



Research
Foundation

FINANCIAL
REPORT
2010

**University of Kentucky
Research Foundation
A Component Unit of the University of Kentucky**

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Directors
University of Kentucky
Research Foundation
Lexington, Kentucky

We have audited the accompanying basic financial statements of the University of Kentucky Research Foundation (Foundation), a not-for-profit corporation affiliated with and a component unit of the University of Kentucky, as of and for the years ended June 30, 2010 and 2009, 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 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 audits 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 audits provide 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, 2010 and 2009, and the changes in its financial position and its cash flows for the years 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 supplementary information and express no opinion on it.

Board of Directors
University of Kentucky
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Our audits were conducted for the purpose of forming an opinion on the basic financial statements. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BKD, LLP

September 30, 2010

Management's Discussion and Analysis

The University of Kentucky Research Foundation's (the Foundation) Management's Discussion and Analysis (MD&A) of its financial condition provides an overview of the financial position and activities of the Foundation for the years ended June 30, 2010 and 2009. Management prepares this discussion and encourages readers to utilize its contents in conjunction with the financial statements and the notes appearing in this report.

Financial Highlights

- The financial statements for FY 2009-2010 report a solid financial condition at June 30, 2010. Financial operations were in accordance with the revenue expectations and the approved budget plan.
- Total assets increased approximately \$12.4 million or 15.1%. The most significant components of the fluctuation were a \$4.2 million increase in cash and cash equivalents, a \$3.1 million increase in capital assets, net and a \$2.9 million increase in accounts receivable.
- Total liabilities increased approximately \$32,000 or 0.1%. Accounts payable and accrued liabilities increased \$6.7 million while deferred revenue decreased \$5.0 million and long term liabilities increased \$1.1 million.
- Total net assets increased approximately \$12.4 million or 59.3%. Unrestricted net assets increased \$7.2 million, invested in capital assets, net of related debt increased \$5.0 million and restricted net assets increased \$216,000.
- Operating revenues increased approximately \$29.6 million to \$327.6 million.
- Operating expenses increased approximately \$25.6 million to \$313.4 million.

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 depict a long-term view of the Foundation's finances. The Foundation's net assets (the difference between assets and liabilities) are one indication of the Foundation's financial health.

Reporting Entity

The University of Kentucky Research Foundation is a not-for-profit Kentucky corporation established to receive, invest and expend funds in promoting and implementing scientific, educational and developmental activities at the University of Kentucky (the University). 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, staff or trustees and/or are appointed by the Board of Trustees of the University, and certain officers of the Foundation are officers of the University.

The financial statements of the Foundation include the operations of the following entities:

- University of Kentucky Research Foundation
- Kentucky Technology, Inc. (KTI) (a 100% owned, for-profit subsidiary of the Foundation) and its for profit subsidiaries:
 - Secat, Inc. (100% ownership)
 - Therix Medical, Inc. (80% ownership)
 - Kentucky CVFS, LLC. (CVFS) (Discontinued operations during the fiscal year ended June 30, 2009.)
- Coldstream Laboratories, Inc. (CLI) (a 100% owned, for-profit subsidiary of the Foundation)

KTI and CLI have a calendar-year basis fiscal year from January 1 through December 31. Therefore, the financial statements of KTI and CLI as of December 31, 2009 and December 31, 2008 are included in the Foundation's financial statements as of June 30, 2010 and 2009.

Statement of Net Assets

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. A summarized comparison of the Foundation's assets, liabilities and net assets at June 30, 2010, 2009 and 2008 is as follows:

Condensed Statements of Net Assets

	2010	2009	2008
ASSETS			
Current assets	\$ 74,972,663	\$ 66,964,338	\$ 61,175,493
Capital assets	12,065,890	8,942,645	11,115,478
Other noncurrent assets	7,730,822	6,414,331	5,778,716
Total assets	94,769,375	82,321,314	78,069,687
LIABILITIES			
Current liabilities	58,939,359	57,844,366	53,709,215
Noncurrent liabilities	2,488,093	3,550,626	4,611,394
Total liabilities	61,427,452	61,394,992	58,320,609
NET ASSETS			
Invested in capital assets, net of related debt	10,375,487	5,341,105	5,550,966
Restricted			
Nonexpendable	751,004	750,954	750,854
Expendable	3,235,015	3,018,594	3,858,626
Unrestricted	18,980,417	11,815,669	9,588,632
Total net assets	\$ 33,341,923	\$ 20,926,322	\$ 19,749,078

Assets. As of June 30, 2010, the Foundation's assets totaled \$94.8 million. Accounts receivable, primarily from grant sponsors, represented the Foundation's largest asset, totaling \$48.8 million or 51.5% of total assets. Cash and cash equivalents totaled \$22.2 million or 23.4% of total assets and capital assets net totaled \$12.1 million or 12.8% of total assets.

Total assets increased \$12.4 million or 15.1% during the year ended June 30, 2010. The most significant components of the increase in total assets was a \$4.2 million increase in cash and cash equivalents, a \$3.1 million increase in capital assets, net and a \$2.9 million increase in accounts receivable. The cash and cash equivalents and accounts receivable increases were mainly due to increased grant activity. The increase in capital assets, net, was primarily the result of additional capital assets in KTI.

Liabilities. At June 30, 2010, the Foundation's liabilities totaled \$61.4 million. Deferred revenue amounted to \$37.3 million or 60.8% of total liabilities. Deferred revenue reflects advance receipts from grant sponsors and other customers. Accounts payable and accrued liabilities totaling \$20.0 million, long-term liabilities of \$3.2 million and funds due to the University of \$955,000 accounted for the remainder of the Foundation's liabilities.

Total liabilities only increased \$32,000 during the year ended June 30, 2010. However, within that category there was an increase of \$6.7 million in accounts payable and accrued liabilities owed by grants and a decrease in deferred revenue primarily due to less grant cash received in advance of expenditures.

Net Assets. Net assets at June 30, 2010 totaled \$33.3 million, or 35.1% of total assets. Net assets invested in capital, net of related debt, totaled \$10.3 million or 31.0% of total net assets. Restricted net assets totaled \$4.0 million or 12.0% of total net assets. Unrestricted net assets accounted for \$19.0 million or 57.0% of total net assets.

