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

*Research Foundation*  
**2008 Financial Statements**

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2008 financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2008, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Board of Directors  
University of Kentucky  
Research Foundation  
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Our audit was 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 29, 2008

# Management's Discussion and Analysis

The University of Kentucky Research Foundation's (the Foundation) Management 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, 2008 and 2007. 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 2007-2008 report a strong financial condition at June 30, 2008. Financial operations were in accordance with the revenue expectations and the approved budget plan.
- Total assets increased approximately \$2.7 million or 3.5%. The most significant component of the increase was \$2.7 million in cash and cash equivalents.
- Total liabilities increased approximately \$241,000. The most significant components of the increase in liabilities were increases of \$6.0 million in accounts payable and \$5.2 million in deferred revenue, offset by a decrease in the amount due to the University of Kentucky of \$11.0 million.
- Total net assets increased approximately \$2.4 million or 13.9%. The most significant component of the increase was \$1.7 million in unrestricted net assets.
- Operating revenues increased \$5.6 million to \$297.0 million.
- Operating expenses increased \$14.9 million to \$289.9 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 of the 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)
- Secat, Inc. (a 100% owned, for-profit subsidiary of KTI)
- Secat Foundation, Inc. (a not-for-profit entity established for the benefit of the aluminum industry, including Secat, Inc.)
- Closed Vial Filling System, Inc. (CVFS) (a 100% owned, for-profit subsidiary of KTI)
- Coldstream Laboratories, Inc. (CLI) (a 100% owned, for-profit subsidiary of the Foundation)

### **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, 2008, 2007 and 2006 is as follows:

#### **Condensed Statements of Net Assets**

	2008	2007	2006
<b>ASSETS</b>			
Current assets	\$ 61,175,493	\$ 59,186,164	\$ 51,204,232
Capital assets	11,115,478	9,892,226	4,138,508
Other noncurrent assets	5,778,716	6,339,265	4,672,781
Total assets	78,069,687	75,417,655	60,015,521
<b>LIABILITIES</b>			
Current liabilities	53,709,215	53,210,420	44,678,311
Noncurrent liabilities	4,611,394	4,869,348	-
Total liabilities	58,320,609	58,079,768	44,678,311
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	5,550,966	4,391,554	4,138,508
Restricted			
Nonexpendable	750,854	748,854	748,354
Expendable	3,858,626	4,323,948	3,814,308
Unrestricted	9,588,632	7,873,531	6,636,040
Total net assets	\$ 19,749,078	\$ 17,337,887	\$ 15,337,210

**Assets.** As of June 30, 2008, the Foundation's assets totaled \$78.1 million. Accounts receivable, primarily from grant sponsors, represented the Foundation's largest asset, totaling \$56.3 million or 72.1% of total assets.

Total assets increased \$2.7 million or 3.5% during the year ended June 30, 2008. The most significant component of the increase in total assets was \$2.7 million in cash and cash equivalents.

**Liabilities.** At June 30, 2008, the Foundation's liabilities totaled approximately \$58.3 million. Deferred revenue amounted to \$36.5 million or 62.6% of total liabilities. Deferred revenue reflects advance receipts from grant sponsors. Accounts payable and accrued liabilities totaling \$15.5 million, capital leases payable of \$5.6 million and funds due to the University of \$825,000 accounted for the remainder of the Foundation's liabilities.

Total liabilities increased approximately \$241,000 during the year ended June 30, 2008. This increase was due to increases of \$6.0 million in accounts payable and accrued liabilities and \$5.2 million in deferred revenue, offset by a decrease in the amount owed to the University of \$11.0 million. Accounts payable and accrued liabilities increased mainly in the amount owed on grants for subcontractor work. Deferred revenue increased due to several grants that provided advance funding. Funds due to the University decreased primarily because the Foundation generated sufficient cash to pay grant-related expenses without additional funding from the University.

**Net Assets.** Net assets at June 30, 2008 totaled \$19.7 million, or 25.2% of total assets. Net assets invested in capital, net of related debt, totaled \$5.5 million or 27.9% of total net assets. Restricted net assets totaled \$4.6 million or 23.4% of total net assets. Unrestricted net assets accounted for \$9.6 million or 48.7% of total net assets.

Total net assets increased approximately \$2.4 million during the year ended June 30, 2008. Unrestricted net assets were the most significant component, increasing approximately \$1.7 million, primarily due to revenues exceeding expenses in unrestricted funds.

**2007 Versus 2006.** During the year ended June 30, 2007:

- Total assets increased approximately \$15.4 million or 25.7%. The most significant components were increases of \$7.6 million in accounts receivable and \$5.8 million in capital assets, net.
- Total liabilities increased \$13.4 million or 30.0%. The most significant components of the increase in liabilities were approximately \$5.5 million in capital leases payable and \$3.4 million in accounts payable.
- Total net assets increased approximately \$2.0 million or 13.0%. The most significant component was an increase of \$1.2 million in unrestricted net assets.

