NORTHERN KENTUCKY UNIVERSITY FOUNDATION

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended June 30, 2018

NKU NORTHERN KENTUCKY UNIVERSITY FOUNDATION

NKU NORTHERN KENTUCKY UNIVERSITY
FOUNDATION

November 8, 2018

Dear NKU Foundation Board Members and Friends:

As the 50th anniversary of NKU winds down, we are happy to report that both the Foundation and Northern Kentucky University enjoyed another great year working together to support our students. As you know, NKU's sixth president, Dr. Ashish Vaidya, began his term in July and has rallied all of us to continue keeping student support as our number one priority.

Enclosed, please find our Consolidated Financial Statements for the years ending June 30, 2018 and June 30, 2017. They have been audited by BKD, LLP, whose report appears on page 4. The statements show that we are well positioned for another great year.

At 2018 fiscal year end the Foundation's total assets were $127 million, an increase of $6.2 million from the previous year. In addition to our fundraising efforts, much of the increase is attributed to our strong investment portfolio. The endowment pool, consisting of 321 individual donor restricted funds, continues to outperform its benchmarks and is ranked competitively against peer endowments nationally. I invite you to review the statements for a more in-depth look at our financial position.

As we reported to you last year, the Foundation engaged a consultant to review and assess the feasibility of undertaking a multi-year, comprehensive fundraising campaign for the university. We have already raised more than $37 million through FY18 toward these efforts! Thank you for being supportive of our efforts to date and your continued support as we launch the public phase of the campaign next spring.

As I complete my term as president this month, I want to personally thank you for all that you have provided to the faculty, students and initiatives of Northern Kentucky University through its Foundation.

Yours truly,

Barry G. Kienzle

Barry G. Kienzle
President
Northern Kentucky University Foundation, Inc.

NORTHERN KENTUCKY UNIVERSITY
FOUNDATION

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BKD LLP
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Independent Auditor's Report

Board of Directors
Northern Kentucky University Foundation, Inc.
Highland Heights, Kentucky

We have audited the accompanying consolidated financial statements of Northern Kentucky University Foundation, Inc., which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Northern Kentucky University Foundation, Inc. as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The board of directors listing, letter from the president, and executive committee/officers listing are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Cincinnati, Ohio
September 10, 2018

Northern Kentucky University Foundation, Inc.

Consolidated Statements of Financial Position

As of June 30, 2018 and 2017

(in thousands)

	2018	2017
ASSETS		
Cash and cash equivalents	$ 13,796	$ 11,790
Loans and accounts receivable, net	97	103
Contributions receivable, net	4,449	6,203
Prepaid expenses and deferred charges	38	31
Investments	108,297	102,330
Land and land improvements	548	548
Accumulated depreciation	(208)	(208)
TOTAL ASSETS	**$ 127,017**	**$ 120,797**
LIABILITIES AND NET ASSETS		
Accounts payable	$ 3,140	$ 559
Annuities payable	-	2
Deferred revenue	215	208
Funds held in trust for Northern Kentucky University	13,431	12,968
TOTAL LIABILITIES	**16,786**	**13,737**
NET ASSETS		
Unrestricted		
For current operations	1,344	1,023
Amounts functioning as endowment funds	2,614	2,449
Invested in land and land improvements	340	340
Total unrestricted	4,298	3,812
Temporarily restricted		
Unexpended funds received for restricted purposes	12,038	12,027
Contributions receivable	3,663	5,229
Loan funds	219	216
Endowment funds	43,769	40,579
Total temporarily restricted	59,689	58,051
Permanently restricted		
Contributions receivable	786	974
Endowment funds	45,458	44,223
Total permanently restricted	46,244	45,197
TOTAL NET ASSETS	**110,231**	**107,060**
TOTAL LIABILITIES AND NET ASSETS	**$ 127,017**	**$ 120,797**

See accompanying notes to the consolidated financial statements

Northern Kentucky University Foundation, Inc.

