



UNIVERSITY OF KENTUCKY • 2020 FINANCIAL STATEMENTS

Gluck Equine Research Foundation, Inc.

University of Kentucky
Gluck Equine Research Foundation, Inc.
A Component Unit of the University of Kentucky
Financial Statements
Years Ended June 30, 2020 and 2019

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Independent Auditor's Report

Board of Directors
University of Kentucky
Gluck Equine Research Foundation, Inc.
Lexington, Kentucky

We have audited the accompanying financial statements of the University of Kentucky Gluck Equine Research 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, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements 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, 2020 and 2019, 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, which 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 2, 2020

**UNIVERSITY OF KENTUCKY
GLUCK EQUINE RESEARCH FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2020 AND 2019**

The University of Kentucky Gluck Equine Research 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, 2020 and 2019. 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 decreased \$441,899 or 4.8% due to an decrease in endowment investments of \$435,399 and a decrease in cash and cash equivalents of \$6,500.
- Total liabilities decreased \$874 due to a decrease in payments to vendors.
- Net position decreased \$441,025 to \$8,818,807 which represented 100.0% of total assets.
- Operating revenues decreased \$677,963 or 103.7% primarily due to investment losses.
- Operating expenses decreased \$217,575 or 34.3% due to decreases in research expense of \$86,897, institutional support expense of \$11,898, and grants to the University of Kentucky of \$118,780.

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 nonoperating. Gifts and endowment and investment income (loss) are classified as operating revenues (losses) because fundraising is 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 Gluck Equine Research Foundation, Inc. is a not-for-profit Kentucky corporation formed to establish a continuing partnership between the University of Kentucky (the University) and the equine industry of the Commonwealth of Kentucky. The Foundation's objective is to enhance and improve the equine research program at the University so that it will be one of the finest in the world. 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, staff or trustees 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

	<u>2020</u>	<u>2019</u>	<u>2018</u>
ASSETS			
Current assets	\$ —	\$ 6,500	\$ 335,818
Noncurrent assets	8,818,807	9,254,206	8,904,840
Total assets	<u>8,818,807</u>	<u>9,260,706</u>	<u>9,240,658</u>
LIABILITIES			
Current liabilities	—	874	189
Total liabilities	<u>—</u>	<u>874</u>	<u>189</u>
NET POSITION			
Restricted			
Nonexpendable	4,607,271	4,607,271	4,607,271
Expendable	<u>4,211,536</u>	<u>4,652,561</u>	<u>4,633,198</u>
Total net position	<u>\$ 8,818,807</u>	<u>\$ 9,259,832</u>	<u>\$ 9,240,469</u>

Assets. As of June 30, 2020, the Foundation's assets totaled \$8,818,807. Endowment investments represented 100.0% of the Foundation's assets.

Total assets decreased \$441,899 during the year ended June 30, 2020. Endowment investments decreased \$435,399 due to realized and unrealized losses on endowment investments and a decrease in cash and cash equivalents of \$6,500. The endowment pool posted a total loss of 3.2% for fiscal year 2020 compared to a total gain of 4.4% in the prior year.

Liabilities. At June 30, 2020, the Foundation had no liabilities.

Net Position. Net position at June 30, 2020 totaled \$8,818,807, or 100.0% of total assets, all of which were restricted. Total expendable net position decreased \$441,025 primarily due to investment losses, grants to the University, and educational and general expenses exceeding revenue.

2019 Versus 2018. Total assets increased \$20,048 when comparing fiscal year 2019 with fiscal year 2018 primarily due to an increase in endowment investments of \$349,366 offset by a decrease cash and cash equivalents of \$329,318. Total expendable net position increased \$19,363 during the year ended June 30, 2019, due to revenue exceeding grants to the University and educational and general expenses.

Statements of Revenues, Expenses and Changes in Net Position

	<u>2020</u>	<u>2019</u>	<u>2018</u>
OPERATING REVENUES (LOSSES)			
Operating revenues (losses)	\$ (23,988)	\$ 653,975	\$ 529,041
Total operating revenues (losses)	<u>(23,988)</u>	<u>653,975</u>	<u>529,041</u>
OPERATING EXPENSES			
Educational and general	18,092	116,887	57,970
Grants to the University of Kentucky - noncapital	398,945	517,244	244,778
Grants to the University of Kentucky - capital	—	481	2,091
Total operating expenses	<u>417,037</u>	<u>634,612</u>	<u>304,839</u>
NET INCOME (LOSS) FROM OPERATIONS	<u>(441,025)</u>	<u>19,363</u>	<u>224,202</u>
INCREASE (DECREASE) IN NET POSITION	(441,025)	19,363	224,202
NET POSITION, beginning of year	<u>9,259,832</u>	<u>9,240,469</u>	<u>9,016,267</u>
NET POSITION, end of year	<u><u>\$ 8,818,807</u></u>	<u><u>\$ 9,259,832</u></u>	<u><u>\$ 9,240,469</u></u>

2020. Operating revenues (losses) primarily included an investment loss of \$24,488. Operating revenues (losses) decreased \$677,963 from the previous year due to a loss on investments and a decrease in gifts and sales related to fundraising activities. The endowment pool posted a total loss of 3.2% for fiscal year 2020 compared to a total gain of 4.4% for fiscal year 2019.