### **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, 2008, 2007 and 2006 is as follows:

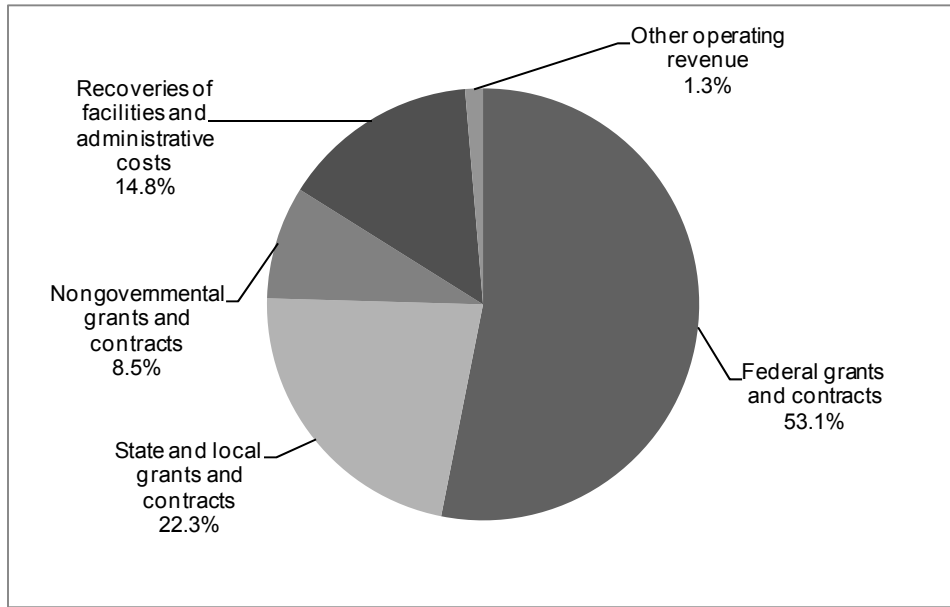
**Condensed Statements of Revenues, Expenses and Changes in Net Assets**

	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b>OPERATING REVENUES</b>			
Federal grants and contracts	\$ 157,659,221	\$ 159,480,295	\$ 159,676,717
State and local grants and contracts	66,390,170	61,467,174	43,588,658
Nongovernmental grants and contracts	25,113,594	24,954,552	23,965,483
Recoveries of facilities and administrative costs	43,815,261	43,568,583	43,048,275
Other operating revenue	4,045,703	1,955,595	1,073,161
Total operating revenues	<u>297,023,949</u>	<u>291,426,199</u>	<u>271,352,294</u>
<b>OPERATING EXPENSES</b>			
Research	167,718,222	166,327,368	158,014,973
Other educational and general	119,077,541	106,448,774	83,936,314
Student financial aid	2,088,301	1,878,892	1,704,482
Depreciation	1,019,761	378,745	282,540
Total operating expenses	<u>289,903,825</u>	<u>275,033,779</u>	<u>243,938,309</u>
<b>OPERATING INCOME</b>	<u>7,120,124</u>	<u>16,392,420</u>	<u>27,413,985</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Gifts	58,620	-	18,000
Investment income (loss)	(278,636)	688,954	424,119
Patent income	2,570,896	1,385,780	525,187
Interest on capital asset-related debt	(253,067)	(36,771)	-
Other nonoperating revenues and expenses, net	192,375	260,336	184,619
Capital grants and gifts	2,462,218	11,407,104	2,307,295
Additions to permanent endowments	2,000	500	2,923
Grants to the University of Kentucky	(9,463,339)	(28,598,857)	(27,423,162)
Other	-	501,211	-
Total nonoperating revenues (expenses)	<u>(4,708,933)</u>	<u>(14,391,743)</u>	<u>(23,961,019)</u>
Total increase in net assets	2,411,191	2,000,677	3,452,966
<b>Net assets, beginning of year</b>	<u>17,337,887</u>	<u>15,337,210</u>	<u>11,884,244</u>
<b>Net assets, end of year</b>	<u>\$ 19,749,078</u>	<u>\$ 17,337,887</u>	<u>\$ 15,337,210</u>

Total operating revenues were \$297.0 million for the year ended June 30, 2008. 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 \$5.6 million or 1.9%, primarily caused by a \$4.9 million or 8.0% increase in state and local grants and contracts.

