowment managers are permitted to use derivative instruments to limit interest rate risk. Additionally, endowment investments held by the University's actively managed intermediate-term fixed income manager are limited to a duration that is within two years of the duration of the Barclays U.S. Intermediate Aggregate Bond Index and unconstrained fixed income strategies have been implemented to further mitigate interest rate risk.

Foreign Currency Risk. Foreign currency risk is the risk that fluctuations in exchange rates will adversely affect the fair value of an investment or deposit.

The Foundation's exposure to foreign currency risk derives from certain endowment investments in the University's pooled endowment fund. The University's investment policy allows fixed income managers to invest a portion of their portfolios in non-U.S. securities. Additionally, the investment policy allows various

pooled fund managers to invest in accordance with the guidelines established in each individual fund's prospectus, which allows for investment in non-U.S. securities. Endowment managers are permitted to use derivative instruments to limit foreign currency risk.

### 3. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2021 and 2020 are as follows:

	2021	2020
Accrued payroll	\$ 817	\$ 883
Total	<u>\$ 817</u>	<u>\$ 883</u>

### 4. INVESTMENT INCOME (LOSS)

Components of investment income (loss) for the years ended June 30, 2021 and 2020 are as follows:

	2021	2020
Interest and dividends earned on endowment investments	\$ 20,005	\$ 21,483
Realized and unrealized gains (losses) on endowment investments	577,590	(26,905)
Interest on cash and non-endowment investments	127	706
Total	<u>\$ 597,722</u>	<u>\$ (4,716)</u>

### 5. 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 2020 to 2021. Settlements have not exceeded insurance coverage during the past three years.

### 6. TRANSACTIONS WITH THE UNIVERSITY

Grants to the University for endowment management fees were \$18,653 and \$17,617 for the years ended June 30, 2021 and 2020, respectively. All salaries, wages and benefits reimbursements to the University represent charges for University employees and were \$33,259 and \$33,313 for the years ended June 30, 2021 and 2020, respectively.

### 7. CURRENT ECONOMIC UNCERTAINTIES

While the COVID-19 pandemic continues to impact the economy, the duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

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