



# **Kentucky Tobacco Research and Development Center**

UNIVERSITY OF KENTUCKY • 2024 FINANCIAL STATEMENTS

**Kentucky Tobacco Research and Development Center**  
**An Organizational Unit of the University of Kentucky**  
**Financial Statements**  
**Years Ended June 30, 2024 and 2023**

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## Independent Auditor's Report

Board of Directors  
Kentucky Tobacco Research and  
Development Center  
University of Kentucky  
Lexington, Kentucky

### ***Opinion***

We have audited the financial statements of the Kentucky Tobacco Research and Development Center (Center), an organizational unit of the University of Kentucky, as of and for the years ended June 30, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Center, as of June 30, 2024 and 2023, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

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

### ***Emphasis of Matter***

As discussed in Note 1, the financial statements of the Center are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the University of Kentucky that is attributable to the transactions of the Center. They do not purport to, and do not, present fairly the financial position of the University of Kentucky, as of June 30, 2024 and 2023, the changes in its financial position, or its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### ***Auditor's Responsibilities for the Audits of the Financial Statements***

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Center's ability to continue as a going concern for a reasonable period of time.

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

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Information***

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

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

***Forvis Mazars, LLP***

**Louisville, Kentucky  
October 4, 2024**

**KENTUCKY TOBACCO RESEARCH AND DEVELOPMENT CENTER  
AN ORGANIZATIONAL UNIT OF THE UNIVERSITY OF KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2024 AND 2023**

The Kentucky Tobacco Research and Development Center's (the Center) Management's Discussion and Analysis (MD&A) of its financial condition provides an overview of the financial performance of the Center as of and for the years ended June 30, 2024 and 2023. 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 fiscal year 2023-2024 report a fiscally sound financial condition at June 30, 2024 although state cigarette tax revenue has decreased.
- Total assets decreased \$640,809 or 37.5%, and total liabilities increased \$4,047 or 21.2%.
- Net position decreased \$644,856 or 38.1% during this fiscal year. Net position represented 97.8% of total assets.

**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 Center's finances is whether the Center is better off as a result of the year's activities. One key to answering this question is the financial statements of the Center. 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 Center in a format similar to that used by corporations and present a long-term view of the Center's finances. The Center's net position (the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources) is one sign of the Center's financial health. Over time, increases or decreases in net position indicate the improvement or erosion of the Center's financial health.

The Statement of Net Position is the Center's balance sheet. It reflects the total assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the Center as of June 30, 2024, with comparative information as of June 30, 2023. It is prepared on the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The Statement of Revenues, Expenses and Changes in Net Position presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. GASB Statement No. 35 requires state cigarette taxes to be classified as nonoperating revenues. Accordingly, the Center generates a net operating loss.

Another important factor to consider when evaluating financial viability is the Center'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 Kentucky Tobacco Research and Development Center is an organizational unit within the University of Kentucky (the University). The Center was created by the General Assembly of the Commonwealth of Kentucky to research tobacco and other complementary interests, including but not limited to commercialization of tobacco and plant research, plant natural products research, and development of new crops based on tobacco and other plants. The Center's accounts are contained as departmental records within the records of the University.

## Condensed Financial Information

### Statements of Net Position

	<u>2024</u>	<u>2023</u>	<u>2022</u>
<b>ASSETS</b>			
Current assets	\$ 1,069,101	\$ 1,709,910	\$ 2,241,172
Total assets	<u>1,069,101</u>	<u>1,709,910</u>	<u>2,241,172</u>
<b>LIABILITIES</b>			
Current liabilities	23,138	19,091	49,861
Total liabilities	<u>23,138</u>	<u>19,091</u>	<u>49,861</u>
<b>NET POSITION</b>			
Restricted expendable	1,045,963	1,690,819	2,191,311
Total net position	<u>\$ 1,045,963</u>	<u>\$ 1,690,819</u>	<u>\$ 2,191,311</u>

**Assets.** As of June 30, 2024, the Center's total assets amounted to \$1,069,101. Cash and cash equivalents was the Center's only asset.

Total assets decreased \$640,809 or 37.5% due to a decrease in cash and cash equivalents due to operating expenses exceeding cash provided by state cigarette tax revenue of \$644,856 offset by a \$4,047 increase in accounts payable and accrued liabilities.

**Liabilities.** At June 30, 2024, the Center's liabilities, consisting of accounts payable to vendors and contractors and accrued payroll, totaled \$23,138. Total liabilities increased \$4,047 or 21.2% due to an increase in accounts payable and an increase in accrued payroll compared to the prior year.

