



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

**Research Foundation  
2009 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 years ended June 30, 2009 and 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 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, 2009 and 2008, 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  
Research Foundation  
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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

October 1, 2009

# 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, 2009 and 2008. 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 2008-2009 report a solid financial condition at June 30, 2009. Financial operations were in accordance with the revenue expectations and the approved budget plan.
- Total assets increased approximately \$4.3 million or 5.4%. The most significant components of the fluctuation were a \$15.3 million increase in cash and cash equivalents and a \$10.4 million decrease in accounts receivable.
- Total liabilities increased approximately \$3.1 million or 5.3%. Deferred revenue increased \$5.8 million while accounts payable and accrued liabilities decreased \$2.1 million.
- Total net assets increased approximately \$1.2 million or 6.0%. Unrestricted net assets increased \$2.2 million offset by decreases of \$840 thousand in restricted expendable net assets and \$210 thousand in invested in capital assets, net of related debt.
- Operating revenues increased approximately \$939 thousand to \$298.0 million.
- Operating expenses decreased approximately \$2.1 million to \$287.8 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 100% owned, for profit subsidiaries:
  - Secat, Inc. and its affiliated foundation, Secat Foundation, Inc. (a not-for-profit entity established for the benefit of the aluminum industry, including Secat, Inc.)
  - Kentucky CVFS, LLC. (CVFS)
- Coldstream Laboratories, Inc. (CLI) (a 100% owned, for-profit subsidiary of the Foundation)

The management of both KTI and CLI decided during the period to change the fiscal year from July 1 through June 30 to a calendar-year basis. Therefore these financial statements are consolidated as of December 31, 2008 and include activity only for the six-month period from July 1, 2008 through December 31, 2008. CVFS was discontinued during the period.

### **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, 2009, 2008 and 2007 is as follows:

	<b><u>Condensed Statements of Net Assets</u></b>		
	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>			
Current assets	\$ 66,964,338	\$ 61,175,493	\$ 59,186,164
Capital assets	8,942,645	11,115,478	9,892,226
Other noncurrent assets	6,414,331	5,778,716	6,339,265
Total assets	<u>82,321,314</u>	<u>78,069,687</u>	<u>75,417,655</u>
<b>LIABILITIES</b>			
Current liabilities	57,844,366	53,709,215	53,210,420
Noncurrent liabilities	3,550,626	4,611,394	4,869,348
Total liabilities	<u>61,394,992</u>	<u>58,320,609</u>	<u>58,079,768</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	5,341,105	5,550,966	4,391,554
Restricted			
Nonexpendable	750,954	750,854	748,854
Expendable	3,018,594	3,858,626	4,323,948
Unrestricted	11,815,669	9,588,632	7,873,531
Total net assets	<u>\$ 20,926,322</u>	<u>\$ 19,749,078</u>	<u>\$ 17,337,887</u>

**Assets.** As of June 30, 2009, the Foundation's assets totaled \$82.3 million. Accounts receivable, primarily from grant sponsors, represented the Foundation's largest asset, totaling \$45.9 million or 55.8% of total assets.

Total assets increased \$4.3 million or 5.4% during the year ended June 30, 2009. 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 during the current fiscal year.

**Liabilities.** At June 30, 2009, the Foundation's liabilities totaled \$61.4 million. Deferred revenue amounted to \$42.3 million or 68.9% of total liabilities. Deferred revenue reflects advance receipts from grant sponsors and other customers. Accounts payable and accrued liabilities totaling \$13.3 million, long-term liabilities of \$4.2 million and funds due to the University of \$1.6 million accounted for the remainder of the Foundation's liabilities.

Total liabilities increased \$3.1 million during the year ended June 30, 2009, 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.

**Net Assets.** Net assets at June 30, 2009 totaled \$20.9 million, or 25.4% of total assets. Net assets invested in capital, net of related debt, totaled \$5.3 million or 25.4% of total net assets. Restricted net assets totaled \$3.8 million or 18.2% of total net assets. Unrestricted net assets accounted for \$11.8 million or 56.4% of total net assets.