Consolidated Statement of Activities

For the year ended June 30, 2018

(in thousands)

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
REVENUES, GAINS AND OTHER SUPPORT				
Gifts and bequests	$ 2	$ 4,144	$ 954	$ 5,100
Rental income	131			131
Investment return	346	6,663		7,009
Other revenue	115	308		423
Total revenues and gains	**594**	**11,115**	**954**	**12,663**
Net assets released from restrictions	**9,352**	**(9,352)**		
Reclassifications of net assets	**-**	**(93)**	**93**	**-**
Total revenues, gains and other support	**9,946**	**1,670**	**1,047**	**12,663**
EXPENSES AND LOSSES				
Program expenses				
Instruction	693			693
Research	38			38
Public service	175			175
Libraries	40			40
Academic support	725			725
Student services	524			524
Institutional support	1,002			1,002
University facilities and equipment acquisition	3,187			3,187
Student financial aid	2,469			2,469
Other program expenses and losses		32	-	32
Total program expenses	**8,853**	**32**	**-**	**8,885**
Support expenses				
Management and general	428			428
Fund raising support	179			179
Total support expenses	**607**	**-**	**-**	**607**
TOTAL EXPENSES AND LOSSES	**9,460**	**32**	**-**	**9,492**
INCREASE (DECREASE) IN NET ASSETS	**486**	**1,638**	**1,047**	**3,171**
NET ASSETS - BEGINNING OF YEAR	3,812	58,051	45,197	107,060
NET ASSETS - END OF YEAR	**$ 4,298**	**$ 59,689**	**$ 46,244**	**$ 110,231**

See accompanying notes to the consolidated financial statements

Northern Kentucky University Foundation, Inc.

Consolidated Statement of Activities

For the year ended June 30, 2017

(in thousands)

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
REVENUES, GAINS AND OTHER SUPPORT				
Gifts and bequests	$ 3	$ 4,075	$ 929	$ 5,007
Rental income	130			130
Investment return	382	10,879		11,261
Other revenue	112	288		400
Total revenues and gains	**627**	**15,242**	**929**	**16,798**
Net assets released from restrictions	**6,277**	**(6,277)**		
Reclassifications of net assets	**-**	**(258)**	**258**	**-**
Total revenues, gains and other support	**6,904**	**8,707**	**1,187**	**16,798**
EXPENSES AND LOSSES				
Program expenses				
Instruction	725			725
Research	43			43
Public service	513			513
Libraries	36			36
Academic support	398			398
Student services	666			666
Institutional support	884			884
University facilities and equipment acquisition	752			752
Student financial aid	1,952			1,952
Other program expenses and losses		400	44	444
Total program expenses	**5,969**	**400**	**44**	**6,413**
Support expenses				
Management and general	381			381
Fund raising support	190			190
Rental property	3			3
Total support expenses	**574**	**-**	**-**	**574**
TOTAL EXPENSES AND LOSSES	**6,543**	**400**	**44**	**6,987**
INCREASE (DECREASE) IN NET ASSETS	**361**	**8,307**	**1,143**	**9,811**
NET ASSETS - BEGINNING OF YEAR	3,451	49,744	44,054	97,249
NET ASSETS - END OF YEAR	**$ 3,812**	**$ 58,051**	**$ 45,197**	**$ 107,060**

See accompanying notes to the consolidated financial statements

Northern Kentucky University Foundation, Inc.

Consolidated Statements of Cash Flows

For the years ended June 30, 2018 and 2017

(in thousands)

	2018	2017
Cash flows from operating activities:		
Interest and dividends received	$ 1,928	$ 1,135
Contributions received	3,435	3,246
Other receipts	566	519
Payments to vendors for goods and services	(1,937)	(1,348)
Subgrants to the University	(2,526)	(2,989)
Disbursements to students for financial aid	(2,469)	(2,027)
Net cash provided by (used for) operating activities	**(1,003)**	**(1,464)**
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	7,968	9,814
Purchases of investments	(8,370)	(9,306)
Net cash provided by (used for) investing activities	**(402)**	**508**
Cash flows from financing activities:		
Endowment and other capital gifts	3,411	3,453
Payments to annuitants	-	(20)
Net cash provided by (used for) financing activities	**3,411**	**3,433**
Net change in cash and cash equivalents	2,006	2,477
Cash and cash equivalents at beginning of year	11,790	9,313
Cash and cash equivalents at end of year	**$ 13,796**	**$ 11,790**
Reconciliation of change in net assets to net cash provided by (used for) operating activities:		
Change in net assets	**$ 3,171**	**$ 9,811**
Bad debt expense adjustment	(5)	(4)
Provision for uncollectible pledges	2	2
Adjustment of annuities payable	(2)	(118)
Adjustment of life estate remainder interest	(47)	(106)
Contributions restricted for long-term investment	(3,411)	(3,453)
Net losses (gains) on investments	(5,081)	(10,126)
Changes in assets and liabilities:		
Accounts receivable	12	(11)
Contributions receivable	1,752	2,186
Prepaid expenses and deferred charges	(7)	9
Accounts payable	2,581	371
Deferred revenue	54	-
Cash surrender value of life insurance	(22)	(25)
Net cash provided by (used for) operating activities	**$ (1,003)**	**$ (1,464)**