Operating expenses totaled \$417,037, decreasing \$217,575 due to a decrease in grants to the University for non-capital purposes of \$118,299, a decrease in educational and general expense of \$98,795, and a decrease of grants to University for capital purposes of \$481.

2019 Versus 2018. Operating revenues increased \$124,934 when comparing fiscal year 2019 to fiscal year 2018 primarily due to an increase in gifts and sales related to fundraising activities offset by decreases in gains on investments. Operating expenses increased \$329,773 due to an increase in grants to the University for non-capital purposes of \$272,466 and an increase of educational and general expense of \$58,917, offset by a decrease in grants to the University for capital purposes of \$1,610.

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

	2020	2019	2018
CASH PROVIDED (USED) BY:			
Operating activities	\$ (417,411)	\$ (475,495)	\$ (303,050)
Investing activities	410,911	146,177	579,055
Net increase (decrease) in cash and cash equivalents	(6,500)	(329,318)	276,005
CASH AND CASH EQUIVALENTS, beginning of year	6,500	335,818	59,813
CASH AND CASH EQUIVALENTS, end of year	\$ —	\$ 6,500	\$ 335,818

2020. Significant uses of cash include grants to the University for non-capital purposes of \$398,945 and payments to vendors and contractors of \$18,966 while the only cash receipt from operating activities was provided by gift revenue of \$500.

Cash provided by investing activities included \$3,974,147 from the sale of investments and interest and dividend income of \$97,419, net of \$3,660,655 used in the purchases of investments.

2019 Versus 2018. Net cash used by operating activities increased \$172,445 when comparing fiscal year 2019 to fiscal year 2018 primarily due to an increase in grants to the University for noncapital purposes and an increase in payments to vendor, offset by an increase in gift revenue. Net cash provided by investing activities decreased \$432,878 primarily due to the proceeds from sales and maturities of investments and interest and dividends net of investment purchases.

Capital Assets 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 years ended June 30, 2020 or 2019.

Factors Impacting Future Periods

Investment losses and declines in donations due to the current economic downturn related to the COVID-19 pandemic could negatively impact the Foundation's future financial results.

UNIVERSITY OF KENTUCKY GLUCK EQUINE RESEARCH FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY
STATEMENTS OF NET POSITION
JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ —	\$ 6,500
Total current assets	<u>—</u>	<u>6,500</u>
Noncurrent Assets		
Endowment investments	<u>8,818,807</u>	<u>9,254,206</u>
Total noncurrent assets	<u>8,818,807</u>	<u>9,254,206</u>
Total assets	<u>8,818,807</u>	<u>9,260,706</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	<u>—</u>	<u>874</u>
Total current liabilities	<u>—</u>	<u>874</u>
Total liabilities	<u>—</u>	<u>874</u>
NET POSITION		
Restricted		
Nonexpendable	4,607,271	4,607,271
Expendable	<u>4,211,536</u>	<u>4,652,561</u>
Total restricted	<u>8,818,807</u>	<u>9,259,832</u>
Total net position	<u>\$ 8,818,807</u>	<u>\$ 9,259,832</u>

See notes to financial statements

**UNIVERSITY OF KENTUCKY GLUCK EQUINE RESEARCH 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, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
OPERATING REVENUES (LOSSES)		
Gifts	\$ 500	\$ 152,500
Investment income (loss)	(24,488)	495,543
Sales related to fundraising activities	—	5,932
Total operating revenues (losses)	<u>(23,988)</u>	<u>653,975</u>
OPERATING EXPENSES		
Educational and general:		
Research	18,092	104,989
Institutional support	—	11,898
Total educational and general	<u>18,092</u>	<u>116,887</u>
Grants to the University of Kentucky for noncapital purposes	398,945	517,244
Grants to the University of Kentucky for capital purposes	—	481
Total operating expenses	<u>417,037</u>	<u>634,612</u>
Net income (loss) from operations	<u>(441,025)</u>	<u>19,363</u>
INCREASE (DECREASE) IN NET POSITION	(441,025)	19,363
NET POSITION, beginning of year	<u>9,259,832</u>	<u>9,240,469</u>
NET POSITION, end of year	<u>\$ 8,818,807</u>	<u>\$ 9,259,832</u>