Total net assets increased \$12.4 million during the year ended June 30, 2010. Unrestricted net assets were the most significant component, increasing \$7.2 million, primarily due to revenues from recoveries of facilities and administrative costs exceeding expenses in unrestricted funds. In addition, invested in capital assets, net of related debt increased \$5.0 million due mainly to capital additions by KTI.

2009 Versus 2008. During the year ended June 30, 2009:

- Total assets increased \$4.3 million or 5.4%. The most significant component of the increase in total assets was \$15.3 million in cash and cash equivalents, partially offset by a decrease in accounts receivable of \$10.4 million. Both fluctuations were due to increased cash collections of accounts receivable resulting from improved billings processes.
- Total liabilities increased \$3.1 million, principally due to an increase of \$5.8 million in deferred revenue caused by unexpended cash of \$2.9 million received from the Kentucky Lung Cancer Research Program and \$1.9 undistributed patent income. A reduction of \$2.1 million in accounts payable and accrued liabilities offset the increase.
- Total net assets increased \$1.2 million. Unrestricted net assets were the most significant component, increasing \$2.2 million, primarily due to revenues exceeding expenses in unrestricted funds.

Statement of Revenues, Expenses and Changes in Net Assets

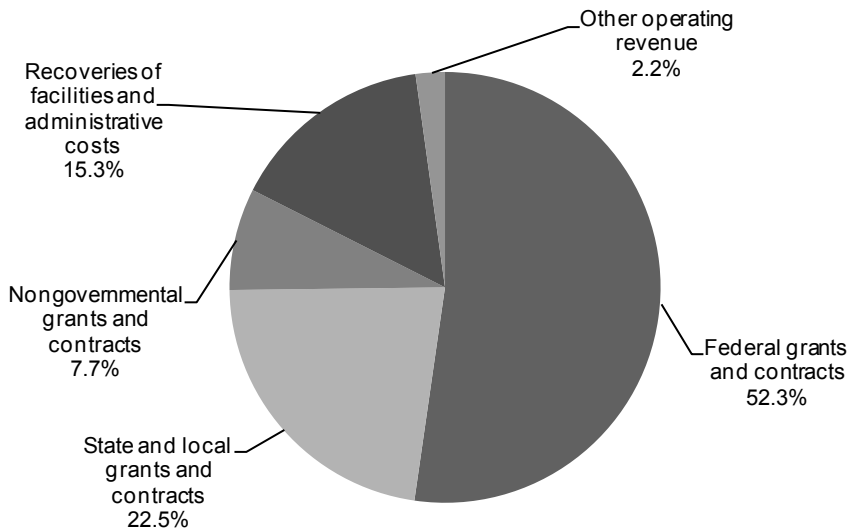
The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. GASB 35 requires certain revenue items, such as gifts, investment and endowment income, and patent income, to be classified as nonoperating revenues. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life. A summarized comparison of the Foundation's revenues, expenses and changes in net assets for the years ended June 30, 2010, 2009 and 2008 is as follows:

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	<u>2010</u>	<u>2009</u>	<u>2008</u>
OPERATING REVENUES			
Federal grants and contracts	\$172,308,015	\$155,559,281	\$157,659,221
State and local grants and contracts	72,218,583	69,476,000	66,390,170
Nongovernmental grants and contracts	25,243,830	26,530,570	25,113,594
Recoveries of facilities and administrative costs	50,599,314	44,473,386	43,815,261
Other operating revenue	7,222,773	1,923,523	4,045,703
Total operating revenues	<u>327,592,515</u>	<u>297,962,760</u>	<u>297,023,949</u>
OPERATING EXPENSES			
Research	178,673,810	163,298,915	171,927,145
Other educational and general	132,671,354	122,220,144	114,868,618
Student financial aid	1,136,276	1,709,054	2,088,301
Depreciation	888,580	534,465	1,019,761
Total operating expenses	<u>313,370,020</u>	<u>287,762,578</u>	<u>289,903,825</u>
OPERATING INCOME	<u>14,222,495</u>	<u>10,200,182</u>	<u>7,120,124</u>
NONOPERATING REVENUES (EXPENSES)			
Gifts	80,500	197,875	58,620
Investment income (loss)	698,800	(732,370)	(278,636)
Patent income	1,715,329	1,101,750	2,570,896
Interest on capital asset-related debt	(226,693)	(115,189)	(253,067)
Other nonoperating revenues and expenses, net	130,482	360,717	192,375
Capital grants and gifts	6,810,520	3,270,411	2,462,218
Additions to permanent endowments	50	100	2,000
Grants to the University of Kentucky	(10,993,277)	(12,956,418)	(9,463,339)
Other	(22,605)	(149,814)	-
Total nonoperating revenues (expenses)	<u>(1,806,894)</u>	<u>(9,022,938)</u>	<u>(4,708,933)</u>
Total increase in net assets	12,415,601	1,177,244	2,411,191
Net assets, beginning of year	<u>20,926,322</u>	<u>19,749,078</u>	<u>17,337,887</u>
Net assets, end of year	<u>\$ 33,341,923</u>	<u>\$ 20,926,322</u>	<u>\$ 19,749,078</u>

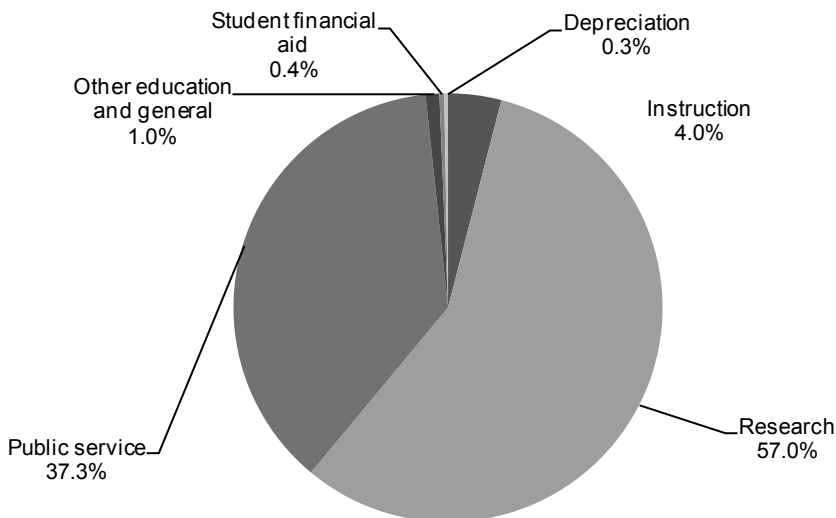
Total operating revenues, consisting primarily of grants and contracts, and related recoveries of facilities and administrative costs, were \$327.6 million for the year ended June 30, 2010. Federal, state and nongovernmental grants and contracts, and related recoveries of facilities and administrative costs, accounted for nearly 100% of operating revenues. Operating revenues increased \$29.6 million or 9.9%, primarily caused by a \$16.7 million or 10.8% increase in federal grants and contracts and an increase of \$6.1 million or 13.8% in recoveries of facilities and administrative costs. This increase was mainly caused by increased federal grants and contracts resulting from the American Recovery and Reinvestment Act of 2009.