See accompanying notes to the consolidated financial statements

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

NOTE A – HISTORY AND PURPOSE

Northern Kentucky University Foundation, Inc.

Northern Kentucky University Foundation, Inc. (the Foundation) was incorporated November 23, 1970, as a Kentucky non-stock, not-for-profit corporation. The purpose of the Foundation, as stated by the articles of incorporation, is to provide general and specific services and material things necessary or desirable for the growth and development of Northern Kentucky University (the University), and encompasses prospective students, students, alumni, faculty, and staff, as well as research and civic services and cooperative educational programs. Any and all things and acts in and incidental to the conduct of such activities deemed useful, necessary, proper and lawful, are also declared purposes.

Kentucky Revised Statutes define affiliation status for corporations supporting public education institutions. The Foundation is an unaffiliated corporation as defined by the statutes.

The Internal Revenue Service has determined that the Foundation is a tax-exempt organization under Section 501(c)(3) of the code and has determined that it is not a private foundation within Section 509(a) of the code. Contributions, bequests, legacies, devices, transfers and gifts made to the Foundation are deductible by donors, as provided in Section 170 of the code.

Scope of Statements

The consolidated financial statements of the Foundation include the operations of the Foundation as well as the following single member limited liability companies: NKUF Properties 1, LLC, NKUF Properties 2, LLC, NKUF Properties 3, LLC, NKUF Properties 4, LLC, NKUF Properties 5, LLC, NKUF Properties 6, LLC, and NKUF Properties 7, LLC. These entities hold title to real estate and other assets formerly held by the Foundation. All material intercompany transactions and balances have been eliminated.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) which require management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates. The following is a summary of the significant accounting policies consistently followed by the Foundation in preparation of its consolidated financial statements.

These statements are presented on the accrual basis of accounting, and have been prepared to focus on the Foundation as a whole and to present transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of balances and transactions into three classes of net assets - permanently restricted, temporarily restricted and unrestricted net assets.

Net assets and changes therein are classified as follows:

> *Permanently restricted net assets* - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use the returns on the related investments over time for general or specific purposes.
>
> *Temporarily restricted net assets* - Net assets subject to donor-imposed stipulations that may or will be met by actions of the Foundation and/or the passage of time. Temporarily restricted net assets are generally established in support of colleges or departments of the University, often for specific purposes such as faculty support, scholarships and fellowships, library acquisitions, equipment or building projects and other specific purposes.
>
> *Unrestricted net assets* - Net assets not subject to donor-imposed stipulations.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Restricted contributions and net investment returns earned are reported as temporarily restricted support and reclassified as unrestricted when any donor-imposed restrictions are satisfied. Expirations of temporary restrictions on net assets are met when a donor stipulated time restriction ends or purpose restriction is accomplished and reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restriction.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions receivable are discounted at an appropriate rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment of such factors as prior collection history, type of contribution and nature of the fund-raising activity.

Income and realized net gains on long-term investments are reported as follows:

- As increases in permanently restricted net assets – if the terms of the gift require that they be added to the principal of a permanent endowment fund.
- As increases in temporarily restricted net assets – if the terms of the gift impose restrictions on the use of the income.
- As increases in unrestricted net assets – in all other cases.

Cash and Cash Equivalents

Cash and cash equivalents include all readily available sources of cash such as petty cash, demand deposits and temporary investments in marketable securities with maturities of less than three months. Cash and cash equivalents representing investments purchased with endowment net assets are reported as investments.