See notes to financial statements

**UNIVERSITY OF KENTUCKY GLUCK EQUINE RESEARCH FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Gifts	\$ 500	\$ 152,500
Payments to vendors and contractors	(18,966)	(115,183)
Salaries, wages and benefits reimbursements to the University of Kentucky	—	(1,019)
Grants to the University of Kentucky for noncapital purposes	(398,945)	(517,244)
Grants to the University of Kentucky for capital purposes	—	(481)
Other receipts	—	5,932
Net cash used by operating activities	<u>(417,411)</u>	<u>(475,495)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	3,974,147	3,266,310
Interest and dividends on investments	97,419	146,177
Purchases of investments	<u>(3,660,655)</u>	<u>(3,266,310)</u>
Net cash provided by investing activities	<u>410,911</u>	<u>146,177</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(6,500)</u>	<u>(329,318)</u>
 CASH AND CASH EQUIVALENTS, beginning of year	<u>6,500</u>	<u>335,818</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ —</u>	<u>\$ 6,500</u>
 Reconciliation of net income (loss) from operations to net cash used by operating activities:		
Net income (loss) from operations	\$ (441,025)	\$ 19,363
Adjustments to reconcile net income (loss) from operations to net cash used by operating activities:		
Investment (income) loss	24,488	(495,543)
Change in assets and liabilities:		
Accounts payable and accrued liabilities	<u>(874)</u>	<u>685</u>
Net cash used by operating activities	<u>\$ (417,411)</u>	<u>\$ (475,495)</u>

See notes to financial statements

**UNIVERSITY OF KENTUCKY
GLUCK EQUINE RESEARCH FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The University of Kentucky Gluck Equine Research 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 equine industry of the Commonwealth of Kentucky (the Commonwealth). The Foundation's objective is to enhance and improve the equine research program at the University so that it will be one of the finest in the world. 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, staff or trustees 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 principal of 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 2,300 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% and 0.82% for the years ended June 30, 2020 and 2019, respectively.

To protect endowment funds from permanent impairment of value, spending distribution 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 \$315,650 and \$311,939 for the years ended June 30, 2020 and 2019, 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 Statements 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.

2. DEPOSITS AND INVESTMENTS

The fair value of deposits and investments, by type, at June 30, 2020 and 2019 are as follows:

	2020	2019
Cash and cash equivalents on deposit with the University	\$ —	\$ 6,500
Investment in University pooled endowment fund	8,818,807	9,254,206
Total	\$ 8,818,807	\$ 9,260,706

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, 2020.

The composition of the University's pooled endowment fund based upon fair value at June 30, 2020 and 2019 is as follows:

	2020	2019
Cash and cash equivalents	0.3 %	0.2 %
Diversifying strategies	14.0 %	14.9 %
Global equity - hedged	5.9 %	6.0 %
Global equity - international	14.8 %	17.6 %
Global equity - private	19.9 %	16.1 %
Global equity - U.S.	15.2 %	12.4 %
Global fixed income - high quality/rate sensitive	6.0 %	6.9 %
Global fixed income - private credit	2.8 %	3.1 %
Global fixed income - public credit	5.0 %	5.8 %
Real assets - private	10.5 %	10.0 %
Real assets - public	5.6 %	7.0 %
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, 2020, 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 core-plus 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, 2020 and 2019 are as follows:

	2020	2019
Payable to vendors and contractors	\$ —	\$ 874
Total	<u>\$ —</u>	<u>\$ 874</u>

4. INVESTMENT INCOME (LOSS)

Components of investment income (loss) for the years ended June 30, 2020 and 2019 are as follows:

	2020	2019
Interest and dividends earned on endowment investments	\$ 96,849	\$ 143,748
Realized and unrealized gains (losses) on endowment investments	(121,907)	349,366
Interest on cash and non-endowment investments	570	2,429
Total	<u>\$ (24,488)</u>	<u>\$ 495,543</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 2019 to 2020. Settlements have not exceeded insurance coverage during the past three years.

6. TRANSACTIONS WITH THE UNIVERSITY

Grants to the University include \$319,525 and \$444,530 for purposes of equine research and support of the Gluck Equine Research Center as well as \$79,420 and \$72,714 for endowment management fees for the years ended June 30, 2020 and 2019, respectively. All salaries, wages and benefits reimbursements to the University represent charges for University employees were \$0 and \$830 for the years ended June 30, 2020 and 2019, respectively.

7. CURRENT ECONOMIC UNCERTAINTIES

As a result of the spread of the SARS-CoV-2 virus and the incidence of COVID-19, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of the Foundation. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

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