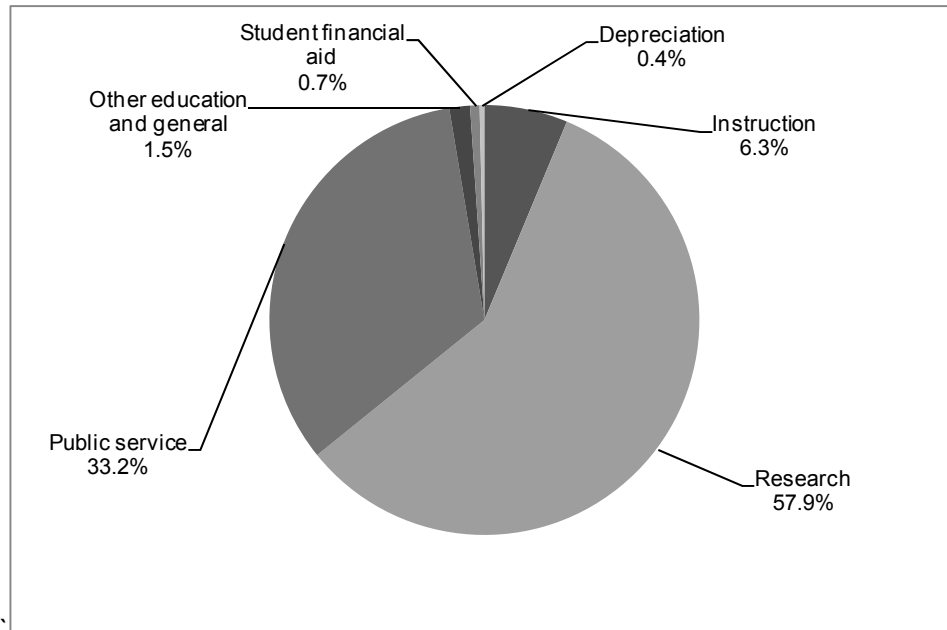


### TOTAL OPERATING REVENUES



Operating expenses totaled \$289.9 million. Of this amount, \$167.7 million or 57.9% was used for research expenses, \$96.1 million or 33.2% was used for public service expenses and \$18.2 million or 6.3% was used for instruction. Operating expenses increased \$14.9 million or 5.4%. This increase is primarily attributable to expenses associated with increased research, public service and instruction activity.

### TOTAL OPERATING EXPENSES



**2007 Versus 2006.** Total operating revenues were \$291.4 million for the year ended June 30, 2007. Federal, state and nongovernmental grants and contracts, and related recoveries of facilities and administrative costs, accounted for nearly 100% of the sources of operating revenue. Operating revenues increased \$20.1 million or 7.4%, primarily caused by a \$17.9 million or 41.0% increase in state and local grants and contracts.

Operating expenses totaled \$275.0 million. Of this amount, \$166.3 million or 60.5% was used for research expenses, \$87.9 million or 32.0% was used for public service expenses and \$15.2 million or 5.5% was used for instruction. Operating expenses increased \$31.1 million or 12.7%. This increase was primarily attributable to expenses associated with increased research and public service activity.

### **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, 2008, 2007 and 2006 is as follows:

#### **Condensed Statements of Cash Flows**

	2008	2007	2006
<b>CASH PROVIDED (USED) BY:</b>			
Operating activities	\$ 21,018,827	\$ 14,099,315	\$ 12,275,714
Noncapital financing activities	(11,047,619)	(12,726,016)	(8,752,367)
Capital and related financing activities	(7,578,138)	(3,192,854)	(3,654,882)
Investing activities	267,580	1,819,343	134,191
Net increase (decrease) in cash and cash equivalents	2,660,650	(212)	2,656
<b>Cash and cash equivalents, beginning of year</b>	10,283	10,495	7,839
<b>Cash and cash equivalents, end of year</b>	\$ 2,670,933	\$ 10,283	\$ 10,495

Major sources of cash included in operating activities were grants and contracts of \$255.0 million and recoveries of facilities and administrative costs of \$45.1 million. The largest cash payments for operating activities were made to employees for salaries and benefits of \$147.0 million and to suppliers of \$136.9 million.

The largest use of cash in the noncapital financing activities group related to grants to the University totaling \$12.8 million.

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 \$7.6 million.

Cash provided by investing activities reflects proceeds from sales and maturities of investments of \$8.4 million and interest and dividends on investments of \$212,000, net of cash used to purchase investments of \$8.4 million.

**2007 Versus 2006.** Cash decreased approximately \$200 primarily due to cash provided by operating activities and investing activities reduced by cash used for noncapital and capital and related financing activities.

### Capital Asset and Debt Administration

**Capital Assets.** Capital assets, net of accumulated depreciation, totaled \$11.1 million at June 30, 2008, an increase of \$1.2 million. Capital assets as of June 30, 2008, and significant changes in capital assets during the years ended June 30, 2008 and 2007 are as follows (in thousands):

	Balance	Net	Balance	Net	Balance
	June 30, 2006	Additions	June 30, 2007	Additions	June 30, 2008
		FY 06-07		FY 07-08	
Land	\$ 2,360	\$ (24)	\$ 2,336		\$ 2,336
Buildings	2,146	(783)	1,363	\$ 663	2,026
Equipment	1,598	6,257	7,855	1,680	9,535
Vehicles	-	-	-	21	21
Construction in progress	-	237	237	(163)	74
Accumulated depreciation	(1,965)	66	(1,899)	(978)	(2,877)
Total	<u>\$ 4,139</u>	<u>\$ 5,753</u>	<u>\$ 9,892</u>	<u>\$ 1,223</u>	<u>\$ 11,115</u>

**Debt.** The Foundation had capital leases totaling \$5.6 million and \$5.5 million at June 30, 2008 and 2007, respectively, for leases of equipment by CVFS and CLI.

### Factors Impacting Future Periods

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

- At June 30, 2008, grants and contracts of \$379.4 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.