Total net assets increased \$1.2 million during the year ended June 30, 2009. Unrestricted net assets were the most significant component, increasing \$2.2 million, primarily due to revenues exceeding expenses in unrestricted funds.

**2008 Versus 2007.** During the year ended June 30, 2008:

- Total assets increased \$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 \$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 as a result of the improved cash position of UKRF. This eliminated the need for University funding to pay for grant-related expenses of UKRF.
- Total net assets increased \$2.4 million or 13.9%. The most significant component of the increase was \$1.7 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, 2009, 2008 and 2007 is as follows:

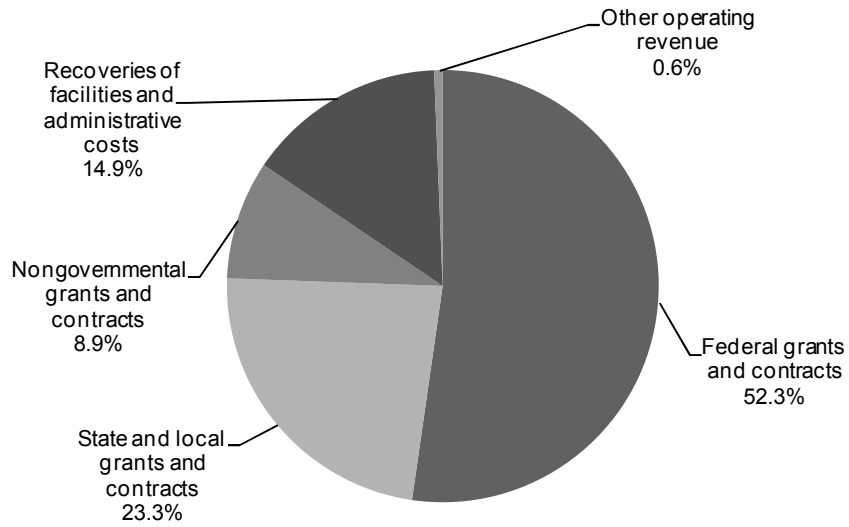
**Condensed Statements of Revenues, Expenses and Changes in Net Assets**

	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>OPERATING REVENUES</b>			
Federal grants and contracts	\$155,559,281	\$157,659,221	\$159,480,295
State and local grants and contracts	69,476,000	66,390,170	61,467,174
Nongovernmental grants and contracts	26,530,570	25,113,594	24,954,552
Recoveries of facilities and administrative costs	44,473,386	43,815,261	43,568,583
Other operating revenue	1,923,523	4,045,703	1,955,595
Total operating revenues	<u>297,962,760</u>	<u>297,023,949</u>	<u>291,426,199</u>
<b>OPERATING EXPENSES</b>			
Research	163,298,915	171,927,145	166,327,368
Other educational and general	122,220,144	114,868,618	106,448,774
Student financial aid	1,709,054	2,088,301	1,878,892
Depreciation	534,465	1,019,761	378,745
Total operating expenses	<u>287,762,578</u>	<u>289,903,825</u>	<u>275,033,779</u>
<b>OPERATING INCOME</b>	<u>10,200,182</u>	<u>7,120,124</u>	<u>16,392,420</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Gifts	197,875	58,620	-
Investment income (loss)	(732,370)	(278,636)	688,954
Patent income	1,101,750	2,570,896	1,385,780
Interest on capital asset-related debt	(115,189)	(253,067)	(36,771)
Other nonoperating revenues and expenses, net	360,717	192,375	260,336
Capital grants and gifts	3,270,411	2,462,218	11,407,104
Additions to permanent endowments	100	2,000	500
Grants to the University of Kentucky	(12,956,418)	(9,463,339)	(28,598,857)
Other	(149,814)	-	501,211
Total nonoperating revenues (expenses)	<u>(9,022,938)</u>	<u>(4,708,933)</u>	<u>(14,391,743)</u>
Total increase in net assets	1,177,244	2,411,191	2,000,677
<b>Net assets, beginning of year</b>	<u>19,749,078</u>	<u>17,337,887</u>	<u>15,337,210</u>
<b>Net assets, end of year</b>	<u>\$ 20,926,322</u>	<u>\$ 19,749,078</u>	<u>\$ 17,337,887</u>

Total operating revenues, consisting primarily of grants and contracts, and related recoveries of facilities and administrative costs, were \$298.0 million for the year ended June 30, 2009. 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 this fiscal year.