**Net Position.** Net position at June 30, 2024 totaled \$1,045,963, or 97.8% of total assets, all of which were restricted. Total net position decreased \$644,856 or 38.1%, primarily due to operating expenses exceeding state cigarette tax revenue.

**2023 Versus 2022.** Total net position decreased \$500,492 or 22.8% when comparing the fiscal year 2023 to 2022. The change was primarily due to operating expenses and grants to the University exceeding state cigarette tax revenue.

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

	<u>2024</u>	<u>2023</u>	<u>2022</u>
<b>OPERATING REVENUES</b>			
Total operating revenues	\$ —	\$ —	\$ —
<b>OPERATING EXPENSES</b>			
Educational and general	<u>1,943,699</u>	<u>1,864,369</u>	<u>1,721,846</u>
Total operating expenses	<u>1,943,699</u>	<u>1,864,369</u>	<u>1,721,846</u>
<b>NET LOSS FROM OPERATIONS</b>	<u>(1,943,699)</u>	<u>(1,864,369)</u>	<u>(1,721,846)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
State cigarette tax	1,298,843	1,385,233	1,512,328
Grants to the University of Kentucky	—	<u>(21,356)</u>	<u>(10,528)</u>
Total nonoperating revenues	<u>1,298,843</u>	<u>1,363,877</u>	<u>1,501,800</u>
<b>DECREASE IN NET POSITION</b>	(644,856)	(500,492)	(220,046)
<b>NET POSITION, beginning of year</b>	<u>1,690,819</u>	<u>2,191,311</u>	<u>2,411,357</u>
<b>NET POSITION, end of year</b>	<u>\$ 1,045,963</u>	<u>\$ 1,690,819</u>	<u>\$ 2,191,311</u>

**2024.** The Center has no operating revenues.

Operating expenses were primarily related to research and totaled \$1,943,699, an increase of \$79,330 or 4.3%. The increase was due to a \$99,121 increase in research and a \$1,802 increase in operations and maintenance of plant offset by a \$21,593 decrease in administration.

Total nonoperating revenues (expenses) decreased \$65,034 or 4.8% due to a decrease in state cigarette tax of \$86,390 offset by a decrease of \$21,356 in grants to the University. The decrease in state cigarette tax revenue was caused by a decrease in cigarette sales. The decrease in grants to the University was caused by the Center not purchasing any equipment in the current year.

**2023 Versus 2022.** Net position decreased by \$500,492 as of June 30, 2023 compared to a \$220,046 decrease as of June 30, 2022. The change was due to an increase in operating expenses of \$142,523, a decrease in state cigarette tax revenue of \$127,095 and an increase in grants to the University of \$10,828.



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 Center during the period. The Statement of Cash Flows also helps financial statement readers assess the Center's:

- ability to generate future net cash flows,
- ability to meet obligations as they become due, and
- need for external financing.

**Statements of Cash Flows**

	<u>2024</u>	<u>2023</u>	<u>2022</u>
<b>CASH PROVIDED (USED) BY:</b>			
Operating activities	\$(1,939,652)	\$(1,895,139)	\$(1,690,224)
Noncapital financing activities	1,298,843	1,385,233	1,512,328
Capital and related financing activities	—	(21,356)	(10,528)
Net decrease in cash and cash equivalents	(640,809)	(531,262)	(188,424)
<b>Cash and cash equivalents, beginning of year</b>	<u>1,709,910</u>	<u>2,241,172</u>	<u>2,429,596</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 1,069,101</u>	<u>\$ 1,709,910</u>	<u>\$ 2,241,172</u>

**2024.** Cash flows for operating activities included \$1,614,332 payments for salaries, wages and benefits and \$325,320 payments to vendors and contractors.

State tax revenues from cigarette sales of \$1,298,843 are reported as noncapital financing activities.

**2023 Versus 2022.** Cash decreased \$531,262 in the fiscal year 2023 compared to a decrease of \$188,424 in 2022. The change was due to an increase of \$204,915 in cash used in operating activities, a decrease of \$127,095 in cash provided by noncapital financing activities and an increase of \$10,828 in cash used in capital and related financing activities.

**Capital Asset and Debt Administration**

**Capital Assets.** Capital assets purchased by the Center are granted to the University at the time of acquisition.

**Debt.** The Center has had no debt at or during the year ended June 30, 2024.

**Factors Impacting Future Periods**

Because the Center is funded exclusively by state cigarette tax, fluctuations in cigarette sales could affect future financial statements.