UNIVERSITY OF KENTUCKY RESEARCH FOUNDATION  
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY  
STATEMENTS OF NET ASSETS  
JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 2,670,933	\$ 10,283
Accounts receivable	56,250,155	56,974,593
Other current assets, net	2,254,405	2,201,288
Total current assets	<u>61,175,493</u>	<u>59,186,164</u>
<b>Noncurrent Assets</b>		
Endowment investments	4,190,938	4,747,986
Other long term investments	1,567,609	1,585,151
Other noncurrent assets, net	20,169	6,128
Capital assets, net	11,115,478	9,892,226
Total noncurrent assets	<u>16,894,194</u>	<u>16,231,491</u>
Total assets	<u>78,069,687</u>	<u>75,417,655</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	15,457,297	9,460,606
Deferred revenue	36,473,800	31,276,490
Due to the University of Kentucky	825,000	11,842,000
Capital leases payable - current portion	953,118	631,324
Total current liabilities	<u>53,709,215</u>	<u>53,210,420</u>
<b>Noncurrent Liabilities</b>		
Capital leases payable	4,611,394	4,869,348
Total noncurrent liabilities	<u>4,611,394</u>	<u>4,869,348</u>
Total liabilities	<u>58,320,609</u>	<u>58,079,768</u>
<b>NET ASSETS</b>		
<b>Invested in capital assets, net of related debt</b>	<u>5,550,966</u>	<u>4,391,554</u>
<b>Restricted</b>		
Nonexpendable	750,854	748,854
Expendable	3,858,626	4,323,948
Total restricted	<u>4,609,480</u>	<u>5,072,802</u>
<b>Unrestricted</b>		
Total net assets	<u>\$ 19,749,078</u>	<u>\$ 17,337,887</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, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
<b>OPERATING REVENUES</b>		
Federal grants and contracts	\$ 157,659,221	\$ 159,480,295
State and local grants and contracts	66,390,170	61,467,174
Nongovernmental grants and contracts	25,113,594	24,954,552
Recoveries of facilities and administrative costs	43,815,261	43,568,583
Other operating revenues	4,045,703	1,955,595
Total operating revenues	<u>297,023,949</u>	<u>291,426,199</u>
<b>OPERATING EXPENSES</b>		
Educational and general:		
Instruction	18,175,783	15,184,306
Research	167,718,222	166,327,368
Public service	96,123,263	87,878,625
Academic support	3,233,303	2,511,027
Student services	36,540	31,060
Institutional support	1,333,299	843,756
Operations and maintenance of plant	175,353	-
Student financial aid	2,088,301	1,878,892
Depreciation	1,019,761	378,745
Total operating expenses	<u>289,903,825</u>	<u>275,033,779</u>
Net income (loss) from operations	<u>7,120,124</u>	<u>16,392,420</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Gifts	58,620	-
Investment income (loss)	(278,636)	688,954
Patent income	2,570,896	1,385,780
Grants (to) from the University of Kentucky for noncapital purposes	(1,789,936)	(17,099,190)
Interest on capital asset-related debt	(253,067)	(36,771)
Other nonoperating revenues and expenses	192,375	260,336
Net nonoperating revenues (expenses)	<u>500,252</u>	<u>(14,800,891)</u>
Net income (loss) before other revenues, expenses, gains, or losses	<u>7,620,376</u>	<u>1,591,529</u>
Capital grants and gifts	2,462,218	11,407,104
Additions to permanent endowments	2,000	500
Grants (to) from the University of Kentucky for capital purposes	(7,673,403)	(11,499,667)
Other, net	-	501,211
Total other revenues (expenses)	<u>(5,209,185)</u>	<u>409,148</u>
Increase (decrease) in net assets	2,411,191	2,000,677
<b>NET ASSETS, beginning of year</b>	<u>17,337,887</u>	<u>15,337,210</u>
<b>NET ASSETS, end of year</b>	<u>\$ 19,749,078</u>	<u>\$ 17,337,887</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, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Grants and contracts	\$ 254,950,380	\$ 241,051,775
Recoveries of facilities and administrative costs	45,061,010	42,524,912
Payments to vendors and contractors	(136,932,555)	(132,613,355)
Salaries, wages and benefits	(147,026,887)	(139,416,423)
Other receipts (payments)	4,966,879	2,552,406
Net cash provided (used) by operating activities	<u>21,018,827</u>	<u>14,099,315</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Gifts and grants received for other than capital purposes:		
Private gifts for endowment purposes	2,000	500
Private gifts for other purposes	58,620	-
Grants (to) from the University of Kentucky	(12,806,936)	(14,677,190)
Other receipts (payments)	1,698,697	1,950,674
Net cash provided (used) by noncapital financing activities	<u>(11,047,619)</u>	<u>(12,726,016)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Grants (to) from the University of Kentucky for capital purposes	(7,622,449)	(11,613,789)
Capital grants and gifts	2,462,218	11,407,104
Purchases of capital assets	(2,164,840)	(3,479,616)
Proceeds from sales of capital assets	-	35,253
Interest paid on capital debt and leases	(253,067)	(36,771)
Other receipts (payments)	-	494,965
Net cash provided (used) by capital and related financing activities	<u>(7,578,138)</u>	<u>(3,192,854)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	8,440,287	9,468,355
Interest and dividends on investments	212,405	1,781,814
Purchase of investments	(8,385,112)	(9,430,826)
Net cash provided (used) by investing activities	<u>267,580</u>	<u>1,819,343</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>2,660,650</u>	<u>(212)</u>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>10,283</u>	<u>10,495</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 2,670,933</u>	<u>\$ 10,283</u>
<b>Reconciliation of net income (loss) from operations to net cash provided (used) by operating activities:</b>		
Net income (loss) from operations	\$ 7,120,124	\$ 16,392,420
Adjustments to reconcile net income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation expense	1,019,761	378,745
Change in assets and liabilities:		
Accounts receivable	578,376	(6,933,555)
Other current assets	(104,923)	(309,568)
Accounts payable and accrued liabilities	5,945,737	3,534,165
Deferred revenue	6,459,752	1,037,108
<b>Net cash provided (used) by operating activities</b>	<u>\$ 21,018,827</u>	<u>\$ 14,099,315</u>
<b>NON-CASH TRANSACTIONS</b>		
Equipment acquired through capital lease	<u>\$ 509,915</u>	<u>\$ 5,500,672</u>