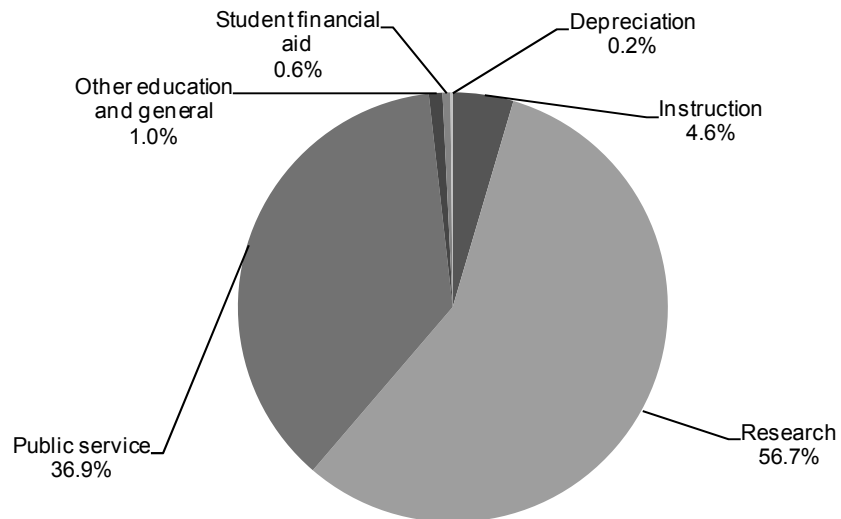


### TOTAL OPERATING REVENUES



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%, primarily due to the consolidation of only six months activity for CLI and KTI as discussed previously, which offset the \$3.7 million increase in UKRF expenses related to grant activity.

### TOTAL OPERATING EXPENSES



**2008 Versus 2007.** 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.

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.

### **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, 2009, 2008 and 2007 is as follows:

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>CASH PROVIDED (USED) BY:</b>			
Operating activities	\$ 22,995,904	\$ 21,018,827	\$ 14,099,315
Noncapital financing activities	(2,256,275)	(11,047,619)	(12,726,016)
Capital and related financing activities	(5,639,885)	(7,578,138)	(3,192,854)
Investing activities	196,938	267,580	1,819,343
Net increase (decrease) in cash and cash equivalents	15,296,682	2,660,650	(212)
<b>Cash and cash equivalents, beginning of year</b>	<u>2,670,933</u>	<u>10,283</u>	<u>10,495</u>
<b>Cash and cash equivalents, end of year</b>	<u><u>\$ 17,967,615</u></u>	<u><u>\$ 2,670,933</u></u>	<u><u>\$ 10,283</u></u>

Major sources of cash included in operating activities were grants and contracts of \$264.5 million and recoveries of facilities and administrative costs of \$47.3 million. The largest cash payments for operating activities were made to suppliers of \$144.6 million and to the University as reimbursements for employee salaries and benefits of \$142.9 million.

The largest use of cash in the noncapital financing activities group related to grants to the University totaling \$3.4 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 \$8.4 million.

Cash used by investing activities reflects proceeds from sales and maturities of investments of \$5.7 million and interest and dividends on investments of \$248 thousand, net of cash used to purchase investments of \$5.7 million.

**2008 Versus 2007.** Cash increased \$2.7 million 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 \$8.9 million at June 30, 2009, a decrease of \$2.2 million. Capital assets as of June 30, 2009, and significant changes in capital assets during the years ended June 30, 2009 and 2008 are as follows (in thousands):

	Balance June 30, 2007	Net Additions FY 07-08	Balance June 30, 2008	Net Additions FY 08-09	Balance June 30, 2009
Land	\$ 2,336		\$ 2,336		\$ 2,336
Buildings	1,363	\$ 663	2,026	\$ 205	2,231
Equipment	7,855	1,680	9,535	(2,345)	7,190
Vehicles	-	21	21	-	21
Construction in progress	237	(163)	74	238	312
Accumulated depreciation	(1,899)	(978)	(2,877)	(270)	(3,147)
<b>Total</b>	<b>\$ 9,892</b>	<b>\$ 1,223</b>	<b>\$ 11,115</b>	<b>\$ (2,172)</b>	<b>\$ 8,943</b>