At various times throughout the year, the Foundation has cash in certain financial institutions in excess of insured limits. Additionally, at June 30, 2018 and 2017, $2,305,000 and $1,416,000, respectively, was collateralized with securities held by the financial institution's trust department or agent, but not in the Foundation's name. At June 30, 2018 and 2017, balances of $10,491,000 and $9,372,000, respectively, were neither insured nor collateralized.

Loans and Accounts Receivable

Loans receivable consists primarily of loans made to students under privately funded loan programs. The advances are evidenced by signed promissory notes, bearing interest at varying stated interest rates, with varying due dates. Loans, accounts and other receivables are stated at the amount management expects to collect from outstanding balances. Management provides for a probable uncollectible allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The allowance for doubtful accounts as of June 30, 2018 and 2017 was approximately $120,000 and $125,000, respectively.

Investments

Investments in equity securities with readily determinable fair values and all debt securities are reported at their fair value. The estimated fair value of investments is based on quoted market prices, except for investments for which quoted market prices are not available. The alternative investments, which are not readily marketable, are carried at estimated fair values as provided by the investment managers. The estimated fair value of certain alternative investments, such as private equity interests, is based on valuations provided by the external investment managers adjusted for cash receipts, cash disbursements and distributions. The Foundation believes the carrying amount of these financial instruments is a reasonable estimate of fair value. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. Such difference could be material.

The Foundation invests its endowment investment portfolio and allocates the related earnings for expenditure in accordance with the total return concept. A distribution of endowment return that is independent of the cash yield and appreciation (depreciation) of investments earned during the year is provided for program support.

The Foundation has significant exposure to a number of risks including interest rate, market and credit risks for both marketable and non-marketable securities. Due to the level of risk exposure, it is possible that near-term valuation changes for investment securities may occur to an extent that could materially affect the amounts reported in the Foundation's consolidated financial statements.

All true endowment investments and long-term net assets functioning as endowments are managed in a pool, unless special considerations or donor stipulations require that they be held separately.

Land and Land Improvements

At June 30, 2018 and 2017, land and land improvements (in thousands) consisted of:

	2018	2017
Type of asset:		
Land	$ 178	$ 178
Land held for future use by the University	162	162
Land improvements	208	208
Total land and land improvements	**$ 548**	**$ 548**

Assets acquired for Foundation use with a useful life greater than one year and a value of $5,000 or more are capitalized. Annual depreciation for land improvements is calculated on a straight-line basis, beginning in the month of acquisition based on a useful life of 30 years. At June 30, 2018 and 2017 all land improvements were fully depreciated.

Assets purchased or constructed through the Foundation for immediate use by the University are recorded by the Foundation as a program expense.

Transfers Between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the actual transfer date.

Reclassifications

Certain items have been reclassified for the year ended June 30, 2017 in order to conform to classifications used for the year ended June 30, 2018. These reclassifications had no effect on total net assets or the change in net assets.

NOTE C – PROPERTY LEASES

At June 30, 2018, the Foundation owned properties subject to lease agreements with unrelated parties, as follows:

One property is subject to a lease covering approximately 23 acres of Foundation land. The lease is for 48 years ending on July 31, 2040, with four additional lease option terms of ten years each. All lease payments were current as of June 30, 2018 and 2017. As a condition of the lease, the Foundation has executed fee title mortgages to institutional lenders which subordinates its title in the real estate leased as security for construction financing of permanent improvements thereon. Any improvements constructed on the leased property of the Foundation shall become the property of the Foundation only upon termination of the lease or termination of the last such renewal term as may be exercised.

A second property is subject to a property lease and easements covering approximately .2 (two tenths) acre of Foundation land. The initial lease term was 5 years, beginning January 1, 1997, with nine additional 5-year automatic renewals at the option of the lessee. All lease payments were current as of June 30, 2018 and 2017.

Rental Income was $131,000 and $130,000 for the years ended June 30, 2018 and 2017, respectively.

