



see blue.



UNIVERSITY OF  
**KENTUCKY**<sup>®</sup>

*Mining Engineering  
Foundation, Inc.*

**2008 Financial Statements**

University of Kentucky  
Mining Engineering Foundation, Inc.  
A Component Unit of the University of Kentucky

CONTENTS	PAGE
Independent Accountants' Report	1
Management's Discussion and Analysis	2
Financial Statements	
Statements of Net Assets	6
Statements of Revenues, Expenses and Changes in Net Assets	7
Statements of Cash Flows	8
Notes to Financial Statements	9
Board of Directors	



## Independent Accountants' Report on Financial Statements and Supplementary Information

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

We have audited the accompanying basic 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 as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Foundation as of and for the year ended June 30, 2007, were audited by other accountants whose report dated November 15, 2007, expressed an unqualified opinion on those statements.

We conducted our audit 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2008, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*BKD, LLP*

September 29, 2008

# Management's Discussion and Analysis

The University of Kentucky Mining Engineering Foundation's (the Foundation) Management 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, 2008 and 2007. 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

- The financial statements for FY 2007-2008 report a solid financial condition at June 30, 2008. Financial operations were in accordance with the revenue expectations and the approved budget plan.
- Total assets decreased approximately \$244,000 or 11.3%, primarily due to a decrease in the market value of endowment investments of approximately \$250,000.
- Total net assets decreased approximately \$243,000 or 11.3%. This decrease is comparable to the decrease in assets discussed above and results from the same significant factor. Net assets represented 100% of total assets.

## Using the Annual Report

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

The Statement of Net Assets includes all assets and liabilities. 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 Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. 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, capital, 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 in 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 members are related to the University as faculty or staff and/or are appointed by the President of the University, and certain of the officers of the Foundation are officers of the University.

## Condensed Financial Information

### Statements of Net Assets

	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b>ASSETS</b>			
Current assets	\$ 12,107	\$ 3,272	\$ 2,190
Noncurrent assets	1,900,891	2,153,989	1,927,715
Total assets	<u>1,912,998</u>	<u>2,157,261</u>	<u>1,929,905</u>
<b>LIABILITIES</b>			
Current liabilities	-	1,048	61
Total liabilities	<u>-</u>	<u>1,048</u>	<u>61</u>
<b>NET ASSETS</b>			
Restricted			
Nonexpendable	644,851	641,750	641,350
Expendable	1,268,147	1,514,463	1,288,494
Total net assets	<u>\$ 1,912,998</u>	<u>\$ 2,156,213</u>	<u>\$ 1,929,844</u>

**Assets.** As of June 30, 2008, the Foundation's total assets amounted to approximately \$1.9 million. Endowment investments represented 97.6% of the Foundation's assets. Total assets decreased by approximately \$244,000 during the year ended June 30, 2008, primarily due to a decrease in the market value of endowment investments of approximately \$250,000.

**Liabilities.** At June 30, 2008, the Foundation had no liabilities.

**Net Assets.** Net assets at June 30, 2008 totaled approximately \$1.9 million, or 100% of total assets, all of which were restricted net assets.

Total net assets decreased by approximately \$243,000 during the year ended June 30, 2008. Expendable restricted net assets decreased by approximately \$246,000, primarily because of an endowment loss due to a downturn in the capital market.

**2007 Versus 2006.** Total net assets increased by approximately \$226,000 when comparing fiscal 2007 versus fiscal 2006. Expendable restricted net assets increased by approximately \$226,000 primarily due to investment income in excess of operating expenses.

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b>OPERATING REVENUES</b>			
Operating revenue (expense)	\$ (163,781)	\$ 312,631	\$ 183,933
Total operating revenues (expenses)	<u>(163,781)</u>	<u>312,631</u>	<u>183,933</u>
<b>OPERATING EXPENSES</b>			
Educational and general	72,118	76,435	81,212
Grants to the University of Kentucky	<u>10,416</u>	<u>10,227</u>	<u>14,348</u>
Total operating expenses	<u>82,534</u>	<u>86,662</u>	<u>95,560</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(246,315)</u>	<u>225,969</u>	<u>88,373</u>
<b>NONOPERATING REVENUES</b>			
Additions to permanent endowments	<u>3,100</u>	<u>400</u>	<u>16,350</u>
Total nonoperating revenues	<u>3,100</u>	<u>400</u>	<u>16,350</u>
Total increase (decrease) in net assets	(243,215)	226,369	104,723
<b>Net assets, beginning of year</b>	<u>2,156,213</u>	<u>1,929,844</u>	<u>1,825,121</u>
<b>Net assets, end of year</b>	<u>\$ 1,912,998</u>	<u>\$ 2,156,213</u>	<u>\$ 1,929,844</u>

The Foundation had operating revenues of approximately (\$164,000), a decrease of approximately \$476,000 from the previous year, due mainly to decreased realized and unrealized gains on endowment investments. The endowment pool posted a total loss of 8.2% for fiscal year 2008 versus a total return of 16.8% in the prior year.