**Debt.** 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. These were \$5.6 million at June 30, 2008 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, 2009, grants and contracts of \$370.3 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 two years 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, 2009 AND 2008

	2009	2008
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 17,967,615	\$ 2,670,933
Accounts receivable	45,878,524	56,250,155
Other current assets, net	3,118,199	2,254,405
Total current assets	<u>66,964,338</u>	<u>61,175,493</u>
<b>Noncurrent Assets</b>		
Endowment investments	3,224,754	4,190,938
Other long term investments	1,604,486	1,567,609
Other noncurrent assets, net	1,585,091	20,169
Capital assets, net	8,942,645	11,115,478
Total noncurrent assets	<u>15,356,976</u>	<u>16,894,194</u>
Total assets	<u>82,321,314</u>	<u>78,069,687</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	13,317,719	15,457,297
Deferred revenue	42,282,947	36,473,800
Due to the University of Kentucky	1,568,817	825,000
Long-term liabilities - current portion	674,883	953,118
Total current liabilities	<u>57,844,366</u>	<u>53,709,215</u>
<b>Noncurrent Liabilities</b>		
Long-term liabilities	3,550,626	4,611,394
Total noncurrent liabilities	<u>3,550,626</u>	<u>4,611,394</u>
Total liabilities	<u>61,394,992</u>	<u>58,320,609</u>
<b>NET ASSETS</b>		
<b>Invested in capital assets, net of related debt</b>	<u>5,341,105</u>	<u>5,550,966</u>
<b>Restricted</b>		
Nonexpendable	750,954	750,854
Expendable	3,018,594	3,858,626
Total restricted	<u>3,769,548</u>	<u>4,609,480</u>
<b>Unrestricted</b>		
Total net assets	<u>\$ 20,926,322</u>	<u>\$ 19,749,078</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, 2009 AND 2008**

	2009	2008
<b>OPERATING REVENUES</b>		
Federal grants and contracts	\$ 155,559,281	\$ 157,659,221
State and local grants and contracts	69,476,000	66,390,170
Nongovernmental grants and contracts	26,530,570	25,113,594
Recoveries of facilities and administrative costs	44,473,386	43,815,261
Other operating revenues	1,923,523	4,045,703
Total operating revenues	<u>297,962,760</u>	<u>297,023,949</u>
<b>OPERATING EXPENSES</b>		
Educational and general:		
Instruction	13,106,698	13,966,860
Research	163,298,915	171,927,145
Public service	106,235,907	96,123,263
Academic support	2,082,073	3,233,303
Student services	43,817	36,540
Institutional support	711,410	1,333,299
Operations and maintenance of plant	40,239	175,353
Student financial aid	1,709,054	2,088,301
Depreciation	534,465	1,019,761
Total operating expenses	<u>287,762,578</u>	<u>289,903,825</u>
Net income (loss) from operations	<u>10,200,182</u>	<u>7,120,124</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Gifts	197,875	58,620
Investment income (loss)	(732,370)	(278,636)
Patent income	1,101,750	2,570,896
Grants (to) from the University of Kentucky for noncapital purposes	(4,107,472)	(1,789,936)
Interest on capital asset-related debt	(115,189)	(253,067)
Other nonoperating revenues and expenses	360,717	192,375
Net nonoperating revenues (expenses)	<u>(3,294,689)</u>	<u>500,252</u>
Net income (loss) before other revenues, expenses, gains, or losses	<u>6,905,493</u>	<u>7,620,376</u>
Capital grants and gifts	3,270,411	2,462,218
Additions to permanent endowments	100	2,000
Grants (to) from the University of Kentucky for capital purposes	(8,848,946)	(7,673,403)
Other, net	(149,814)	-
Total other revenues (expenses)	<u>(5,728,249)</u>	<u>(5,209,185)</u>
Increase (decrease) in net assets	1,177,244	2,411,191
<b>NET ASSETS, beginning of year</b>	<u>19,749,078</u>	<u>17,337,887</u>
<b>NET ASSETS, end of year</b>	<u>\$ 20,926,322</u>	<u>\$ 19,749,078</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, 2009 AND 2008**