The following is a schedule by years of the future rentals receivable (in thousands) on property leases as of June 30, 2018:

Year ending June 30	
2019	131
2020	131
2021	142
2022	135
2023	126
2024 and thereafter	2,562
Total future rentals	**$ 3,227**

NOTE D – UNCONDITIONAL AND CONDITIONAL PROMISES TO GIVE

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts are computed using a risk free interest rate and amortization of the discount is included in gifts and bequests revenue.

At June 30, 2018 and 2017, the Foundation recognized contributions based on the following unconditional promises to give (in thousands):

	2018	2017
Purpose:		
Endowment giving	$ 827	$ 1,053
Capital purposes	2,050	4,080
Operating programs	1,794	1,398
Gross unconditional promises	**4,671**	**6,531**
Less: Discount and allowance for uncollectible accounts	(222)	(328)
Net unconditional promises to give	**$ 4,449**	**$ 6,203**
Amounts due in:		
Less than one year	3,125	3,178
One to five years	1,516	3,333
More than five years	30	20
Total	**$ 4,671**	**$ 6,531**

The discount rates used to calculate the present value of contributions receivable at June 30, 2018 and 2017 vary from 1.2% to 3.4%, depending on when the promise was made.

Conditional promises to give are not included as support until such time as the conditions are substantially met. The Foundation had received conditional promises to give of approximately $3.1 million at June 30, 2018 and $1 million at June 30, 2017, consisting of the face value of life insurance policies, net of accumulated cash surrender value, as well as a conditional promise of $2.1 million from a single donor in 2018.

Approximately 44% of total pledges receivable were due from one donor at June 30, 2018. Approximately 61% of total pledges receivable were due from one donor at June 30, 2017.

NOTE E – FAIR VALUE MEASUREMENTS

The three levels of the fair value hierarchy under generally accepted accounting principles are described 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 for identical or similar assets or liabilities in inactive markets;
- Other inputs that are observable for the asset or liability;
- Other inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value:

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 investments include short term money market funds, cash surrender value, fixed income funds and equity funds.

Level 2 investments are based on quoted prices of securities or other property with similar characteristics and include a remainder interest in real property subject to a life estate.

Level 3 investments include those in which there is no active market. The Foundation holds no Level 3 investments at June 30, 2018 or 2017.

The Foundation adopted Accounting Standards Update 2015-07 which eliminates the requirement that investments valued using the net asset value expedient be categorized as Level 2 or 3. These investments are now shown in a separate column on the table below. This treatment was applied retrospectively.

The following assets were measured at fair value on a recurring basis as of June 30, 2018 (in thousands):

		Fair Value Measurements Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV
June 30, 2018					
Type of Investment:					
Short-term money market funds	$ 8	$ 8	$ -	$ -	$ -
Cash surrender value	429	429	-	-	-
Fixed income funds:					
Core	1,611	1,611	-	-	-
Core Plus	4,422	4,422	-	-	-
Global	1,737	1,737	-	-	-
Treasury Inflation Protected Securities	1,589	1,589	-	-	-
Equity funds:					
Large/Mid-Cap - Broad	23,443	23,443	-	-	-
Large/Mid-Cap - Value	7,056	7,056	-	-	-
Small Cap - Growth	1,563	1,563	-	-	-
Small Cap - Value	2,181	2,181	-	-	-
International - Core	7,727	7,727	-	-	-
International - Value	3,608	3,608	-	-	-
International Small Cap - Value	2,984	2,984	-	-	-
Emerging Markets - Value	4,793	4,793	-	-	-
Emerging Markets - Small Cap	4,382	4,382	-	-	-
Real Estate Investment Trust	18	18	-	-	-
Exchange Traded Funds	106	106	-	-	-
Remainder interest in real property and other	685	-	685		
Public Natural Resources-Master Limited Partnerships	3,103	-	-	-	3,103
Fixed Income High Yield	1,794	-	-	-	1,794
Private equity	7,127	-	-	-	7,127
Private debt	3,012	-	-	-	3,012
Natural resources	11,217	-	-	-	11,217
Private real estate	2,072	-	-	-	2,072
Low-Volatility	10,283	-	-	-	10,283
Total	**$ 106,950**	**$ 67,657**	**$ 685**	**$ -**	**$ 38,608**

The following assets were measured at fair value on a recurring basis as of June 30, 2017 (in thousands):