TOTAL OPERATING REVENUES



Operating expenses totaled \$313.4 million. Of this amount, \$178.7 million or 57.0% was used for research expenses, \$116.9 million or 37.3% was used for public service expenses and \$12.6 million or 4.0% was used for instruction. Operating expenses increased \$25.6 million or 8.9%. This increase is primarily attributable to expenses associated with increased research and public service activity.

TOTAL OPERATING EXPENSES



2009 Versus 2008. Total operating revenues, consisting primarily of grants and contracts, and related recoveries of facilities and administrative costs, were \$298.0 million. A \$3.1 million increase in grant revenue was offset by a \$2.1 million decrease in other operating revenue due to the change in fiscal year end of KTI and CLI to December 31 that resulted in the consolidation of only six months of activity.

Operating expenses totaled \$287.8 million. Of this amount, \$163.3 million or 56.7% was used for research expenses, \$106.2 million or 36.9% was used for public service expenses and \$13.1 million or 4.6% was used for instruction. Operating expenses decreased \$2.1 million or 0.7%.

Statement of Cash Flows

The Statement of Cash Flows presents information related to the Foundation’s cash inflows and outflows and is summarized by operating, capital financing, noncapital financing and investing activities. 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 year that will allow financial statement readers to assess the entity’s:

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

A comparative summary of the Foundation’s statement of cash flows for the years ended June 30, 2010, 2009 and 2008 is as follows:

Condensed Statements of Cash Flows

	2010	2009	2008
CASH PROVIDED (USED) BY:			
Operating activities	\$11,745,086	\$22,995,904	\$21,018,827
Noncapital financing activities	(3,740,544)	(2,256,275)	(11,047,619)
Capital and related financing activities	(4,296,889)	(5,639,885)	(7,578,138)
Investing activities	503,794	196,938	267,580
Net increase (decrease) in cash and cash equivalents	4,211,447	15,296,682	2,660,650
Cash and cash equivalents, beginning of year	17,967,615	2,670,933	10,283
Cash and cash equivalents, end of year	\$22,179,062	\$17,967,615	\$ 2,670,933

Major sources of cash included in operating activities were grants and contracts of \$260.7 million and recoveries of facilities and administrative costs of \$48.7 million. The largest cash payments for operating activities were made to suppliers of \$149.4 million and to the University as reimbursements for employee salaries and benefits of \$154.7 million.

The largest use of cash in the noncapital financing activities group related to grants to the University totaling \$5.6 million. Cash provided in this category is mostly from other receipts of \$1.8 million, primarily patent income.

Cash used by capital and related financing activities was primarily expended on grants to the University for the construction and acquisition of capital assets totaling \$8.3 million and purchases of capital assets of \$2.5 million, offset by capital grants and gifts of \$6.8 million.

Cash provided by investing activities reflects proceeds from sales and maturities of investments of \$5.1 million and interest and dividends on investments of \$269,000, net of cash used to purchase investments of \$4.9 million.

2009 Versus 2008. Cash increased \$15.3 million primarily due to cash flows provided by operating activities and investing activities offset by cash used by noncapital financing activities and capital and related financing activities.

Capital Asset and Debt Administration

Capital Assets. Capital assets, net of accumulated depreciation, totaled \$12.1 million at June 30, 2010, an increase of \$3.1 million. Capital assets as of June 30, 2010, and significant changes in capital assets during the years ended June 30, 2010 and 2009 are as follows (in thousands):

	Balance June 30, 2008	Net Additions FY 08-09	Balance June 30, 2009	Net Additions FY 09-10	Balance June 30, 2010
Land	\$ 2,336		\$ 2,336		\$ 2,336
Buildings	2,026	\$ 205	2,231	\$ 34	2,265
Equipment	9,535	(2,345)	7,190	220	7,410
Vehicles	21	-	21	-	21
Construction in progress	74	238	312	3,757	4,069
Accumulated depreciation	<u>(2,877)</u>	<u>(270)</u>	<u>(3,147)</u>	<u>(888)</u>	<u>(4,035)</u>
Total	<u>\$ 11,115</u>	<u>\$ (2,172)</u>	<u>\$ 8,943</u>	<u>\$ 3,123</u>	<u>\$ 12,066</u>

Debt. The Foundation had long-term liabilities totaling \$3.2 million at June 30, 2010 for capital leases of \$1.3 million by CLI, \$1.4 million other long-term liabilities of CLI and \$424,000 other long-term liabilities of KTI. The Foundation had long-term liabilities totaling \$4.2 million at June 30, 2009 for leases of \$2.8 million of equipment by CLI and \$1.4 million other long-term liabilities of CLI.

Factors Impacting Future Periods

The following are known facts and circumstances that will affect future financial results:

- At June 30, 2010, grants and contracts of \$434.8 million had been awarded to the Foundation, but not expended. These grants and contracts are available to provide revenue to future periods and will be recognized as expended.
- The Foundation is funded primarily by grants and contracts funded by sponsors. Revenues in this area have not shown an overall decline as of yet. In fact, increased additional funding may result over the next year from the stimulus funds from the American Recovery and Reinvestment Act of 2009. However, if the current economic environment continues, it could make it difficult for sponsors in the future to continue funding grants and contracts at the current levels. This would have a negative impact on the Foundation's future financial results.