	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Grants and contracts	\$ 264,508,448	\$ 254,950,380
Recoveries of facilities and administrative costs	47,255,929	45,061,010
Payments to vendors and contractors	(144,620,946)	(136,932,555)
Salaries, wages and benefits reimbursement to the University of Kentucky	(142,908,693)	(142,298,484)
Salaries, wages and benefits	(2,682,836)	(4,728,403)
Other receipts (payments)	1,444,002	4,966,879
Net cash provided (used) by operating activities	<u>22,995,904</u>	<u>21,018,827</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Gifts and grants received for other than capital purposes:		
Private gifts for endowment purposes	100	2,000
Private gifts for other purposes	197,875	58,620
Grants (to) from the University of Kentucky	(3,363,655)	(12,806,936)
Other receipts (payments)	909,405	1,698,697
Net cash provided (used) by noncapital financing activities	<u>(2,256,275)</u>	<u>(11,047,619)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Grants (to) from the University of Kentucky for capital purposes	(8,401,757)	(7,622,449)
Capital grants and gifts	3,270,411	2,462,218
Purchases of capital assets	(90,113)	(2,164,840)
Principal paid on capital debt and leases	(153,423)	-
Interest paid on capital debt and leases	(115,189)	(253,067)
Other receipts (payments)	(149,814)	-
Net cash provided (used) by capital and related financing activities	<u>(5,639,885)</u>	<u>(7,578,138)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	5,666,617	8,440,287
Interest and dividends on investments	247,979	212,405
Purchase of investments	(5,717,658)	(8,385,112)
Net cash provided (used) by investing activities	<u>196,938</u>	<u>267,580</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>15,296,682</u>	<u>2,660,650</u>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>2,670,933</u>	<u>10,283</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 17,967,615</u>	<u>\$ 2,670,933</u>
<b>Reconciliation of net income (loss) from operations to net cash provided (used) by operating activities:</b>		
Net income (loss) from operations	\$ 10,200,182	\$ 7,120,124
Adjustments to reconcile net income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation expense	534,465	1,019,761
Change in assets and liabilities:		
Accounts receivable	10,556,092	578,376
Other current assets	(1,483,784)	(104,923)
Accounts payable and accrued liabilities	(2,754,002)	5,945,737
Long-term liabilities	778,460	-
Deferred revenue	5,164,491	6,459,752
<b>Net cash provided (used) by operating activities</b>	<u>\$ 22,995,904</u>	<u>\$ 21,018,827</u>
<b>NON-CASH TRANSACTIONS</b>		
Equipment acquired through capital lease	\$ 595,133	\$ 509,915
Capital lease termination - CVFS	\$ 2,404,681	\$ -
Capital asset transfer from the University of Kentucky	\$ 12,744	\$ -
Gain on CVFS capital lease termination	\$ 68,322	\$ -

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. and its affiliated foundation, Secat Foundation, Inc. (a not-for-profit entity established for the benefit of the aluminum industry, including Secat, Inc.)
  - Kentucky CVFS, LLC. (CVFS)
- Coldstream Laboratories, Inc. (CLI) (a 100% owned, for-profit subsidiary of the Foundation)

The management of both KTI and CLI decided during the period to change the companies' fiscal year from July 1 through June 30 to a calendar-year basis. Therefore these financial statements are consolidated as of December 31, 2008 and include activity only for the six-month period from July 1, 2008 through December 31, 2008.

CVFS's management elected to discontinue operations during the period and all operating activity ceased and all employees have been terminated. CVFS discontinued the use of leased closed-vial filling equipment during the period and negotiated a settlement agreement which released CVFS from any further payments in exchange for providing its client list to the lessor; allowing equipment to remain at its location until September 2009 at no cost to the lessor; and underwriting the cost of building modifications of approximately \$40,000 to allow equipment removal.

#### 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, 2009 and 2008, approximately \$84,000 and \$53,000, 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 \$1.7 million at June 30, 2009. Additionally, the University assesses eligible endowment accounts with a management fee of 0.5 percent of total asset value.