		Fair Value Measurements Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Measured at NAV
June 30, 2017					
Type of Investment:					
Short-term money market funds	$ 8	$ 8	$ -	$ -	$ -
Cash surrender value	406	406	-	-	-
Fixed income funds:					
Core	1,605	1,605	-	-	-
Core Plus	4,382	4,382	-	-	-
Global	1,771	1,771	-	-	-
Treasury Inflation Protected Securities	1,560	1,560	-	-	-
Equity funds:					
Large/Mid-Cap - Broad	21,589	21,589	-	-	-
Large/Mid-Cap - Value	6,541	6,541	-	-	-
Small Cap - Growth	1,267	1,267	-	-	-
International - Core	7,066	7,066	-	-	-
International - Value	5,326	5,326	-	-	-
International Small Cap - Value	2,831	2,831	-	-	-
Emerging Markets - Value	4,533	4,533	-	-	-
Emerging Markets - Small Cap	4,154	4,154	-	-	-
Real Estate Investment Trust	16	16	-	-	-
Exchange Traded Funds	73	73	-	-	-
Remainder interest in real property and other	685	-	685	-	-
Public Natural Resources-Master Limited Partnerships	3,117	-	-	-	3,117
Fixed Income High Yield	1,725	-	-	-	1,725
Private equity	6,738	-	-	-	6,738
Private debt	2,672	-	-	-	2,672
Natural resources	11,228	-	-	-	11,228
Private real estate	1,833	-	-	-	1,833
Low-Volatility	11,080	-	-	-	11,080
Total	**$ 102,206**	**$ 63,128**	**$ 685**	**$ -**	**$ 38,393**

NOTE F – INVESTMENTS

The market values (in thousands) of the Foundation's investments as of June 30, 2018 and 2017 are categorized by type below:

	2018	2017
Type of Investment:		
Short-term money market funds	$ 8	$ 8
Cash and cash surrender value	1,776	530
Fixed income funds:		
Core	1,611	1,605
Core Plus	4,422	4,382
Global	1,737	1,771
High Yield	1,794	1,725
Treasury Inflation Protected Securities	1,589	1,560
Equity funds:		
Large/Mid Cap - Broad	23,443	21,589
Large/Mid Cap - Value	7,056	6,541
Small Cap - Growth	1,563	1,267
Small Cap - Value	2,181	-
International - Core	7,727	7,066
International - Value	3,608	5,326
International Small Cap - Value	2,984	2,831
Emerging Markets - Value	4,793	4,533
Emerging Markets - Small Cap	4,382	4,154
Real Estate Investment Trust	18	16
Exchange Traded Funds	106	73
Public Natural Resources - Master Limited Partnerships	3,103	3,117
Remainder interest in real property and other	685	685
Private equity:		
Buyout	1,480	1,425
Diversified	1,844	1,683
Venture Capital	1,352	1,115
Secondary	2,451	2,515
Private debt:		
Distressed	2,937	2,477
Mezzanine	75	195
Natural Resources:		
Diversified	3,849	4,137
Energy	5,142	5,135
Commodities	2,226	1,956
Private real estate:		
Opportunistic	1,023	708
Value Added	1,049	1,125
Low-Volatility:		
Diversifying Strategies	10,283	11,080
Total Investments	**$ 108,297**	**$ 102,330**

Investment return (in thousands) for the years ended June 30, 2018 and 2017 consists of:

	2018	2017
Interest and dividend income	$ 1,928	$ 1,135
(net of investment fees: 2018 - $652, 2017 - $593)		
Net realized gains (losses)	1,544	2,006
Net unrealized gains (losses)	3,537	8,120
	$ 7,009	**$ 11,261**

The Foundation records the cost of managing its endowment portfolio as a decrease in investment income within the appropriate net asset class in the consolidated statement of activities. Some of the Foundation's investment managers report investment transactions net of fees. The fees noted above are only those fees separately stated by the managers.

The investments of the Foundation are commingled with certain investments which the Foundation holds in trust for the University. The market value of funds held in trust for the University at June 30, 2018 and 2017 was approximately $13,431,000 and $12,968,000 respectively. (See Note I)

At June 30, 2018 and 2017, the Foundation had committed approximately $44.1 and $39.1 million, respectively, of its endowment investment resources to alternative investments, of which approximately $9.5 and $7.5 million, respectively, had not yet been called by the investment managers. Alternative investments for which commitments have been made consist of private equity/debt, natural resources, private real estate and low-volatility.