UNIVERSITY OF KENTUCKY RESEARCH FOUNDATION
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY
STATEMENTS OF NET ASSETS
JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 22,179,062	\$ 17,967,615
Accounts receivable	48,756,346	45,878,524
Other current assets, net	4,037,255	3,118,199
Total current assets	<u>74,972,663</u>	<u>66,964,338</u>
Noncurrent Assets		
Endowment investments	3,383,101	3,224,754
Other long term investments	1,641,145	1,604,486
Other noncurrent assets, net	2,706,576	1,585,091
Capital assets, net	12,065,890	8,942,645
Total noncurrent assets	<u>19,796,712</u>	<u>15,356,976</u>
Total assets	<u>94,769,375</u>	<u>82,321,314</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	20,049,583	13,317,719
Deferred revenue	37,262,725	42,282,947
Due to the University of Kentucky	955,376	1,568,817
Long-term liabilities - current portion	671,675	674,883
Total current liabilities	<u>58,939,359</u>	<u>57,844,366</u>
Noncurrent Liabilities		
Long-term liabilities	2,488,093	3,550,626
Total noncurrent liabilities	<u>2,488,093</u>	<u>3,550,626</u>
Total liabilities	<u>61,427,452</u>	<u>61,394,992</u>
NET ASSETS		
Invested in capital assets, net of related debt	<u>10,375,487</u>	<u>5,341,105</u>
Restricted		
Nonexpendable	751,004	750,954
Expendable	3,235,015	3,018,594
Total restricted	<u>3,986,019</u>	<u>3,769,548</u>
Unrestricted		
Total net assets	<u>\$ 33,341,923</u>	<u>\$ 20,926,322</u>

See notes to financial statements.

UNIVERSITY OF KENTUCKY RESEARCH FOUNDATION
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
OPERATING REVENUES		
Federal grants and contracts	\$ 172,308,015	\$ 155,559,281
State and local grants and contracts	72,218,583	69,476,000
Nongovernmental grants and contracts	25,243,830	26,530,570
Recoveries of facilities and administrative costs	50,599,314	44,473,386
Other operating revenues	<u>7,222,773</u>	<u>1,923,523</u>
Total operating revenues	<u>327,592,515</u>	<u>297,962,760</u>
OPERATING EXPENSES		
Educational and general:		
Instruction	12,561,525	13,106,698
Research	178,673,810	163,298,915
Public service	116,885,963	106,235,907
Academic support	2,617,897	2,082,073
Student services	42,882	43,817
Institutional support	536,310	711,410
Operations and maintenance of plant	26,777	40,239
Student financial aid	1,136,276	1,709,054
Depreciation	<u>888,580</u>	<u>534,465</u>
Total operating expenses	<u>313,370,020</u>	<u>287,762,578</u>
Net income (loss) from operations	<u>14,222,495</u>	<u>10,200,182</u>
NONOPERATING REVENUES (EXPENSES)		
Gifts	80,500	197,875
Investment income (loss)	698,800	(732,370)
Patent income	1,715,329	1,101,750
Grants (to) from the University of Kentucky for noncapital purposes	(3,822,278)	(4,107,472)
Interest on capital asset-related debt	(226,693)	(115,189)
Other nonoperating revenues and expenses	<u>130,482</u>	<u>360,717</u>
Net nonoperating revenues (expenses)	<u>(1,423,860)</u>	<u>(3,294,689)</u>
Net income (loss) before other revenues, expenses, gains, or losses	<u>12,798,635</u>	<u>6,905,493</u>
Capital grants and gifts	6,810,520	3,270,411
Additions to permanent endowments	50	100
Grants (to) from the University of Kentucky for capital purposes	(7,170,999)	(8,848,946)
Other, net	<u>(22,605)</u>	<u>(149,814)</u>
Total other revenues (expenses)	<u>(383,034)</u>	<u>(5,728,249)</u>
Increase (decrease) in net assets	<u>12,415,601</u>	<u>1,177,244</u>
NET ASSETS, beginning of year	<u>20,926,322</u>	<u>19,749,078</u>
NET ASSETS, end of year	<u>\$ 33,341,923</u>	<u>\$ 20,926,322</u>

See notes to financial statements.

**UNIVERSITY OF KENTUCKY RESEARCH FOUNDATION
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Grants and contracts	\$ 260,695,908	\$ 264,508,448
Recoveries of facilities and administrative costs	48,653,498	47,255,929
Payments to vendors and contractors	(149,424,583)	(144,620,946)
Salaries, wages and benefits reimbursement to the University of Kentucky	(154,672,431)	(142,908,693)
Salaries, wages and benefits	(5,418,844)	(2,682,836)
Other receipts (payments)	11,911,538	1,444,002
Net cash provided (used) by operating activities	<u>11,745,086</u>	<u>22,995,904</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Gifts and grants received for other than capital purposes:		
Private gifts for endowment purposes	50	100
Private gifts for other purposes	80,500	197,875
Grants (to) from the University of Kentucky	(5,604,925)	(3,363,655)
Other receipts (payments)	1,783,831	909,405
Net cash provided (used) by noncapital financing activities	<u>(3,740,544)</u>	<u>(2,256,275)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Grants (to) from the University of Kentucky for capital purposes	(8,326,008)	(8,401,757)
Capital grants and gifts	6,810,520	3,270,411
Purchases of capital assets	(2,539,377)	(90,113)
Proceeds from capital debt	500,255	-
Principal paid on capital debt and leases	(497,981)	(153,423)
Interest paid on capital debt and leases	(226,693)	(115,189)
Other receipts (payments)	(17,605)	(149,814)
Net cash provided (used) by capital and related financing activities	<u>(4,296,889)</u>	<u>(5,639,885)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	5,114,377	5,666,617
Interest and dividends on investments	268,668	247,979
Purchase of investments	(4,879,251)	(5,717,658)
Net cash provided (used) by investing activities	<u>503,794</u>	<u>196,938</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>4,211,447</u>	<u>15,296,682</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>17,967,615</u>	<u>2,670,933</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 22,179,062</u>	<u>\$ 17,967,615</u>
Reconciliation of net income (loss) from operations to net cash provided (used) by operating activities:		
Net income (loss) from operations	\$ 14,222,495	\$ 10,200,182
Adjustments to reconcile net income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation expense	888,580	534,465
Change in assets and liabilities:		
Accounts receivable	(2,877,822)	10,556,092
Other current assets	(1,514,934)	(1,483,784)
Accounts payable and accrued liabilities	6,409,425	(2,754,002)
Long-term liabilities	101,191	778,460
Deferred revenue	(5,483,849)	5,164,491
Net cash provided (used) by operating activities	<u>\$ 11,745,086</u>	<u>\$ 22,995,904</u>
NON-CASH TRANSACTIONS		
Equipment acquired through capital lease	\$ 287,277	\$ 595,133
Capital lease termination - CVFS	\$ -	\$ 2,404,681
Capital asset transfer from the University of Kentucky	\$ 547,944	\$ 12,744
Gain on CVFS capital lease termination	\$ -	\$ 68,322
Capital lease forgiveness - CLI	\$ 1,169,206	\$ -
Change in capital accounts payable	\$ (607,065)	\$ 459,333
CPST building lease payments - CLI	\$ (186,086)	\$ -

See notes to financial statements

NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The University of Kentucky Research Foundation (the Foundation) is a not-for-profit Kentucky corporation established to receive, invest and expend funds in promoting and implementing scientific, educational and developmental activities at the University of Kentucky (the University). 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, staff or trustees and/or are appointed by the Board of Trustees of the University, and certain officers of the Foundation are officers of the University.