**KENTUCKY TOBACCO RESEARCH AND DEVELOPMENT CENTER  
AN ORGANIZATIONAL UNIT OF THE UNIVERSITY OF KENTUCKY  
STATEMENTS OF NET POSITION  
JUNE 30, 2024 AND 2023**

	<u>2024</u>	<u>2023</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,069,101	\$ 1,709,910
Total current assets	<u>1,069,101</u>	<u>1,709,910</u>
Total assets	<u>1,069,101</u>	<u>1,709,910</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	<u>23,138</u>	<u>19,091</u>
Total current liabilities	<u>23,138</u>	<u>19,091</u>
Total liabilities	<u>23,138</u>	<u>19,091</u>
<b>NET POSITION</b>		
Restricted expendable	<u>1,045,963</u>	<u>1,690,819</u>
Total net position	<u><u>\$ 1,045,963</u></u>	<u><u>\$ 1,690,819</u></u>

See notes to financial statements

**KENTUCKY TOBACCO RESEARCH AND DEVELOPMENT CENTER  
AN ORGANIZATIONAL UNIT OF THE UNIVERSITY OF KENTUCKY  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2024 AND 2023**

	<u>2024</u>	<u>2023</u>
<b>OPERATING REVENUES</b>		
Total operating revenues	<u>\$ —</u>	<u>\$ —</u>
<b>OPERATING EXPENSES</b>		
Research	1,620,091	1,520,970
Administration	286,495	308,088
Operations and maintenance of plant	37,113	35,311
Total operating expenses	<u>1,943,699</u>	<u>1,864,369</u>
Net loss from operations	<u>(1,943,699)</u>	<u>(1,864,369)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State cigarette tax	1,298,843	1,385,233
Net nonoperating revenues	<u>1,298,843</u>	<u>1,385,233</u>
Net loss before other expenses	<u>(644,856)</u>	<u>(479,136)</u>
Grants to the University of Kentucky for capital purposes	—	(21,356)
Total other expenses	<u>—</u>	<u>(21,356)</u>
<b>DECREASE IN NET POSITION</b>	(644,856)	(500,492)
<b>NET POSITION, beginning of year</b>	<u>1,690,819</u>	<u>2,191,311</u>
<b>NET POSITION, end of year</b>	<u>\$ 1,045,963</u>	<u>\$ 1,690,819</u>

See notes to financial statements

**KENTUCKY TOBACCO RESEARCH AND DEVELOPMENT CENTER  
AN ORGANIZATIONAL UNIT OF THE UNIVERSITY OF KENTUCKY  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2024 AND 2023**

	<u>2024</u>	<u>2023</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Payments to vendors and contractors	\$ (325,320)	\$ (369,321)
Salaries, wages and benefits	<u>(1,614,332)</u>	<u>(1,525,818)</u>
Net cash used by operating activities	<u>(1,939,652)</u>	<u>(1,895,139)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State cigarette tax	<u>1,298,843</u>	<u>1,385,233</u>
Net cash provided by noncapital financing activities	<u>1,298,843</u>	<u>1,385,233</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Grants to the University of Kentucky for capital purposes	<u>—</u>	<u>(21,356)</u>
Net cash used by capital and related financing activities	<u>—</u>	<u>(21,356)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(640,809)	(531,262)
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>1,709,910</u>	<u>2,241,172</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 1,069,101</u>	<u>\$ 1,709,910</u>
<b>Reconciliation of net loss from operations to net cash used by operating activities:</b>		
Net loss from operations	\$ (1,943,699)	\$ (1,864,369)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Change in assets and liabilities:		
Accounts payable and accrued liabilities	<u>4,047</u>	<u>(30,770)</u>
<b>Net cash used by operating activities</b>	<u>\$ (1,939,652)</u>	<u>\$ (1,895,139)</u>

See notes to financial statements

**KENTUCKY TOBACCO RESEARCH AND DEVELOPMENT CENTER  
AN ORGANIZATIONAL UNIT OF THE UNIVERSITY OF KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2024 AND 2023**

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The Kentucky Tobacco Research and Development Center (the Center) is an organizational unit within the University of Kentucky (the University). The Center was created by the General Assembly of the Commonwealth of Kentucky (the Commonwealth) to research tobacco and other complementary interests, including but not limited to commercialization of tobacco and plant research, plant natural products research, and development of new crops based on tobacco and other plants. The Center's accounts are contained as departmental records within the records of the University. These financial statements are intended to present the financial position, the changes in financial position and cash flows of only that portion of the University that is attributable to the transactions of the Center. They do not purport to, and do not, present fairly the financial position of the University as of June 30, 2024 and 2023, the changes in its financial position or cash flows for the years then ended in conformity with the accounting principles generally accepted in the United States of America. Financial results for the University are presented in separate financial statements prepared by 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 Center.
  - Expendable* – Net position whose use by the Center is subject to externally imposed stipulations that can be fulfilled by actions of the Center pursuant to those stipulations or that expire by the passage of time.
- Unrestricted: Net position whose use by the Center 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 Center'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 Center considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Income Taxes. The University, of which the Center is an organizational unit, is an agency and instrumentality of the Commonwealth, pursuant to Kentucky Revised Statutes (KRS) 164.100 through 164.280. Accordingly, the University is excluded from federal income taxes as an organization described in section 115 of the Internal Revenue Code of 1986 as amended.