Operating expenses totaled approximately \$83,000, of which 87.4% was used for educational and general expenses related to functions such as instruction, research and public service, and the remaining 12.6% was used to provide grants to the University for non-capital purposes.

**2007 Versus 2006.** Operating income increased \$138,000 when comparing fiscal 2007 versus fiscal 2006. Total operating revenues increased approximately \$129,000 due mainly to increased realized and unrealized gains on endowment investments. Total operating expenses decreased approximately \$9,000 primarily due to decreased salaries and benefits because the Foundation employed less clerical support staff and decreased grants to the University for noncapital purposes.

### **Statements of Cash Flows**

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,
- The Foundation's ability to meet obligations as they become due, and
- The Foundation's need for external financing.

	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b>CASH PROVIDED (USED) BY:</b>			
Operating activities	\$ (83,582)	\$ (85,475)	\$ (94,963)
Noncapital financing activities	3,100	400	16,350
Investing activities	85,942	73,094	80,338
Net increase (decrease) in cash and cash equivalents	<u>5,460</u>	<u>(11,981)</u>	<u>1,725</u>
<b>Cash and cash equivalents, beginning of year</b>	<u>39,612</u>	<u>51,593</u>	<u>49,868</u>
<b>Cash and cash equivalents, end of year</b>	<u><u>\$ 45,072</u></u>	<u><u>\$ 39,612</u></u>	<u><u>\$ 51,593</u></u>

Cash payments for operating activities were made to University employees for salaries and benefits of approximately \$65,000, to vendors and contractors for goods and services of approximately \$8,000, and grants to the University for noncapital purposes of approximately \$10,000.

Cash receipts in the noncapital financing activities group relate to private gifts to the permanent endowment of \$3,000.

Cash provided by investing activities includes approximately \$3.7 million from the sale of investments and interest and dividend income of \$58,000, net of \$3.6 million expended on the purchase of investments.

**2007 Versus 2006.** In 2007 cash decreased approximately \$12,000 compared to an increase of \$2,000 in 2006. The decrease in cash flows was primarily related to a decrease in gifts to permanent endowments.

### **Capital Asset 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, 2008.

### **Factors Impacting Future Periods**

There are no known facts and circumstances that will affect future financial results.

UNIVERSITY OF KENTUCKY MINING ENGINEERING FOUNDATION, INC.  
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY  
STATEMENTS OF NET ASSETS  
JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 12,107	\$ 3,272
Total current assets	<u>12,107</u>	<u>3,272</u>
<b>Noncurrent Assets</b>		
Restricted cash and cash equivalents	32,965	36,340
Endowment investments	1,867,926	2,117,649
Total noncurrent assets	<u>1,900,891</u>	<u>2,153,989</u>
Total assets	<u>1,912,998</u>	<u>2,157,261</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	-	1,048
Total current liabilities	<u>-</u>	<u>1,048</u>
Total liabilities	<u>-</u>	<u>1,048</u>
<b>NET ASSETS</b>		
<b>Restricted</b>		
Nonexpendable	644,851	641,750
Expendable	1,268,147	1,514,463
Total restricted	<u>1,912,998</u>	<u>2,156,213</u>
Total net assets	<u>\$ 1,912,998</u>	<u>\$ 2,156,213</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 ASSETS**  
**FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
<b>OPERATING REVENUES</b>		
Gifts		\$ 200
Investment income (loss)	\$ (163,781)	312,431
Total operating revenues (expenses)	<u>(163,781)</u>	<u>312,631</u>
<b>OPERATING EXPENSES</b>		
Educational and general:		
Instruction	32,453	34,396
Research	32,453	34,396
Public service	<u>7,212</u>	<u>7,643</u>
Total educational and general	72,118	76,435
Grants to (from) the University of Kentucky for non-capital purposes	<u>10,416</u>	<u>10,227</u>
Total operating expenses	<u>82,534</u>	<u>86,662</u>
Net income (loss) from operations	<u>(246,315)</u>	<u>225,969</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Additions to permanent endowments	<u>3,100</u>	<u>400</u>
Total other nonoperating revenues (expenses)	<u>3,100</u>	<u>400</u>
Increase (decrease) in net assets	<u>(243,215)</u>	<u>226,369</u>
<b>NET ASSETS, beginning of year</b>	<u>2,156,213</u>	<u>1,929,844</u>
<b>NET ASSETS, end of year</b>	<u><u>\$ 1,912,998</u></u>	<u><u>\$ 2,156,213</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, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Private gifts		\$ 200
Payments to vendors and contractors	\$ (7,889)	(11,043)
Salaries, wages and benefits	(65,277)	(64,405)
Grants (to) from the University of Kentucky for non-capital purposes	(10,416)	(10,227)
Net cash provided (used) by operating activities	<u>(83,582)</u>	<u>(85,475)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Private gifts for endowment purposes	<u>3,100</u>	<u>400</u>
Net cash provided (used) by noncapital financing activities	<u>3,100</u>	<u>400</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	3,661,169	4,226,778
Interest and dividends on investments	57,849	52,558
Purchase of investments	(3,633,076)	(4,206,242)
Net cash provided (used) by investing activities	<u>85,942</u>	<u>73,094</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>5,460</u>	<u>(11,981)</u>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>39,612</u>	<u>51,593</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 45,072</u>	<u>\$ 39,612</u>
<b>Reconciliation of net income (loss) from operations</b>		
<b>to net cash provided (used) by operating activities:</b>		
Net income (loss) from operations	\$ (246,315)	\$ 225,969
Adjustments to reconcile net income (loss) from operations		
to net cash provided (used) by operating activities:		
Investment (income) loss	163,781	(312,431)
Change in assets and liabilities:		
Accounts payable and accrued liabilities	<u>(1,048)</u>	<u>987</u>
<b>Net cash provided (used) by operating activities</b>	<u>\$ (83,582)</u>	<u>\$ (85,475)</u>

