



Mining Engineering Foundation, Inc.

UNIVERSITY OF KENTUCKY • 2025 FINANCIAL STATEMENTS

University of Kentucky
Mining Engineering Foundation, Inc.
A Component Unit of the University of Kentucky
Financial Statements
Years Ended June 30, 2025 and 2024

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Independent Auditor's Report

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

Opinion

We have audited the financial statements of the University of Kentucky Mining Engineering Foundation, Inc. (Foundation), a component unit of the University of Kentucky, as of and for the years ended June 30, 2025 and 2024, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Foundation, as of June 30, 2025 and 2024, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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

Management is responsible for the other information included in the annual report. The other information comprises the listing of the board of directors, but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

In connection with our audits of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Forvis Mazars, LLP

**Louisville, Kentucky
October 2, 2025**

**UNIVERSITY OF KENTUCKY
MINING ENGINEERING FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2025 AND 2024**

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, 2025 and 2024. 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 \$159,252 or 6.2% due to an increase in endowment investments of \$122,950 and an increase in cash and cash equivalents of \$36,302.
- Total liabilities decreased \$89 due to a decrease in accrued payroll.
- Net position increased \$159,341 to \$2,734,617 which represented nearly 100.0% of total assets.
- Operating revenues increased \$35,551 or 17.3% primarily due to realized and unrealized investment gains.
- Operating expenses increased \$10,657 due to an increase in instruction expense of \$9,577 and grants to the University of Kentucky (the University) for noncapital purposes of \$1,080.

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 are classified as operating revenues because fundraising activities represent the Foundation's primary operating purpose.

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

	2025	2024	2023
ASSETS			
Current assets	\$ 263,102	\$ 226,800	\$ 181,813
Noncurrent assets	2,472,797	2,349,847	2,260,491
Total assets	<u>2,735,899</u>	<u>2,576,647</u>	<u>2,442,304</u>
LIABILITIES			
Current liabilities	1,282	1,371	1,475
Total liabilities	<u>1,282</u>	<u>1,371</u>	<u>1,475</u>
NET POSITION			
Restricted			
Nonexpendable	680,176	680,176	680,176
Expendable	2,054,441	1,895,100	1,760,653
Total net position	<u>\$ 2,734,617</u>	<u>\$ 2,575,276</u>	<u>\$ 2,440,829</u>

Assets. As of June 30, 2025, the Foundation's assets totaled \$2,735,899. Endowment investments represented 90.4% of the Foundation's assets.

Total assets increased \$159,252 during the year ended June 30, 2025. Endowment investments increased \$122,950 due to favorable market conditions and cash and cash equivalents increased \$36,302.

Liabilities. As of June 30, 2025, the Foundation's liabilities totaled \$1,282. Accrued payroll represented 100% of the Foundation's liabilities.

Net Position. Net position at June 30, 2025 totaled \$2,734,617, or nearly 100.0% of total assets, all of which were restricted.

Total net position increased \$159,341 during the year ended June 30, 2025. Expendable restricted net position increased \$159,341 due to investment earnings of \$240,717 offset by educational and general expenses and grants to the University for noncapital purposes of \$81,376.

2024 Versus 2023. Total assets increased \$134,343 when comparing fiscal year 2024 with fiscal year 2023 due to an increase in endowment investments of \$89,356 and cash and cash equivalents of \$44,987. Total net position increased \$134,447 from June 30, 2023 to June 30, 2024. Restricted expendable net position increased \$134,447 due to investment gains of \$205,166 offset by an increase in instruction expenses and grants to the University for noncapital purposes of \$70,719.