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 of the 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)
- Secat, Inc. (a 100% owned, for-profit subsidiary of KTI)
- Secat Foundation, Inc. (a not-for-profit entity established for the benefit of the aluminum industry, including Secat, Inc.)
- Closed Vial Filling System, Inc. (CVFS) (a 100% owned, for-profit subsidiary of KTI)
- Coldstream Laboratories, Inc. (CLI) (a 100% owned, for-profit subsidiary of the Foundation)

### 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. BTA's 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. The University employs the total return concept of investment management for setting investment objectives and determining investment performance. This concept recognizes dividends and interest, plus or minus realized and unrealized gains or losses, in determining the total return earned during any particular period. The market value method of accounting for pooled endowment funds is employed to ensure proper distribution of market price changes, realized gains (losses) on sales, accrued income earned, and distribution of investment earnings for expenditure by participating funds.

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

The University's endowment spending rule provides for annual distributions of 4.5 percent of the three-year moving average market value of fund units. For the years ended June 30, 2008 and 2007, approximately \$53,000 and \$52,000, respectively, was transferred from endowment realized and unrealized gains to support current programs in accordance with the University's endowment spending rule. Appreciation on endowments available to support future spending rule distributions amounted to approximately \$2.8 million at June 30, 2008. Additionally, the University assesses eligible endowment accounts with a management fee of 0.5 percent of total asset value to support fundraising and endowment administration.

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

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 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.



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 on whether restricted or unrestricted funds are expended for a particular purpose is made on a case-by-case basis. Restricted funds remain restricted until spent for the intended purpose.

Operating Activities. The Foundation defines operating activities, as reported on the Statement of Revenues, Expenses and Changes in Net Assets, as those that generally result from exchange transactions, such as payments received for providing goods and services and payments made for goods and services received. 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 and contractual allowances, accrued expenses and other liability accounts.

## 2. DEPOSITS AND INVESTMENTS

The fair value of deposits and investments, by type, at June 30, 2008 and 2007 is as follows:

	2008	2007
Cash on deposit with local banks and the University of Kentucky	\$ 2,916,727	\$ 244,363
Investment in University of Kentucky pooled endowment fund	4,190,938	4,747,986
Investment in pooled equity funds	657,945	657,880
Common stocks	663,764	693,085
Other	106	106
	<u>\$ 8,429,480</u>	<u>\$ 6,343,420</u>
	2008	2007
Statement of Net Assets classification		
Cash and cash equivalents	\$ 2,670,933	\$ 10,283
Endowment investments	4,190,938	4,747,986
Other long-term investments	1,567,609	1,585,151
	<u>\$ 8,429,480</u>	<u>\$ 6,343,420</u>

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

**Deposit and investment policies.** The Foundation follows the deposit and investment policies established by the University of Kentucky's Board of Trustees. Such policies are developed to establish and maintain sound financial management practices for the investment and management of the Foundation's funds.

For purposes of investment management, the Foundation's deposits and investments can be grouped into two significant categories, as follows:

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

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

Endowment investments are managed by the University's Endowment Investment Policy as established by the Investment Committee of the University's Board of Trustees, which governs the University's pooled endowment fund.

**Deposit and investment risks.** The Foundation's deposits and investments are exposed to various risks, including credit, interest rate and foreign currency risk, as discussed in more detail below:

**Credit Risk.** Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligation, causing the Foundation to experience a loss of principal.

As a means of limiting its exposure to losses arising from credit risk, the University's investment policies limit the exposure of its various investment types, as follows:

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

**Custodial Credit Risk.** Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Foundation will not be able to recover the value of its investment or collateral securities that are in possession of an outside party.