The financial statements of the Foundation include the operations of the following entities:

- University of Kentucky Research Foundation
- Kentucky Technology, Inc. (KTI) (a 100% owned, for-profit subsidiary of the Foundation) and its 100% owned, for profit subsidiaries:
 - Secat, Inc. (100% ownership)
 - Therix Medical, Inc. (80% ownership)
 - Kentucky CVFS, LLC. (CVFS) (Discontinued operations during the fiscal year ended June 30, 2009.)
- Coldstream Laboratories, Inc. (CLI) (a 100% owned, for-profit subsidiary of the Foundation)

KTI and CLI have a calendar-year basis fiscal year from January 1 through December 31. Therefore, the financial statements of KTI and CLI as of December 31, 2009 and December 31, 2008 are included in the Foundation's financial statements as of June 30, 2010 and 2009.

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 principal of 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. The Foundation reports as a Business Type Activity (BTA) as defined by GASB Statement No. 35. BTAs are those activities that are financed in whole or part by fees charged to external parties for goods and services.

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.

Pooled Endowment Funds. The Foundation's endowment investments are administered as part of the University's pooled endowment funds. All contributing endowments participate in the income and appreciation of the pool on a per unit basis commensurate with their contribution to the pool. New endowments purchase units in the pool at the current unit value which is calculated each month based on the fair value of the pool investments divided by the number of pool units outstanding. The market value method of accounting for pooled endowment funds is employed to ensure proper distribution of market price changes, realized gains (losses) on sales, accrued income earned, and distribution of investment earnings for expenditure by participating funds.

In accordance with the Uniform Management of Institutional Funds Act, as adopted by the Commonwealth of Kentucky, the University employs the total return method of investment management for setting investment objectives and determining investment performance. This method recognizes dividends and interest, plus or minus realized and unrealized gains or losses, in determining the total return earned during any particular period. Additionally, this method allows the University to appropriate for spending a prudent amount of realized and unrealized gains, in addition to traditional income. In July 2010, the Commonwealth of Kentucky will adopt the Uniform Prudent Management of Institutional Funds Act, which also allows the total return method of investment management.

For the years ended June 30, 2010 and 2009, the University's endowment spending rule provided for annual distributions of 4.5 percent of the thirty-six month moving average market value of fund units. For the years ended June 30, 2010 and 2009, approximately \$104,000 and \$84,000, respectively, was transferred from endowment realized and unrealized gains to support current programs in accordance with the University's endowment spending rule. Additionally, for the years ended June 30, 2010 and 2009, the University assessed eligible endowment accounts with a management fee of 0.5 percent of total asset value.

The Investment Committee of the University's Board of Trustees has approved a spending rate distribution of 4.375 percent and 4.25 percent of a sixty month moving average market value of fund units for the years ended June 30, 2011 and 2012, respectively. Additionally, the Investment Committee has approved a management fee of 0.375 percent and 0.25 percent of total asset value for the years ended June 30, 2011 and 2012, respectively.

Investments. Investments in marketable securities are carried at fair value, as determined by the major securities markets. Certain KTI investments in companies that are not controlled and over which KTI does not have the ability to exercise significant influence are accounted for under the cost method and are included in other noncurrent assets. 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.

Capital Assets. Capital assets are stated at cost at date of acquisition or, in the case of gifts, at fair market value at date of gift.

Equipment with a unit cost of \$2,000 or more (\$1,000 for computers) and having an estimated useful life of greater than one year is capitalized. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

Depreciation of capital assets is computed on a straight-line basis over the estimated useful lives of the respective assets, generally 40 years for buildings, 10 – 25 years for land and building improvements and infrastructure, and 5 – 20 years for equipment and vehicles.

Accounts Receivable. This classification consists of amounts due from sponsors and other customers for reimbursement of expenses made pursuant to contracts and grants. Accounts receivable are recorded net of estimated uncollectible amounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. Allowances for uncollectible amounts are not significant in the current or previous fiscal years.

Deferred Revenue. Deferred revenue consists primarily of amounts received from grant and contract sponsors which have not yet been earned under the terms of the agreement.

Income Taxes. The Foundation is exempt from federal income tax under the Internal Revenue Code, as a 501(c)(3) organization. KTI and its subsidiaries, and CLI, are subject to federal and state income taxes and have accrued such income taxes payable. Income taxes are not significant to the financial statements.

Restricted Asset Spending Policy. The Foundation's policy is that restrictions on assets cannot be fulfilled by the expenditure of unrestricted funds for similar purposes. The determination of whether restricted or unrestricted funds are expended for a particular purpose is made on a case-by-case basis. Restricted funds remain restricted until spent for the intended purpose.

Operating Activities. The Foundation defines operating activities, as reported on the Statement of Revenues, Expenses and Changes in Net 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. Nearly all of the Foundation's expenses are from exchange transactions. Certain revenues relied upon for operations, such as gifts and investment and patent income, are recorded as nonoperating revenues, in accordance with GASB Statement No. 35.

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 bad debt, accrued expenses and other liability accounts.