Restricted Asset Spending Policy. The Center'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 Center 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. Accordingly, the Center does not have operating revenues. Certain significant revenues relied upon for operations, such as state cigarette taxes, are recorded as nonoperating revenues (expenses), in accordance with GASB Statement No. 33.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to use estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

## 2. DEPOSITS AND INVESTMENTS

The fair value of deposits and investments, by type, at June 30, 2024 and 2023 are as follows:

	2024	2023
Cash and cash equivalents on deposit with the Commonwealth	\$ 1,069,101	\$ 1,709,910

Deposit and Investment Policies. The Center was created by the General Assembly of the Commonwealth. Funding for the Center comes from taxes levied on the sale of cigarettes in the Commonwealth. Such funds are held on deposit with the Commonwealth until needed for operations by the Center. Accordingly, deposit and investment policies for these funds are contained in the Kentucky Revised Statutes.

Deposit and Investment Risks. The Center'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 Center to experience a loss of principal. The Center's cash and cash equivalents on deposit with the Commonwealth are governed by state law that minimizes credit risk in several ways. The cash and cash equivalents on deposit are held in the Commonwealth's investment pools which can invest in U.S. Treasury and agency securities; commercial paper, asset-backed securities or qualified mutual funds rated in the highest category by a nationally recognized statistical rating organization; certificates of deposit, bankers acceptances, state or local government securities and corporate, Yankee and Eurodollar securities rated in one of the three highest categories by a nationally recognized statistical rating organization; and state and local property tax certificates of delinquency secured by an interest in real property.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Center will not be able to recover the value of its investment or collateral securities that are in possession of an outside party. The Center's cash and cash equivalents on deposit with the Commonwealth are held in the Commonwealth's investment pools in the Commonwealth's name by the Commonwealth's custodian.

Concentrations of Credit Risk. The Center's investments can be exposed to a concentration of credit risk if significant amounts are invested in any one issuer. Cash and cash equivalents on deposit with the

Commonwealth are not limited as to the maximum amount that may be deposited or invested in one issuer. However, all such investments in excess of federal deposit insurance are required to be fully collateralized by U.S. Treasury and/or U.S. agency securities or other similar investments as provided by KRS 41.240.

At June 30, 2024 and 2023, the Center had no underlying investments in any one issuer representing more than five percent of total investments, other than U.S. Treasury and agency obligations.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Cash and cash equivalents on deposit with the Commonwealth have limited exposure to interest rate risk due to the short-term nature of the investment. The Commonwealth requires that all deposits be available for use on the next business day.

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 Center is not exposed to foreign currency risk.

### 3. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2024 and 2023 are as follows:

	2024	2023
Payable to vendors and contractors	\$ 3,612	\$ 991
Accrued payroll	19,526	18,100
Total	<u>\$ 23,138</u>	<u>\$ 19,091</u>

### 4. RISK MANAGEMENT

The Center is exposed to various risks of loss related to torts and errors and omissions. These risks are covered by an 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 2023 to 2024. Settlements have not exceeded insurance coverage during the past three years.

### 5. TRANSACTIONS WITH THE UNIVERSITY OF KENTUCKY

The Center utilizes buildings and equipment owned by the University. The historical costs of these assets as of June 30, 2024 and 2023 are as follows:

	2024	2023
Buildings	\$ 4,712,743	\$ 4,710,352
Equipment	\$ 2,622,207	\$ 2,772,400

All equipment purchased by the Center is granted to the University at the time of acquisition. During the fiscal years ended June 30, 2024 and 2023, the Center transferred \$0 and \$21,356, respectively, to the University for capital purposes.

## BOARD OF DIRECTORS

Lisa Cassis – Ex-Officio

Larry Clark

Todd Clark

Nancy M. Cox

Richard Heath

Jason Howell

Bill McCloskey

Al Pedigo

Monique Quarterman

F.T. Samuel Jr.

Jonathan Shell

Darrell Varner

## OFFICERS

Todd Clark, Chair

Angela Martin, Treasurer





UNIVERSITY FINANCIAL SERVICES  
301 Peterson Service Building • Lexington, KY 40506-0005  
<https://www.uky.edu/ufs/financial-statements>