See notes to financial statements.

# NOTES TO FINANCIAL STATEMENTS

## 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 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 members are related to the University as faculty or staff and/or are appointed by the President of the University, and certain of the 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 assets categories:

- Invested in capital assets, net of related debt: 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 assets subject to externally imposed stipulations that they be maintained permanently by the Foundation. Such assets include the Foundation's permanent endowment funds.
  - Expendable* – Net assets 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 assets whose use by the Foundation is not subject to externally imposed stipulations. Unrestricted net assets 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, liabilities, net assets, revenues, expenses, changes in net assets and cash flows.

Pursuant to GASB Statement No. 20, the Foundation has elected to apply the provisions for all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989 and do not conflict with or contradict GASB pronouncements.

### 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. The Foundation's endowment investments are administered as part of the University's pooled endowment funds. The University employs the total return concept of investment management for setting investment objectives and determining investment performance. This concept recognizes dividends and interest, plus or minus realized and unrealized gains or losses, in determining the total return earned during any particular period. 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.

The Uniform Management of Institutional Funds Act (UMIFA), as adopted by the Commonwealth of Kentucky, permits the University to appropriate an amount of the realized and unrealized endowment appreciation to support current programs. Accordingly, spendable return from the endowment is determined using the total return philosophy. This philosophy recognizes a prudent amount of realized and unrealized gains as spendable return in addition to traditional yield. Distribution of investment earnings for expenditure by participating funds is supported first by traditional yield earned and, if necessary, a transfer from the endowment of any prior years' accumulated earnings (unexpended traditional yield) or net realized or unrealized gains.

The University's endowment spending rule provides for annual distributions of 4.5 percent of the three-year moving average market value of fund units. For each of the years ended June 30, 2008 and 2007 approximately \$24,000 was transferred from endowment realized and unrealized gains to support current programs in accordance with the University's endowment spending rule. Appreciation on endowments available to support future spending rule distributions amounted to approximately \$1.3 million at June 30, 2008. Additionally, the University assesses eligible endowment accounts with a management fee of 0.5 percent of total asset value to support fundraising and endowment administration.

Investments. Investments in marketable securities are carried at fair value, as determined by the major securities markets. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the Statement of Revenues, Expenses and Changes in Net Assets.

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 on 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 Assets, 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, 2008 and 2007 is as follows:

	<u>2008</u>	<u>2007</u>
Cash on deposit with the University of Kentucky	\$ 45,072	\$ 39,612
Investment in University of Kentucky pooled endowment fund	<u>1,867,926</u>	<u>2,117,649</u>
Total	<u>\$ 1,912,998</u>	<u>\$ 2,157,261</u>

At June 30, 2008, the University's pooled endowment fund consists of pooled equity funds (66.0%), private equity funds (1.7%), pooled real estate funds (9.0%), government agency fixed income funds (5.8%), corporate fixed income funds (5.9%), pooled fixed income funds (10.8%) and cash equivalents (0.8%).