2. DEPOSITS AND INVESTMENTS

The fair value of deposits and investments, by type, at June 30, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Cash on deposit with local banks and the University of Kentucky	\$ 22,179,062	\$ 17,967,615
Investment in University of Kentucky pooled endowment fund	3,383,101	3,224,754
Investment in pooled equity funds	93,496	100,613
Investment in private equity funds	1,248,016	1,241,357
Investment in corporate bond fund	28,514	-
Common stocks	14,080	11,146
Certificates of deposit	256,933	251,264
Other	106	106
	<u>\$ 27,203,308</u>	<u>\$ 22,796,855</u>
	<u>2010</u>	<u>2009</u>
Statement of Net Assets classification		
Cash and cash equivalents	\$ 22,179,062	\$ 17,967,615
Endowment investments	3,383,101	3,224,754
Other long-term investments	1,641,145	1,604,486
	<u>\$ 27,203,308</u>	<u>\$ 22,796,855</u>

At June 30, 2010, the University's pooled endowment fund consisted of pooled equity funds (48.2%), pooled private equity funds (3.6%), pooled absolute return funds (10.0%), pooled real return funds (7.1%), pooled real estate funds (6.9%), U.S. Treasury fixed income (4.4%), government agency fixed income funds (2.0%), corporate fixed income funds (4.4%), pooled fixed income funds (12.1%) and cash and cash equivalents (1.3%).

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 three significant categories, as follows:

- Cash on deposit with the University of Kentucky, which the University invests in deposits and repurchase agreements and the Commonwealth of Kentucky,
- Cash on deposit with local banks, 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 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. Credit risk on deposits in local banks is minimized by the financial institutions' participation in the Federal Deposit Insurance Corporation's (FDIC) Transaction Account Guarantee Program (TAGP.)
- Endowment managers are permitted to use derivative instruments to limit credit risk. Additionally, 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 and held in the University's name. Deposits and repurchase agreements with the Commonwealth of Kentucky are held in the Commonwealth's name. The University maintains records evidencing the Foundation's ownership interest in such balances.
- Custodial credit risk on deposits in local banks is minimized by the financial institutions' participation in the FDIC's TAGP.
- 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. Foundation 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.
- Cash on deposit with local banks is not limited to a maximum amount that may be invested in one issuer. However, all deposits are covered by the FDIC's TAGP.

- The University's endowment investment managers are limited to a maximum investment in any one issuer of no more than 5% of total investments excluding sovereign debt of governments belonging to the Organization for Economic Cooperation and Development and U.S. agencies.

At June 30, 2010, the Foundation had a certificate of deposit at a local bank that represented 5% of investments. Concentration risk is minimized by the financial institution's participation in the FDIC's TAGP.

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.
- Cash on deposit with local banks has limited exposure to interest rate risk due to the short-term nature of the investment.
- Endowment managers are permitted to use derivative instruments to limit interest rate risk. Additionally, endowment investments held by the University's fixed income managers are limited to a duration that is within +/-25% of the duration of the Barclays 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 endowment investments of the University's pooled endowment fund. The University's investment policy allows fixed-income managers to invest a portion of their portfolios in non-U.S. securities. Additionally, the investment policy allows various pooled fund managers to invest in accordance with the guidelines established in each individual fund's prospectus, which allows for investment in non-U.S. securities. The University's investments in the various pooled funds are denominated in U.S. dollars, with the exception of two private equity funds denominated in Euros. Endowment managers are permitted to use derivative instruments to limit foreign currency risk.

The Foundation invests in various securities. Investment securities are exposed to various interest rate, market and credit risks, discussed above. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of the investment securities will occur in the near term and that such change could affect the investment amounts in the statement of net assets.

3. TRANSACTIONS WITH THE UNIVERSITY OF KENTUCKY

Salaries, wages and benefits reimbursements represent charges for University employees. Grants to the University primarily consist of funds transferred in compliance with an agreement between the Foundation and the University, whereby the University provides general support of facilities, personnel and programs in exchange for an annual grant.

4. ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2010 and 2009, totaling \$48,756,346 and \$45,878,524, respectively, primarily represent net reimbursements receivable from sponsors for funds expended on grants and contracts.

5. OTHER CURRENT ASSETS

Other current assets as of June 30, 2010 and 2009 are summarized as follows:

	<u>2010</u>	<u>2009</u>
Deferred charges - patents	\$ 3,238,326	\$ 2,716,474
Inventories	768,085	401,660
Other	30,844	65
Total	<u>\$ 4,037,255</u>	<u>\$ 3,118,199</u>

6. CAPITAL ASSETS, NET

Capital assets as of June 30, 2010 are summarized as follows:

	<u>2010</u>			
<u>Capital Assets</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Land	\$ 2,336,455			\$ 2,336,455
Buildings	2,230,784	\$ 34,442		2,265,226
Equipment	7,188,903	225,875	\$ 5,000	7,409,778
Vehicles	21,034	-		21,034
Construction in process	312,259	3,756,508		4,068,767
	<u>12,089,435</u>	<u>4,016,825</u>	<u>5,000</u>	<u>16,101,260</u>
 <u>Accumulated Depreciation</u>				
Buildings	819,390	119,623		939,013
Equipment	2,321,616	764,750		3,086,366
Vehicles	5,784	4,207		9,991
	<u>3,146,790</u>	<u>888,580</u>	<u>-</u>	<u>4,035,370</u>
 Net capital assets	 <u>\$ 8,942,645</u>	 <u>\$ 3,128,245</u>	 <u>\$ 5,000</u>	 <u>\$ 12,065,890</u>

The net book value of capitalized leased equipment was \$1.4 million at December 31, 2009 for CLI.

Capital assets as of June 30, 2009 are summarized as follows:

	2009			
<u>Capital Assets</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Land	\$ 2,336,455			\$ 2,336,455
Buildings	2,025,845	\$ 204,939		2,230,784
Equipment	9,534,445	255,151	\$ 2,600,693	7,188,903
Vehicles	21,034	-	-	21,034
Construction in process	74,360	237,899	-	312,259
	<u>13,992,139</u>	<u>697,989</u>	<u>2,600,693</u>	<u>12,089,435</u>
 <u>Accumulated Depreciation</u>				
Buildings	727,099	92,291		819,390
Equipment	2,145,881	440,071	264,336	2,321,616
Vehicles	3,681	2,103	-	5,784
	<u>2,876,661</u>	<u>534,465</u>	<u>264,336</u>	<u>3,146,790</u>
 Net capital assets	 <u>\$ 11,115,478</u>	 <u>\$ 163,524</u>	 <u>\$ 2,336,357</u>	 <u>\$ 8,942,645</u>

