



2017 Financial Statements

 University of
Kentucky[®]

**Mining Engineering
Foundation, Inc.**

University of Kentucky
Mining Engineering Foundation, Inc.
A Component Unit of the University of Kentucky
Financial Statements
Years Ended June 30, 2017 and 2016

CONTENTS	PAGE
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Financial Statements	
Statements of Net Position	7
Statements of Revenues, Expenses and Changes in Net Position	8
Statements of Cash Flows	9
Notes to Financial Statements	10
Board of Directors	16

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, 2017 and 2016, and the related notes to 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, 2017 and 2016, and the changes in its financial position and its 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 audits 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 19, 2017

**UNIVERSITY OF KENTUCKY
MINING ENGINEERING FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED JUNE 30, 2017 AND 2016**

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, 2017 and 2016. 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 \$96,491 or 5.2% primarily due to an increase in endowment investments of \$99,268 offset by a decrease in cash and cash equivalents of \$2,777.
- Total liabilities decreased \$7,697 due to a decrease in accrued payroll.
- Net position increased \$104,188 to \$1,954,605 which represented nearly 100.0% of total assets.
- Operating revenues increased \$199,744 or 799.1% due to investment gains.
- Operating expenses increased \$10,385 primarily due to an increase in instructional expenses.

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 of Kentucky (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

	2017	2016	2015
ASSETS			
Current assets	\$ 23,228	\$ 26,005	\$ 20,702
Noncurrent assets	1,931,839	1,832,571	1,924,300
Total assets	<u>1,955,067</u>	<u>1,858,576</u>	<u>1,945,002</u>
LIABILITIES			
Current liabilities	462	8,159	11,464
Total liabilities	<u>462</u>	<u>8,159</u>	<u>11,464</u>
NET POSITION			
Restricted			
Nonexpendable	662,926	661,626	658,276
Expendable	1,291,679	1,188,791	1,275,262
Total net position	<u>\$ 1,954,605</u>	<u>\$ 1,850,417</u>	<u>\$ 1,933,538</u>

Assets. As of June 30, 2017, the Foundation's assets totaled \$1,955,067. Endowment investments represented 98.8% of the Foundation's assets.

Total assets increased \$96,491 during the year ended June 30, 2017. Endowment investments increased \$99,268 due to investment gains.

Liabilities. At June 30, 2017, the Foundation's liabilities totaled \$462.

Net Position. Net position at June 30, 2017 totaled \$1,954,605, or nearly 100.0% of total assets, all of which were restricted.

Total net position increased \$104,188 during the year ended June 30, 2017. Nonexpendable restricted net position increased \$1,300 due to additions to permanent endowments. Expendable restricted net position increased \$102,888 due to investment gains exceeding educational and general expenses and grants to the University of Kentucky for noncapital purposes.

2016 Versus 2015. Total net position decreased \$83,121 from June 30, 2015 to June 30, 2016. Nonexpendable restricted net position increased \$3,350 due to additions to permanent endowments. Expendable restricted net position decreased \$86,471 due to an investment loss, educational and general expenses, and grants to the University for noncapital purposes.

Statements of Revenues, Expenses and Changes in Net Position

	<u>2017</u>	<u>2016</u>	<u>2015</u>
OPERATING REVENUES (LOSSES)			
Operating revenues (losses)	\$ 174,747	\$ (24,997)	\$ 38,456
Total operating revenues (losses)	<u>174,747</u>	<u>(24,997)</u>	<u>38,456</u>
OPERATING EXPENSES			
Educational and general	62,457	52,303	58,849
Grants to the University of Kentucky - noncapital	9,402	9,171	4,808
Total operating expenses	<u>71,859</u>	<u>61,474</u>	<u>63,657</u>
NET INCOME (LOSS) FROM OPERATIONS	<u>102,888</u>	<u>(86,471)</u>	<u>(25,201)</u>
NONOPERATING REVENUES			
Additions to permanent endowments	1,300	3,350	4,450
Total nonoperating revenues	<u>1,300</u>	<u>3,350</u>	<u>4,450</u>
INCREASE (DECREASE) IN NET POSITION	104,188	(83,121)	(20,751)
NET POSITION, beginning of year	<u>1,850,417</u>	<u>1,933,538</u>	<u>1,954,289</u>
NET POSITION, end of year	<u>\$ 1,954,605</u>	<u>\$ 1,850,417</u>	<u>\$ 1,933,538</u>

2017. The Foundation had operating revenues of \$174,747 due to realized and unrealized gains on endowment investments. The endowment pool posted a total gain of 9.4% for fiscal year 2017 compared to a total loss of 1.8% for fiscal year 2016.