Statements of Revenues, Expenses and Changes in Net Position

	<u>2025</u>	<u>2024</u>	<u>2023</u>
OPERATING REVENUES			
Operating revenues	\$ 240,717	\$ 205,166	\$ 174,602
Total operating revenues	<u>240,717</u>	<u>205,166</u>	<u>174,602</u>
OPERATING EXPENSES			
Educational and general	58,622	49,045	39,267
Grants to the University of Kentucky - noncapital	22,754	21,674	19,847
Total operating expenses	<u>81,376</u>	<u>70,719</u>	<u>59,114</u>
NET INCOME FROM OPERATIONS	<u>159,341</u>	<u>134,447</u>	<u>115,488</u>
NONOPERATING REVENUES			
Additions to permanent endowments	—	—	1,200
Total nonoperating revenues	<u>—</u>	<u>—</u>	<u>1,200</u>
INCREASE IN NET POSITION	159,341	134,447	116,688
NET POSITION, beginning of year	<u>2,575,276</u>	<u>2,440,829</u>	<u>2,324,141</u>
NET POSITION, end of year	<u><u>\$ 2,734,617</u></u>	<u><u>\$ 2,575,276</u></u>	<u><u>\$ 2,440,829</u></u>

2025. Operating revenues are comprised entirely of investment earnings of \$240,717. Operating revenues increased \$35,551 from the previous year primarily due to realized and unrealized gains on endowment investments. The endowment pool posted a total gain of 9.2% for fiscal year 2025 compared to a total gain of 8.6% for fiscal year 2024.

Operating expenses totaled \$81,376, of which 72.0% was used for educational and general expenses related to instruction and the remaining 28.0% was used to provide grants to the University for noncapital purposes.

2024 Versus 2023. Net income from operations increased \$18,959 when comparing fiscal year 2024 to fiscal year 2023. Total operating revenues increased \$30,564 due to realized and unrealized gains on endowment investments. Total operating expenses increased \$11,605 due to an increase in educational and general expenses related to instruction and 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

	<u>2025</u>	<u>2024</u>	<u>2023</u>
CASH PROVIDED (USED) BY:			
Operating activities	\$ (81,465)	\$ (70,823)	\$ (58,494)
Noncapital financing activities	—	—	1,200
Investing activities	<u>117,767</u>	<u>115,810</u>	<u>107,702</u>
Net increase in cash and cash equivalents	36,302	44,987	50,408
CASH AND CASH EQUIVALENTS, beginning of year	<u>226,800</u>	<u>181,813</u>	<u>131,405</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 263,102</u></u>	<u><u>\$ 226,800</u></u>	<u><u>\$ 181,813</u></u>

2025. Cash payments for operating activities were reimbursements to the University for salaries and benefits totaling \$30,776, payments to vendors and contractors for goods and services of \$27,935 and grants to the University for noncapital purposes of \$22,754.

Cash provided by investing activities included \$966,020 from the sale of investments and \$46,182 from interest and dividend income, net of \$894,435 expended on the purchases of investments.

2024 Versus 2023. In fiscal year 2024, cash increased \$44,987 compared to fiscal year 2023. The increase in cash was primarily related to an increase in cash provided by investing activities offset by cash used by operating activities.

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, 2025 or 2024.

Factors Impacting Future Periods

While inflation continues to impact the economy, the duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time. Management and staff anticipate increased costs in the upcoming year.

UNIVERSITY OF KENTUCKY MINING ENGINEERING FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY
STATEMENTS OF NET POSITION
JUNE 30, 2025 AND 2024

	2025	2024
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 263,102	\$ 226,800
Total current assets	263,102	226,800
Noncurrent Assets		
Endowment investments	2,472,797	2,349,847
Total noncurrent assets	2,472,797	2,349,847
Total assets	2,735,899	2,576,647
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	1,282	1,371
Total current liabilities	1,282	1,371
Total liabilities	1,282	1,371
NET POSITION		
Restricted		
Nonexpendable	680,176	680,176
Expendable	2,054,441	1,895,100
Total restricted	2,734,617	2,575,276
Total net position	\$ 2,734,617	\$ 2,575,276

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, 2025 AND 2024

	<u>2025</u>	<u>2024</u>
OPERATING REVENUES		
Investment income	\$ 240,717	\$ 205,166
Total operating revenues	<u>240,717</u>	<u>205,166</u>
OPERATING EXPENSES		
Educational and general:		
Instruction	58,622	49,045
Total educational and general	<u>58,622</u>	<u>49,045</u>
Grants to the University of Kentucky for noncapital purposes	22,754	21,674
Total operating expenses	<u>81,376</u>	<u>70,719</u>
Net income from operations	<u>159,341</u>	<u>134,447</u>
INCREASE IN NET POSITION	159,341	134,447
NET POSITION, beginning of year	<u>2,575,276</u>	<u>2,440,829</u>
NET POSITION, end of year	<u><u>\$ 2,734,617</u></u>	<u><u>\$ 2,575,276</u></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, 2025 AND 2024