The net book value of capitalized leased equipment was \$2.9 million at December 31, 2008 for CLI.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Payable to vendors and contractors	\$ 17,966,538	\$ 10,011,348
Due to the University of Kentucky	281,125	1,651,908
Due to the University of Kentucky for accrued payroll	1,527,663	1,271,504
Accrued payroll	265,280	373,982
Accrued interest	8,977	8,977
Total	<u>\$ 20,049,583</u>	<u>\$ 13,317,719</u>

8. DEFERRED REVENUE

Deferred revenue as of June 30, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Unearned grants and contracts revenue	<u>\$ 37,262,725</u>	<u>\$ 42,282,947</u>

9. LONG TERM LIABILITIES

Long-term liabilities as of June 30, 2010 and 2009 are summarized as follows:

	2010					
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Noncurrent Portion
Capital leases	\$ 2,795,978	\$ 10,255	\$ 1,539,949	\$ 1,266,284	\$ 369,998	\$ 896,286
Other long-term liabilities	1,429,531	777,276	313,323	1,893,484	301,677	1,591,807
Total long-term liabilities	<u>\$ 4,225,509</u>	<u>\$ 787,531</u>	<u>\$ 1,853,272</u>	<u>\$ 3,159,768</u>	<u>\$ 671,675</u>	<u>\$ 2,488,093</u>

Included in the other long term liabilities ending balance as of June 30, 2010 is an amount owed to the University of Kentucky from CLI of \$879,651.

	2009					
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Noncurrent Portion
Capital leases	\$ 5,263,586	\$ 207,133	\$ 2,674,741	\$ 2,795,978	\$ 544,127	\$ 2,251,851
Other long-term liabilities	300,926	1,166,460	37,855	1,429,531	130,756	1,298,775
Total long-term liabilities	<u>\$ 5,564,512</u>	<u>\$ 1,373,593</u>	<u>\$ 2,712,596</u>	<u>\$ 4,225,509</u>	<u>\$ 674,883</u>	<u>\$ 3,550,626</u>

Included in the capital leases ending balance as of June 30, 2009 is an amount owed to the University of Kentucky from CLI of \$1.9 million.

Principal maturities and interest on long-term liabilities for the next five years and in subsequent five-year periods as of June 30, 2010 are as follows:

	Principal	Interest	Total
2011	\$ 671,675	\$ 141,843	\$ 813,518
2012	1,265,873	102,781	1,368,654
2013	919,105	43,718	962,823
2014	194,109	11,477	205,586
2015	38,657	6,028	44,685
2016-2017	70,349	4,127	74,476
	<u>\$ 3,159,768</u>	<u>\$ 309,974</u>	<u>\$ 3,469,742</u>

10. INVESTMENT INCOME

Components of investment income for the years ended June 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Interest and dividends earned on endowment investments	\$ 78,916	\$ 103,010
Realized and unrealized gains and losses on endowment investments	321,557	(966,184)
Interest on cash and non-endowment investments	281,413	112,243
Investment income from external trusts	16,914	18,561
Total	<u>\$ 698,800</u>	<u>\$ (732,370)</u>

11. GRANTS AND CONTRACTS AWARDED

At June 30, 2010, grants and contracts of approximately \$434.8 million had been awarded to the Foundation, but not expended. These contracts are available to provide grant revenue to future periods and will be recognized as expended.

12. RISK MANAGEMENT

The Foundation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; and natural disasters. These risks are covered by the State Fire and Tornado Insurance Fund (the Fund), commercial insurance, extension of coverage by the University's participation in an insurance risk retention group and self-insurance.

The Fund covers losses to property from fire, wind, earthquake, flood and other named perils between \$250,000 and \$500,000 per occurrence. Losses in excess of \$500,000 are insured by commercial carriers up to \$500 million per occurrence on an actual cash value basis. Claims against directors, officers and employees for wrongful acts (errors and omission) are insured through a risk retention group. There have been no significant reductions in insurance coverage from 2009 to 2010. Settlements have not exceeded insurance coverage during the past three years.

13. LEASING ARRANGEMENTS

KTI leases facilities from the University's Advanced Science and Technology Commercialization Center (ASTeCC) and Agricultural Technologies Commercialization Center (AgTeCC). The leases automatically renew annually. Rent expense for these facilities was \$97,620 and \$59,446 for the periods ended December 31, 2009 and December 31, 2008, respectively. KTI subleases the ASTeCC and AgTeCC buildings to developing industries in advanced technology, with renewal options and escalation clauses. Sublease rental income was \$144,803 and \$67,632 for the periods ended December 31, 2009 and December 31, 2008, respectively. Future minimum rental revenue at December 31, 2009 is \$53,529 for the year ending December 31, 2010.

KTI leases space in the Coldstream Center on the Coldstream Research Campus under a long-term lease terminating in the year 2016. Rental expense was \$373,850 and \$186,925 for the periods ended December 31, 2009 and December 31, 2008, respectively. Following is a schedule of minimum lease payments related to this lease for future fiscal years (in thousands):

Year ending December 31,		
2010	\$	374
2011		374
2012		374
2013		374
2014		374
2015-2016		435
Total minimum lease payments	\$	<u>2,305</u>

KTI is also responsible for 28.23% of actual expenses related to common area maintenance, utilities and property taxes. This amounted to approximately \$324,000 and \$277,000 during the periods ended December 31, 2009 and December 31, 2008, respectively.

KTI subleases office and laboratory space to tenants in the Coldstream Center with leases running from six months to five years, with options to renew for one to three years. Rental income was \$413,599 (including \$178,504 from CLI and \$53,370 from UK Coldstream Research Center Administration) and \$166,266 (including \$88,419 from CLI, \$26,685 from UK Coldstream Research Center Administration and \$7,222 from the College of Engineering) for the periods ended December 31, 2009 and December 31, 2008, respectively. The following is a schedule of future minimum rental receipts to be received under the leases at December 31, 2009 (in thousands):

Year ending December 31,		
2010	\$	239
2011		144
2012		144
2013		50
Total minimum rental receipts	\$	<u>577</u>

KTI's wholly owned subsidiary, Secat, Inc., leases property from the University at no charge. The fair market value of this lease is approximately \$250,000 per year, which has been included as both in-kind revenue and expense on the UKRF Statement of Revenues, Expenses, and Changes in Net Assets.