Operating expenses totaled \$71,859, of which 86.9% was used for educational and general expenses related to instruction, and the remaining 13.1% was used to provide grants to the University for noncapital purposes.

2016 Versus 2015. Net income (loss) from operations increased \$61,270 when comparing fiscal year 2016 to fiscal year 2015. Total operating revenue decreased \$63,453 due to a loss on endowment investments. Total operating expenses decreased \$2,183 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

	2017	2016	2015
CASH PROVIDED (USED) BY:			
Operating activities	\$ (79,556)	\$ (64,779)	\$ (51,641)
Noncapital financing activities	1,300	3,350	4,450
Investing activities	75,479	66,732	63,444
Net increase (decrease) in cash and cash equivalents	(2,777)	5,303	16,253
Cash and cash equivalents, beginning of year	26,005	20,702	4,449
Cash and cash equivalents, end of year	\$ 23,228	\$ 26,005	\$ 20,702

2017. Cash payments for operating activities were primarily reimbursements to the University for salaries and benefits totaling \$36,198 and payments to vendors and contractors for goods and services of \$33,956.

Cash receipts provided by noncapital financing activities relate to private gifts to the permanent endowment of \$1,300.

Cash provided by investing activities includes \$1,160,392 from the sale of investments and interest and dividend income of \$26,829, net of \$1,111,742 expended on the purchases of investments.

2016 Versus 2015. In fiscal year 2016 cash increased \$5,303 compared to an increase of \$16,253 in fiscal year 2015. The decrease in cash flows was primarily related to an increase in cash used by operating activities offset by cash provided by noncapital financing and investing activities.

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 year ended June 30, 2017.

Factors Impacting Future Periods

Although the economy continues to show signs of improvement, investment losses and declines in donations could negatively impact the Foundation's future financial results.

UNIVERSITY OF KENTUCKY MINING ENGINEERING FOUNDATION, INC.
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY
STATEMENTS OF NET POSITION
JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 23,228	\$ 26,005
Total current assets	<u>23,228</u>	<u>26,005</u>
Noncurrent Assets		
Endowment investments	1,931,839	1,832,571
Total noncurrent assets	<u>1,931,839</u>	<u>1,832,571</u>
Total assets	<u>1,955,067</u>	<u>1,858,576</u>
 LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	462	8,159
Total current liabilities	<u>462</u>	<u>8,159</u>
Total liabilities	<u>462</u>	<u>8,159</u>
 NET POSITION		
Restricted		
Nonexpendable	662,926	661,626
Expendable	1,291,679	1,188,791
Total restricted	<u>1,954,605</u>	<u>1,850,417</u>
Total net position	<u>\$ 1,954,605</u>	<u>\$ 1,850,417</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, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES (LOSSES)		
Investment income (loss)	\$ 174,747	\$ (24,997)
Total operating revenues (losses)	<u>174,747</u>	<u>(24,997)</u>
OPERATING EXPENSES		
Educational and general:		
Instruction	62,457	52,303
Total educational and general	<u>62,457</u>	<u>52,303</u>
Grants to (from) the University of Kentucky for noncapital purposes	9,402	9,171
Total operating expenses	<u>71,859</u>	<u>61,474</u>
Net income (loss) from operations	<u>102,888</u>	<u>(86,471)</u>
NONOPERATING REVENUES (EXPENSES)		
Additions to permanent endowments	1,300	3,350
Total nonoperating revenues (expenses)	<u>1,300</u>	<u>3,350</u>
INCREASE (DECREASE) IN NET POSITION	104,188	(83,121)
NET POSITION, beginning of year	<u>1,850,417</u>	<u>1,933,538</u>
NET POSITION, end of year	<u>\$ 1,954,605</u>	<u>\$ 1,850,417</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, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to vendors and contractors	\$ (33,956)	\$ (16,913)
Salaries, wages and benefits reimbursements to the University of Kentucky	(36,198)	(38,695)
Grants (to) from the University of Kentucky for noncapital purposes	(9,402)	(9,171)
Net cash provided (used) by operating activities	<u>(79,556)</u>	<u>(64,779)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Private gifts for endowment purposes	1,300	3,350
Net cash provided (used) by noncapital financing activities	<u>1,300</u>	<u>3,350</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	1,160,392	578,150
Interest and dividends on investments	26,829	21,547
Purchases of investments	(1,111,742)	(532,965)
Net cash provided (used) by investing activities	<u>75,479</u>	<u>66,732</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(2,777)</u>	<u>5,303</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>26,005</u>	<u>20,702</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 23,228</u>	<u>\$ 26,005</u>
Reconciliation of net income (loss) from operations		
to net cash provided (used) by operating activities:		
Net income (loss) from operations	\$ 102,888	\$ (86,471)
Adjustments to reconcile net income (loss) from operations		
to net cash provided (used) by operating activities:		
Investment (income) loss	(174,747)	24,997
Change in assets and liabilities:		
Accounts payable and accrued liabilities	(7,697)	(3,305)
Net cash provided (used) by operating activities	<u>\$ (79,556)</u>	<u>\$ (64,779)</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, 2017 AND 2016**