As a means of limiting its exposure to losses arising from custodial credit risk, the University's investment policies limit the exposure of its various investment types, as follows:

- Cash on deposit with the University is invested in deposits and repurchase agreements with local banks, which are held in the University's name, and deposits and repurchase agreements with the Commonwealth of Kentucky, which are held in the Commonwealth's name. The University maintains records evidencing the Foundation's ownership interest in such balances.
- Endowment investments are held in the University's name by the University's custodian. The University maintains records of the Foundation's ownership interest (units) in the University's pooled endowment fund.

**Concentrations of Credit Risk.** 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.
- The University's endowment investment managers are limited to a maximum investment in any one issuer of no more than 5% of total investments.

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

**Interest Rate Risk.** Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

As a means of limiting its exposure to fair value losses arising from increasing interest rates, the University's investment policies limit the maturity of its various investment types, as follows:

- Cash on deposit with the University has limited exposure to interest rate risk due to the short-term nature of the investment. The University requires that all deposits and repurchase agreements be available for use on the next business day.
- Endowment investments held by the University's fixed income managers are limited to a duration that is within +/-25% of the duration of the Lehman Aggregate Bond Index.

**Foreign Currency Risk.** Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit.

The Foundation's exposure to foreign currency risk derives from certain limited endowment investments of the University's pooled endowment fund, including pooled fixed income funds, a pooled global equity fund and a pooled non-U.S. equity fund. The University's endowment investment policy allows fixed-income managers to invest a portion of their funds in non-U.S. securities and equity fund managers of co-mingled portfolios to invest in accordance with the guidelines established in the individual fund's prospectus.

### **3. TRANSACTIONS WITH THE UNIVERSITY OF KENTUCKY**

Substantially all salaries, wages and benefits 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, 2008 and 2007, totaling \$56,250,155 and \$56,974,593, respectively, primarily represent net reimbursements receivable from sponsors for funds expended on grants and contracts.

### **5. OTHER CURRENT ASSETS**

Other current assets primarily includes the Foundation's investment in patents.

## 6. CAPITAL ASSETS, NET

Capital assets as of June 30, 2008 and 2007 are summarized as follows:

2008				
<u>Capital Assets</u>	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 2,336,455			\$ 2,336,455
Buildings	1,362,559	\$ 663,286		2,025,845
Equipment	7,854,428	1,721,607	\$ 41,590	9,534,445
Vehicles	-	21,034	-	21,034
Construction in process	237,254	74,360	237,254	74,360
	<u>11,790,696</u>	<u>2,480,287</u>	<u>278,844</u>	<u>13,992,139</u>
 <u>Accumulated Depreciation</u>				
Buildings	638,846	88,253		727,099
Equipment	1,259,624	927,827	41,570	2,145,881
Vehicles	-	3,681	-	3,681
	<u>1,898,470</u>	<u>1,019,761</u>	<u>41,570</u>	<u>2,876,661</u>
 Net capital assets	 <u>\$ 9,892,226</u>	 <u>\$ 1,460,526</u>	 <u>\$ 237,274</u>	 <u>\$ 11,115,478</u>
 2007				
<u>Capital Assets</u>	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 2,360,244		\$ 23,789	\$ 2,336,455
Buildings	2,145,461	\$ 678,218	1,461,120	1,362,559
Equipment	1,597,795	6,455,525	198,892	7,854,428
Construction in process	-	237,254	-	237,254
	<u>6,103,500</u>	<u>7,370,997</u>	<u>1,683,801</u>	<u>11,790,696</u>
 <u>Accumulated Depreciation</u>				
Buildings	849,913	52,286	263,353	638,846
Equipment	1,115,079	326,459	181,914	1,259,624
	<u>1,964,992</u>	<u>378,745</u>	<u>445,267</u>	<u>1,898,470</u>
 Net capital assets	 <u>\$ 4,138,508</u>	 <u>\$ 6,992,252</u>	 <u>\$ 1,238,534</u>	 <u>\$ 9,892,226</u>

CVFS and CLI have utilized capital leases to acquire various items of equipment costing approximately \$6.3 million. The net book value for capitalized leased equipment is \$4.8 million and \$4.6 million at June 30, 2008 and 2007, respectively.

## 7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	<u>2008</u>	<u>2007</u>
Payable to vendors and contractors	\$ 14,250,197	\$ 8,641,936
Accrued expenses, primarily payroll	1,198,123	809,693
Accrued interest	8,977	8,977
Total	<u>\$ 15,457,297</u>	<u>\$ 9,460,606</u>

## 8. DEFERRED REVENUE

Deferred revenue as of June 30, 2008 and 2007 is as follows:

	<u>2008</u>	<u>2007</u>
Unearned grants and contracts revenue	<u>\$ 36,473,800</u>	<u>\$ 31,276,490</u>

## 9. LONG TERM LIABILITIES

Long-term liabilities as of June 30, 2008 and 2007 are summarized as follows:

	<u>2008</u>					
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Noncurrent Portion</u>
Capital leases	<u>\$ 5,500,672</u>	<u>\$ 509,915</u>	<u>\$ 446,075</u>	<u>\$ 5,564,512</u>	<u>\$ 953,118</u>	<u>\$ 4,611,394</u>
	<u>2007</u>					
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Noncurrent Portion</u>
Capital leases	<u>\$ -</u>	<u>\$ 5,500,672</u>	<u>\$ -</u>	<u>\$ 5,500,672</u>	<u>\$ 631,324</u>	<u>\$ 4,869,348</u>