CLI leases its manufacturing facility from the University under an operating lease with an initial term of ten years, having two additional five-year renewal options. Recognized rent expense is \$689,451 and \$254,670 for the periods ended December 31, 2009 and December 31, 2008, respectively. CLI also leases its labs in the Coldstream Center Building from KTI and 150 Bull Lea, an unrelated third party. The lease terms range from 2 to 5 years, with monthly rent ranging from \$833 to \$7,068. Future minimum lease payments related to this lease as of December 31, 2009 are as follows (in thousands):

Year ending December 31,		
2010	\$	837
2011		737
2012		672
2013		452
2014		434
2015-2017		1,012
Total minimum lease payments	\$	<u>4,144</u>

14. CURRENT ECONOMIC CONDITIONS

The current protracted economic decline continues to present not-for-profit organizations with difficult circumstances and challenges, which in some cases have resulted in large declines in grant funding. These conditions have made it difficult for many sponsors to continue to contribute to research at not-for-profit organizations. A significant decline in revenue from sponsors for grants could have an adverse impact on the Foundation's future operating results. The financial statements have been prepared using values and information currently available to the Foundation.

UNIVERSITY OF KENTUCKY RESEARCH FOUNDATION
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY
STATEMENT OF NET ASSETS SCHEDULE
JUNE 30, 2010

	University of Kentucky Research Foundation	Kentucky Technology, Inc.	Coldstream Laboratories, Inc.	Elimination Entries	Total
ASSETS					
Current Assets					
Cash and cash equivalents	\$ 17,795,935	\$ 4,110,025	\$ 273,102		\$ 22,179,062
Accounts receivable	48,264,509	156,254	361,910	\$ (26,327)	48,756,346
Other current assets, net	3,269,170	110,124	657,961		4,037,255
Total current assets	69,329,614	4,376,403	1,292,973	(26,327)	74,972,663
Noncurrent Assets					
Endowment investments	3,383,101				3,383,101
Other long-term investments	9,217,295	1,641,039		(9,217,189)	1,641,145
Other noncurrent assets, net			25,091	2,681,485	2,706,576
Capital assets, net	2,897,143	4,059,281	5,109,466		12,065,890
Total noncurrent assets	15,497,539	5,700,320	5,134,557	(6,535,704)	19,796,712
Total assets	84,827,153	10,076,723	6,427,530	(6,562,031)	94,769,375
LIABILITIES					
Current Liabilities					
Accounts payable and accrued liabilities	16,386,690	1,098,761	2,590,459	(26,327)	20,049,583
Deferred revenue	34,143,164	1,760,117	1,359,444		37,262,725
Due to affiliated corporations	955,376				955,376
Long-term liabilities - current portion		53,550	618,125		671,675
Total current liabilities	51,485,230	2,912,428	4,568,028	(26,327)	58,939,359
Noncurrent Liabilities					
Long term liabilities		370,570	2,117,523		2,488,093
Total noncurrent liabilities	-	370,570	2,117,523	-	2,488,093
Total liabilities	51,485,230	3,282,998	6,685,551	(26,327)	61,427,452
NET ASSETS					
Invested in capital assets, net of related debt	2,897,143	3,635,161	3,843,183		10,375,487
Restricted					
Nonexpendable	751,004				751,004
Expendable	3,235,015				3,235,015
Total restricted	3,986,019	-	-	-	3,986,019
Unrestricted	26,458,761	3,158,564	(4,101,204)	(6,535,704)	18,980,417
Total net assets	\$ 33,341,923	\$ 6,793,725	\$ (258,021)	\$ (6,535,704)	\$ 33,341,923

UNIVERSITY OF KENTUCKY RESEARCH FOUNDATION
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2010

	University of Kentucky Research Foundation	Kentucky Technology, Inc.	Coldstream Laboratories, Inc.	Elimination Entries	Total
OPERATING REVENUES					
Federal grants and contracts	\$ 171,968,116	\$ 339,899			\$ 172,308,015
State and local grants and contracts	72,218,583				72,218,583
Nongovernmental grants and contracts	24,099,821	1,144,009			25,243,830
Recoveries of facilities and administrative costs	50,599,314				50,599,314
Other operating revenues	115,898	1,526,214	\$ 5,759,165	\$ (178,504)	7,222,773
Total operating revenues	319,001,732	3,010,122	5,759,165	(178,504)	327,592,515
OPERATING EXPENSES					
Educational and general:					
Instruction	12,561,525				12,561,525
Research	175,653,447	3,048,878		(28,515)	178,673,810
Public service	107,025,525		10,038,942	(178,504)	116,885,963
Academic support	2,617,897				2,617,897
Student services	42,882				42,882
Institutional support	536,310				536,310
Operations and maintenance of plant	26,777				26,777
Student financial aid	1,136,276				1,136,276
Depreciation		230,195	658,385		888,580
Total operating expenses	299,600,639	3,279,073	10,697,327	(207,019)	313,370,020
Net income (loss) from operations	19,401,093	(268,951)	(4,938,162)	28,515	14,222,495
NONOPERATING REVENUES (EXPENSES)					
Gifts	80,500				80,500
Investment income (loss)	(2,553,866)	131,317	85,786	\$ 3,035,563	698,800
Patent income	1,715,329				1,715,329
Grant (to) from the University of Kentucky for noncapital purposes	(3,822,278)				(3,822,278)
Interest on capital asset-related debt			(226,693)		(226,693)
Other nonoperating revenues and expenses, net	7,546	151,497	(46)	(28,515)	130,482
Net nonoperating revenues (expenses)	(4,572,769)	282,814	(140,953)	3,007,048	(1,423,860)
Net income (loss) before other revenues, expenses, gains, or losses	14,828,324	13,863	(5,079,115)	3,035,563	12,798,635
Capital grants and gifts	4,758,226	2,052,294			6,810,520
Additions to permanent endowments	50				50
Grant (to) from the University of Kentucky for capital purposes	(7,170,999)				(7,170,999)
Capital contributions from the foundation		60,000	4,749,429	(4,809,429)	-
Other, net		(22,605)			(22,605)
Total other revenues (expenses)	(2,412,723)	2,089,689	4,749,429	(4,809,429)	(383,034)
INCREASE (DECREASE) IN NET ASSETS	12,415,601	2,103,552	(329,686)	(1,773,866)	12,415,601
NET ASSETS, beginning of year	20,926,322	4,690,173	71,665	(4,761,838)	20,926,322
NET ASSETS, end of year	\$ 33,341,923	\$ 6,793,725	\$ (258,021)	\$ (6,535,704)	\$ 33,341,923

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