Alternative investments of the Foundation have limited marketability and the related investment agreements generally contain restrictive redemption provisions to the extent that the underlying investments should be considered illiquid for the duration of the investment through normal maturity. Early redemption of such investments would likely result in recovery of significantly less than the original investment amount. Foundation management believes the investment portfolio contains sufficient liquidity among other asset classes to make early redemption of alternative investments unlikely for reasons of meeting current spending needs.

NOTE G – ENDOWMENTS

The Foundation's endowment consists of 321 individual funds established for a variety of purposes. Its endowment includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments (quasi-endowments). Net assets associated with endowment funds, including quasi-endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The board, at their discretion, can at any time permit spending from the principal of any quasi-endowed fund, provided the expenditure complies with any donor-imposed restrictions related to the fund.

Kentucky enacted the Kentucky Uniform Prudent Management of Institutional Funds Act (KUPMIFA), the provisions of which apply to endowment funds existing on or established after enactment, with an effective date of July 15, 2010.

An interpretation of KUPMIFA provisions by the Foundation Board of Directors requires that the historical dollar amount of a donor-restricted endowment fund be preserved. As a result of this requirement, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment. In the absence of donor restrictions, the net appreciation on a donor-restricted endowment fund is spendable. The net appreciation of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation.

Under KUPMIFA, the Foundation endowment spending policy allows for prudent spending of future endowment earnings for accounts without accumulated earnings based upon consideration of the following factors, if applicable:

Duration and preservation of the endowment fund
Purpose of the institution and the endowment fund
General economic conditions
Possible effect of inflation or deflation
Expected total return on investments
Other resources of the institution
Investment policy

The approved annual endowment spending rate is reduced by a proportion of 5% for each 1% the affected endowment is below the value of original and subsequent gifts to the permanent endowment (i.e. principal).

Return Objectives and Risk Parameters. The Foundation has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of these endowment assets over the long-term. The Foundation's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes. The current long-term return objective is to return a rate equal to the Consumer Price Index +5%, net of investment fees. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives. To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that includes fixed income investments as well as publicly traded equity-based investments and various alternative investment strategies to achieve its long-term return objectives within prudent risk parameters.

Spending Policy and How the Objectives Relate to Spending Policy. The spending policy calculates the amount of money annually distributed from the Foundation's various endowed funds, for grant making and administration. The current spending policy is to distribute an amount at least equal to 3-5% of a moving sixteen quarter average of the fair value of the endowment funds. Accordingly, over the long term, the Foundation expects its current spending policy to allow the Foundation to meet its objective to maintain the historical dollar amount of endowment assets as well as to provide additional real growth through investment return.

Endowment net asset composition by type of endowment (in thousands) as of June 30, 2018 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor restricted endowment funds	$ -	$ 37,681	$ 45,458	$ 83,139
Quasi-endowment funds	2,614	6,088	-	$ 8,702
Total endowment funds	**$ 2,614**	**$ 43,769**	**$ 45,458**	**$ 91,841**

Changes in endowment net assets (in thousands) for the year ended June 30, 2018 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	$ 2,449	$ 40,579	$ 44,223	$ 87,251
Contributions collected	-	43	1,142	1,185
Investment income	50	1,726	-	1,776
Net investment gain (loss)	136	4,682	-	4,818
Amounts appropriated for expenditure	(21)	(3,261)	-	(3,282)
Reclassify to permanently restricted	-	-	93	93
Endowment net assets, end of year	**$ 2,614**	**$ 43,769**	**$ 45,458**	**$ 91,841**

Endowment net asset composition by type of endowment (in thousands) as of June 30, 2017 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Donor restricted endowment funds	$ -	$ 34,531	$ 44,223	$ 78,754
Quasi-endowment funds	2,449	6,048	-	$ 8,497
Total endowment funds	**$ 2,449**	**$ 40,579**	**$ 44,223**	**$ 87,251**