Principal maturities and interest on capital leases for the next five years and in subsequent five-year periods as of June 30, 2008 are as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 953	\$ 792	\$ 1,745
2010	1,216	289	1,505
2011	1,523	195	1,718
2012	1,065	93	1,158
2013	531	36	567
2014	277	8	285
	<u>\$ 5,565</u>	<u>\$ 1,413</u>	<u>\$ 6,978</u>

## 10. INVESTMENT INCOME

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

	<u>2008</u>	<u>2007</u>
Interest and dividends earned on endowment investments	\$ 123,311	\$ 110,131
Realized and unrealized gains and losses on endowment investments	(484,331)	568,327
Interest on cash and non-endowment investments	70,286	78
Investment income from external trusts	12,098	10,418
Total	<u>\$ (278,636)</u>	<u>\$ 688,954</u>

## 11. GRANTS AND CONTRACTS AWARDED

At June 30, 2008, grants and contracts of approximately \$379.4 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 2007 to 2008. 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. Annual rent expense for these facilities was \$72,701 and \$56,343 for the years ended June 30, 2008 and 2007, respectively. KTI subleases the ASTeCC and AgTeCC buildings to developing industries in advanced technology, with renewal options and escalation clauses. Sublease rental income was \$105,725 and \$91,750 for the years ended June 30, 2008 and 2007, respectively. Future minimum rental revenue at June 30, 2008 is \$88,384 and \$18,065 for the years ended June 30, 2009 and 2010, respectively.

KTI formerly leased land on the Coldstream Research campus from the University under long-term leases terminating in the year 2098 and sublet property to various lessees. In 2007, KTI assigned its right, title and interest in these leases to Coldstream Ventures One, LLC, of which KTI owns 25%. As a result there was no rent expense or income related to this property for the year ended June 30, 2008. Rent expense was \$8,424 for the year ended June 30, 2007 and income was \$78,860. Also as a result of this change, there will be no future minimum payments or income.

KTI entered into a lease with the University for additional land as an expansion of a building project started on the original leased land above. The annual rental rate is \$0.99 per square foot of building space developed. Rent is payable upon completion of the improvements. As of June 30, 2008, there has been no rental expense because improvements have not been made to the property

KTI leases space in the Coldstream Center on the Coldstream Research Campus under a long-term lease terminating in the year 2016. Annual rental expense was \$373,850 and \$375,725 for the years ended June 30,

2008 and 2007, respectively. Following is a schedule of minimum lease payments related to this lease for future fiscal years (in thousands):

Year ending June 30,	
2009	\$ 374
2010	374
2011	374
2012	374
2013	374
2014-2016	997
Total minimum lease payments	<u>\$ 2,867</u>

KTI is also responsible for 33.49% of actual expenses related to common area maintenance, utilities and property taxes. This amounted to approximately \$318,000 and \$285,000 during the years ended June 30, 2008 and 2007, 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 \$417,785 and \$151,538 for the years ended June 30, 2008 and 2007, respectively. The following is a schedule of future minimum rental receipts to be received under the leases at June 30, 2008 (in thousands):

Year ending June 30,	
2009	\$ 363
2010	254
2011	144
2012	144
2013	120
2014	2
Total minimum rental receipts	<u>\$ 1,027</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 with two additional five-year renewal options. Annual rent expense for these facilities was \$509,340 and \$84,890 for the years ended June 30, 2008 and 2007, respectively. Future minimum lease payments related to this lease as of June 30, 2008 are as follows (in thousands):

Year ending June 30,	
2009	\$ 509
2010	509
2011	509
2012	509
2013	509
2014-2017	1,953
Total minimum lease payments	<u>\$ 4,498</u>

#### 14. RECLASSIFICATIONS

Certain reclassifications to fiscal 2007 comparative amounts have been made to conform to the 2008 classifications. Certain transactions previously reported on the Statement of Net Assets as restricted nonexpendable have been reclassified as restricted expendable net assets, and certain transactions previously reported as land improvements have been reclassified as buildings. Such reclassifications had no effect on the change in Net Assets.

UNIVERSITY OF KENTUCKY RESEARCH FOUNDATION  
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY  
STATEMENT OF NET ASSETS SCHEDULE  
JUNE 30, 2008