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 2,200 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 three percent, and not more than six 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 0.50% for the years ended June 30, 2017 and 2016.

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 \$65,208 and \$62,921 for the years ended June 30, 2017 and 2016, 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, 2017 and 2016 is as follows:

	2017	2016
Cash on deposit with the University	\$ 23,228	\$ 26,005
Investment in University pooled endowment fund	1,931,839	1,832,571
Total	<u>\$ 1,955,067</u>	<u>\$ 1,858,576</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 on deposit with the University is not valued at fair value 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, 2017.

The composition of the University's pooled endowment fund based upon fair value at June 30, 2017 and 2016 is as follows:

	2017	2016
Cash and cash equivalents	0.4%	0.7%
Diversifying strategies - fund of hedge funds	18.8%	16.2%
Global equity - hedged fund	8.3%	13.5%
Global equity - international	13.8%	13.9%
Global equity - private	14.2%	14.2%
Global equity - U.S.	9.6%	13.7%
Global fixed income - high quality/rate sensitive	8.2%	3.7%
Global fixed income - private credit	3.0%	2.0%
Global fixed income - public credit	4.9%	4.1%
Real assets - private	9.6%	10.8%
Real assets - public	9.2%	7.2%
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 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 on deposit with the University is 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. 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 on deposit with the University is 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. 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. 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 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 on deposit with the University is not limited as to the maximum amount that may be invested in one issuer. However, the University's cash deposits in local banks are governed by state law which requires full collateralization of balances exceeding amounts covered by FDIC.
- The University's endowment core-plus fixed income manager is limited to a maximum investment in any one issuer of no more than three 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, 2017, the Foundation had no underlying investments in any one issuer which represented more than three 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 on deposit with the University has limited exposure to interest rate risk due to the short term nature of the investment. The University requires that all deposits and 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 managers are limited to a duration that is within two years of the duration of the Barclays U.S. 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, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Accrued expenses for payroll	\$ 462	\$ 8,159
Total	<u>\$ 462</u>	<u>\$ 8,159</u>

4. INVESTMENT INCOME (LOSS)

Components of investment income (loss) for the years ended June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Interest and dividends earned on endowment investments	\$ 26,734	\$ 21,483
Realized and unrealized gains (losses) on endowment investments	147,918	(46,544)
Interest on cash and non-endowment investments	95	64
Total	<u>\$ 174,747</u>	<u>\$ (24,997)</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 2016 to 2017. Settlements have not exceeded insurance coverage during the past three years.

6. TRANSACTIONS WITH THE UNIVERSITY

Grants to the University are for endowment management fees. All salaries, wages and benefits reimbursements to the University represent charges for University employees.

7. RECLASSIFICATIONS

Certain reclassifications have been made to the fiscal year 2016 financial statements to conform to the fiscal year 2017 financial statements presentation. These reclassifications had no effect on change in net position.

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