	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to vendors and contractors	\$ (27,935)	\$ (14,108)
Salaries, wages and benefits reimbursements to the University of Kentucky	(30,776)	(35,041)
Grants to the University of Kentucky for noncapital purposes	(22,754)	(21,674)
Net cash used by operating activities	<u>(81,465)</u>	<u>(70,823)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	966,020	879,717
Interest and dividends on investments	46,182	43,782
Purchases of investments	(894,435)	(807,689)
Net cash provided by investing activities	<u>117,767</u>	<u>115,810</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	36,302	44,987
CASH AND CASH EQUIVALENTS, beginning of year	<u>226,800</u>	<u>181,813</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 263,102</u></u>	<u><u>\$ 226,800</u></u>
Reconciliation of net income from operations		
to net cash used by operating activities:		
Net income from operations	\$ 159,341	\$ 134,447
Adjustments to reconcile net income from operations		
to net cash used by operating activities:		
Investment income	(240,717)	(205,166)
Change in assets and liabilities:		
Accounts payable and accrued liabilities	(89)	(104)
Net cash used by operating activities	<u><u>\$ (81,465)</u></u>	<u><u>\$ (70,823)</u></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, 2025 AND 2024**

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 2,730 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 0.95% for the years ended June 30, 2025 and 2024.

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 \$84,230 and \$83,961 for the years ended June 30, 2025 and 2024, 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 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, 2025 and 2024 was as follows:

	2025	2024
Cash and cash equivalents on deposit with the University	\$ 263,102	\$ 226,800
Investment in University pooled endowment fund	2,472,797	2,349,847
Total	<u>\$ 2,735,899</u>	<u>\$ 2,576,647</u>

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 are not classified in the fair value hierarchy. The investment in the 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, 2025.

The composition of the University's pooled endowment fund based upon fair value at June 30, 2025 and 2024 was as follows:

	2025	2024
Cash and cash equivalents	0.3 %	0.3 %
Diversifying strategies	12.3 %	12.6 %
Global equity - international	16.0 %	16.1 %
Global equity - private	20.4 %	20.8 %
Global equity - U.S.	27.4 %	25.4 %
Global fixed income - public fixed income	9.7 %	8.8 %
Global fixed income - private credit	2.1 %	3.4 %
Real assets - private	10.1 %	11.3 %
Real assets - public	1.7 %	1.3 %
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 within guidelines established by the University's Operating Fund Investment Policy, as approved by the Investment Committee of the University's Board of Trustees and maintained by the Operating Fund Investment Committee.

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 changes 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 and/or U.S. 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. Money market funds held by the University are invested in U.S. Treasury and agency 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 are invested in deposits and money market funds which 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 core-plus fixed income manager is 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, 2025 and 2024, 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, the University's actively managed core-plus fixed income portfolio manager is limited to a duration that is within two years of the duration of the Barclays U.S. Aggregate Bond Index. 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 of 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, 2025 and 2024 were as follows:

	2025	2024
Accrued payroll	\$ 1,282	\$ 1,371
Total	<u>\$ 1,282</u>	<u>\$ 1,371</u>

4. INVESTMENT INCOME

Components of investment income for the years ended June 30, 2025 and 2024 were as follows:

	2025	2024
Interest and dividends earned on endowment investments	\$ 35,399	\$ 33,607
Realized and unrealized gains on endowment investments	194,535	161,384
Interest on cash and non-endowment investments	<u>10,783</u>	<u>10,175</u>
Total	<u>\$ 240,717</u>	<u>\$ 205,166</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. The insurance coverage limit was \$1.00 billion in 2025 and 2024. 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 \$22,754 and \$21,674 for the years ended June 30, 2025 and 2024, respectively. All salaries, wages and benefits reimbursements to the University represent charges for University employees and were \$30,687 and \$34,937 for the years ended June 30, 2025 and 2024, respectively.

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