Changes in endowment net assets (in thousands) for the year ended June 30, 2017 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Net Endowment Assets
Endowment net assets, beginning of year	$ 2,158	$ 32,638	$ 43,018	$ 77,814
Contributions collected	-	13	947	960
Investment income	31	1,067	-	1,098
Net investment gain (loss)	280	9,699	-	9,979
Amounts appropriated for expenditure	(20)	(2,838)	-	(2,858)
Reclassify to permanently restricted	-	-	258	258
Endowment net assets, end of year	**$ 2,449**	**$ 40,579**	**$ 44,223**	**$ 87,251**

Funds with Deficiencies. From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or KUPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were approximately $1,000 at June 30, 2018. The deficiencies resulted from unfavorable market conditions that occurred after the investment of permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors. There were no such deficiencies at June 30, 2017.

NOTE H – CONTINGENT LIABILITIES

Legal counsel for the Foundation have advised that they know of no pending or threatened litigation, claims or assessments involving the Foundation that could have a material adverse financial effect on the Foundation.

NOTE I – REGIONAL UNIVERSITY EXCELLENCE TRUST FUND

The Foundation holds certain funds, consisting of endowment matching funds received by the University from the Commonwealth of Kentucky's Regional University Excellence Trust Fund, which were subsequently transferred to the Foundation for management and investment.

The Foundation reports these funds and accumulated earnings as assets held in trust for the University. Investment earnings, gains and losses and expenditures from these funds are reported as changes in the balance held in trust, rather than as revenue and expenses of the Foundation. (See Note F)

NOTE J – SUBSEQUENT EVENTS

Events occurring after June 30, 2018 have been evaluated for possible adjustment to the consolidated financial statements or disclosure through September 10, 2018, the date on which the consolidated financial statements were available to be issued.

NOTE K – RELATED PARTY TRANSACTIONS

During the years ended June 30, 2018 and 2017, the Foundation made payments on behalf of the University of $320,000 and $396,000, respectively, for salaries, benefits, and other administrative costs for University staff that directly support the Foundation's operations. These payments are made by agreement between the Foundation and University. Approximately $5,000 as of June 30, 2018 and $40,000 as of June 30, 2017 was owed to the University for such costs.

In support of University Programs, the Foundation incurred program expenses of $8,885,000 and $6,413,000 for 2018 and 2017, respectively, which consisted of payments on behalf of the University of $4,128,000 and $3,710,000, for 2018 and 2017, respectively; and amounts transferred to the University for restricted purposes of $4,757,000 and $2,703,000 for 2018 and 2017, respectively.

NOTE L – FUTURE CHANGES IN ACCOUNTING PRINCIPLES

Revenue Recognition

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances.

The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for annual periods beginning after December 15, 2018, for nonpublic entities (December 15, 2017, for not-for-profits that are conduit debt obligors), and any interim periods within annual reporting periods that begin after December 15, 2019, for nonpublic entities (December 15, 2018, for not-for-profits that are conduit debt obligors). The Foundation is in the process of evaluating the impact the amendment will have on the consolidated financial statements.

Presentation of Financial Statements for Not-for-Profit Entities

The Financial Accounting Standards Board recently issued Accounting Standards Update (ASU) No. 2016-14, Presentation of Financial Statements of Not-for-Profit Entities, which changes requirements for financial statements and notes of all not-for-profit (NFP) entities and is effective for fiscal years beginning after December 15, 2017.

A summary of the changes by financial statement area most relevant to the Association are as follows:

Statement of financial position:

- The statement of financial position will distinguish between two new classes of net assets - those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets - unrestricted, temporarily restricted and permanently restricted.

Statement of activities:

- Expenses are reported by both nature and function in one location.

- Investment income is shown net of external and direct internal investment expenses. Disclosure of the expenses netted against investment income is no longer required.

Notes to the financial statements:

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one-year from the date of the statement of financial position.
- Amounts and purposes of governing Board designations and appropriations as of the end of the period are disclosed.

The Foundation is in the process of evaluating the impact the amendment will have on the consolidated financial statements.

Accounting for Leases

The Financial Accounting Standards Board amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2019, and any interim periods within annual reporting periods that begin after December 15, 2019. The Foundation is evaluating the impact the standard will have on the consolidated financial statements.

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