	University of Kentucky Research Foundation	Kentucky Technology, Inc.	Coldstream Laboratories, Inc.	Elimination Entries	Total
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash and cash equivalents	\$ (211,143)	\$ 2,525,136	\$ 356,940	\$ -	\$ 2,670,933
Accounts receivable	55,659,393	164,963	425,799	-	56,250,155
Other current assets, net	1,776,164	360,458	117,783	-	2,254,405
Total current assets	57,224,414	3,050,557	900,522	-	61,175,493
<b>Noncurrent Assets</b>					
Endowment investments	4,190,938	-	-	-	4,190,938
Other long-term investments	6,004,577	1,567,503	20,169	(6,004,471)	1,567,609
Other noncurrent assets, net	-	-	-	-	20,169
Capital assets, net	2,336,455	4,101,644	4,677,379	-	11,115,478
Total noncurrent assets	12,531,970	5,669,147	4,697,548	(6,004,471)	16,894,194
Total assets	69,756,384	8,719,704	5,598,070	(6,004,471)	78,069,687
<b>LIABILITIES</b>					
<b>Current Liabilities</b>					
Accounts payable and accrued liabilities	13,399,034	693,772	1,364,491	-	15,457,297
Deferred revenue	35,783,272	444,628	245,900	-	36,473,800
Due to affiliated corporations	825,000	-	-	-	825,000
Capital leases payable - current portion	-	423,031	530,087	-	953,118
Total current liabilities	50,007,306	1,561,431	2,140,478	-	53,709,215
<b>Noncurrent Liabilities</b>					
Capital leases payable	-	1,981,650	2,629,744	-	4,611,394
Total liabilities	50,007,306	3,543,081	4,770,222	-	58,320,609
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	2,336,455	1,696,963	1,517,548	-	5,550,966
Restricted	-	-	-	-	-
Nonexpendable	750,854	-	-	-	750,854
Expendable	3,858,626	-	-	-	3,858,626
Total restricted	4,609,480	-	-	-	4,609,480
Unrestricted	12,803,143	3,479,660	(689,700)	(6,004,471)	9,588,632
Total net assets	\$ 19,749,078	\$ 5,176,623	\$ 827,848	\$ (6,004,471)	\$ 19,749,078



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, 2008

	University of Kentucky Research Foundation	Kentucky Technology, Inc.	Coldsream Laboratories, Inc.	Elimination Entries	Total
<b>OPERATING REVENUES</b>					
Federal grants and contracts	\$ 157,484,884	\$ 174,337			\$ 157,659,221
State and local grants and contracts	65,993,878	396,292			66,390,170
Nongovernmental grants and contracts	23,629,022	1,484,572			25,113,594
Recoveries of facilities and administrative costs	43,815,261				43,815,261
Other operating revenues	103,239	866,613	\$ 3,075,851		4,045,703
Total operating revenues	<u>291,026,284</u>	<u>2,921,814</u>	<u>3,075,851</u>	<u>-</u>	<u>297,023,949</u>
<b>OPERATING EXPENSES</b>					
Educational and general:					
Instruction	18,175,783				18,175,783
Research	163,979,757	3,738,465			167,718,222
Public service	88,469,649		7,653,614		96,123,263
Academic support	3,233,303				3,233,303
Student services	36,540				36,540
Institutional support	1,333,299				1,333,299
Operations and maintenance of plant	175,353				175,353
Student financial aid	2,088,301				2,088,301
Depreciation		576,988	442,773		1,019,761
Total educational and general	<u>277,491,985</u>	<u>4,315,453</u>	<u>8,096,387</u>	<u>-</u>	<u>289,903,825</u>
Total operating expenses	<u>277,491,985</u>	<u>4,315,453</u>	<u>8,096,387</u>	<u>-</u>	<u>289,903,825</u>
Net income (loss) from operations	<u>13,534,299</u>	<u>(1,393,639)</u>	<u>(5,020,536)</u>	<u>-</u>	<u>7,120,124</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Gifts	58,620				58,620
Investment income (loss)	(6,754,772)		16,016	\$ 6,460,120	(278,636)
Patent income	2,570,896				2,570,896
Grant (to) from the University of Kentucky for noncapital purposes	(1,789,936)				(1,789,936)
Interest on capital asset-related debt			(253,067)		(253,067)
Other nonoperating revenues and expenses, net	1,269	170,828	20,278		192,375
Net nonoperating revenues (expenses)	<u>(5,913,923)</u>	<u>170,828</u>	<u>(216,773)</u>	<u>6,460,120</u>	<u>500,252</u>
Net income (loss) before other revenues, expenses, gains, or losses	<u>7,620,376</u>	<u>(1,222,811)</u>	<u>(5,237,309)</u>	<u>6,460,120</u>	<u>7,620,376</u>
Capital grants and gifts	2,462,218				2,462,218
Additions to permanent endowments	2,000				2,000
Grant (to) from the University of Kentucky for capital purposes	(7,673,403)				(7,673,403)
Capital contributions from the foundation		120,000	5,600,000	(5,720,000)	-
Total other revenues (expenses)	<u>(5,209,185)</u>	<u>120,000</u>	<u>5,600,000</u>	<u>(5,720,000)</u>	<u>(5,209,185)</u>
INCREASE (DECREASE) IN NET ASSETS	2,411,191	(1,102,811)	362,691	740,120	2,411,191
NET ASSETS, beginning of year	17,337,887	6,279,434	465,157	(6,744,591)	17,337,887
NET ASSETS, end of year	<u>\$ 19,749,078</u>	<u>\$ 5,176,623</u>	<u>\$ 827,848</u>	<u>\$ (6,004,471)</u>	<u>\$ 19,749,078</u>

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