**Deposit and investment policies.** The Foundation follows the deposit and investment policies established by the University of Kentucky'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, as follows:

- Cash on deposit with the University of Kentucky, which the University invests in deposits and repurchase agreements with local banks and the Commonwealth of Kentucky, and
- Endowment investments in the University's pooled endowment fund.

Cash on deposit with the University is managed based on the University's Overnight and Short-Term Investment Policy approved by the Investment Committee of the University's Board of Trustees.

Endowment investments are managed by the University's Endowment Investment Policy as established 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:

**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 of Kentucky is governed by policy that minimizes risk in several ways. Deposits are governed by state law which requires full collateralization. Credit risk on repurchase agreements with local banks is mitigated by requiring the issuing financial institution's pledge of specific U.S. treasury or agency securities, held in the name of the University by the Federal Reserve Bank. Credit risk on repurchase agreements with the Commonwealth of Kentucky is mitigated by the Commonwealth's requirement that providers of overnight repurchase agreements collateralize these investments at 102% of face value with U.S. treasury or agency securities, pledged in the name of the Commonwealth.
- Endowment investments held by the University's fixed income managers are generally limited to holdings of high quality fixed income securities. These managers may invest a portion of the portfolio in other below-investment grade bonds, non-U.S. dollar denominated bonds, and emerging market bonds, provided the overall credit quality of the fixed income portfolios is not lower than A-.

**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 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 is invested in deposits and repurchase agreements with local banks, which are held in the University's name, and deposits and repurchase agreements with the Commonwealth of Kentucky, which 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, all such investments in excess of Federal Depository 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 investment managers are limited to a maximum investment in any one issuer of no more than 5% of total investments.

At June 30, 2008, the Foundation had no underlying investments in any one issuer which represent more than 5% of total investments.

**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 repurchase agreements be available for use on the next business day.
- Endowment investments held by the University's fixed income managers are limited to a duration that is within +/-25% of the duration of the Lehman Aggregate Bond Index.

**Foreign Currency Risk.** Foreign currency risk is the risk that changes 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 limited endowment investments of the University's pooled endowment fund, including pooled fixed income funds, a pooled global equity fund, and a pooled non-U.S. equity fund. The University's endowment investment policy allows fixed-income managers to invest a portion of their funds in non-U.S. securities and equity fund managers of co-mingled portfolios to invest in accordance with the guidelines established in the individual fund's prospectus.

### 3. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Payable to vendors and contractors	\$ -	\$ 372
Accrued expenses for payroll	-	676
Total	<u>\$ -</u>	<u>\$ 1,048</u>

### 4. INVESTMENT INCOME

Components of investment income for the years ended June 30, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
Interest and dividends earned on endowment investments	\$ 56,406	\$ 50,358
Realized and unrealized gains and losses on endowment investments	(221,630)	259,873
Interest on cash and non-endowment investments	<u>1,443</u>	<u>2,200</u>
Total	<u>\$ (163,781)</u>	<u>\$ 312,431</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 2007 to 2008. Settlements have not exceeded insurance coverage during the past three years.

### 6. TRANSACTIONS WITH THE UNIVERSITY OF KENTUCKY

All salaries, wages and benefits represent charges for University employees.

## BOARD OF DIRECTORS

Robert Addington  
Frank Butler  
Nick Carter  
William Caylor  
Chauncey S.R. Curtz  
J. Steven Gardner  
Dennis Hatfield  
Dell Jagers  
Samuel S. Johnson  
Steven R. Leer  
Thomas W. Lester  
D.L. Lobb  
Christopher N. Moravec  
Roy Palk  
Fred Parker  
D. J. Patton  
William N. Rich  
Jack Richardson  
Erwin Roberts  
Drexel Short  
Peter Socha  
Kumble Subbaswamy  
Lee T. Todd Jr.  
James W. Tracy  
Paul Vining  
Charles R. Wesley III  
Jack Whitaker  
Ernest J. Yanarella  
David A. Zegeer

## OFFICERS

Dennis Hatfield, Chair  
J. Steven Gardner, Vice Chair  
Rick Honaker, Executive Director  
William Caylor, Secretary  
Marc A. Mathews, Treasurer





[www.uky.edu](http://www.uky.edu)

The University of Kentucky is committed to a policy of providing opportunities to people regardless of economic or social status and will not discriminate on the basis of race, color, ethnic origin, creed, religion, political belief, sex, sexual orientation, marital status, age, veteran status, or physical or mental disability.

The University of Kentucky is an Equal Opportunity University.  
Questions concerning compliance with regulations may be directed to the Equal Opportunity Office,  
13 Main Building, University of Kentucky, Lexington, KY 40506-0333.  
(859) 257-8927 or at [www.uky.edu/evpfa/eoo](http://www.uky.edu/evpfa/eoo).