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 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, 2009 and 2008 is as follows:

	2009	2008
Cash on deposit with local banks and the University of Kentucky	\$ 18,218,879	\$ 2,916,727
Investment in University of Kentucky pooled endowment fund	3,224,754	4,190,938
Investment in pooled equity funds	596,576	657,945
Common stocks	756,540	663,764
Other	106	106
	<u>\$ 22,796,855</u>	<u>\$ 8,429,480</u>
	2009	2008
Statement of Net Assets classification		
Cash and cash equivalents	\$ 17,967,615	\$ 2,670,933
Endowment investments	3,224,754	4,190,938
Other long-term investments	1,604,486	1,567,609
	<u>\$ 22,796,855</u>	<u>\$ 8,429,480</u>

At June 30, 2009, the University's pooled endowment fund consists of pooled equity funds (61.2%), pooled private equity funds (2.7%), pooled absolute return funds (2.2%), pooled real return funds (3.2%), pooled real estate funds (8.3%), U.S. treasury fixed income (1.8%), government agency fixed income funds (0.2%), corporate fixed income funds (7.9%), pooled fixed income funds (9.9%) and cash equivalents (2.6%).

**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 with local banks 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 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. 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 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.

- 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.

At June 30, 2009, the Foundation had a certificate of deposit at a local bank that represented 5.2 % 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 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**

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, 2009 and 2008, totaling \$45,878,524 and \$56,250,155, respectively, primarily represent net reimbursements receivable from sponsors for funds expended on grants and contracts.

## 5. OTHER CURRENT ASSETS

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

## 6. CAPITAL ASSETS, NET

Capital assets as of June 30, 2009 and 2008 are summarized as follows:

	2009			
<u>Capital Assets</u>	Beginning Balance	Additions	Deletions	Ending Balance
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>
	 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>

The net book value of capitalized leased equipment was \$2.9 million at December 31, 2008 for CLI and \$4.8 million at June 30, 2008 for CLI and CVFS.

## 7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Payable to vendors and contractors	\$ 10,011,348	\$ 14,250,197
Due to the University of Kentucky	1,651,908	-
Due to the University of Kentucky for accrued payroll	1,271,504	959,870
Accrued payroll	373,982	238,253
Accrued interest	8,977	8,977
Total	<u>\$ 13,317,719</u>	<u>\$ 15,457,297</u>

## 8. DEFERRED REVENUE

Deferred revenue as of June 30, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Unearned grants and contracts revenue	<u>\$ 42,282,947</u>	<u>\$ 36,473,800</u>

## 9. LONG TERM LIABILITIES

Long-term liabilities as of June 30, 2009 and 2008 are summarized as follows:

	<u>2009</u>					
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Noncurrent Portion</u>
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.

	<u>2008</u>					
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Noncurrent Portion</u>
Capital leases	\$ 5,500,672	\$ 164,681	\$ 401,767	\$ 5,263,586	\$ 882,169	\$ 4,381,417
Other long-term liabilities	-	345,234	44,308	300,926	70,949	229,977
Total long-term liabilities	<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>

Principal maturities and interest on capital leases for the next five years and in subsequent five-year periods as of June 30, 2009 are as follows:

	Principal	Interest	Total
2010	\$ 674,883	\$ 223,539	\$ 898,422
2011	879,816	174,805	1,054,621
2012	920,427	122,416	1,042,843
2013	899,162	68,169	967,331
2014	548,366	20,304	568,670
2015-2016	302,855	1,415	304,270
	<u>\$ 4,225,509</u>	<u>\$ 610,648</u>	<u>\$ 4,836,157</u>

## 10. INVESTMENT INCOME

Components of investment income for the years ended June 30, 2009 and 2008 are as follows:

	2009	2008
Interest and dividends earned on endowment investments	\$ 103,010	\$ 123,311
Realized and unrealized gains and losses on endowment investments	(966,184)	(484,331)
Interest on cash and non-endowment investments	112,243	70,286
Investment income from external trusts	18,561	12,098
Total	<u>\$ (732,370)</u>	<u>\$ (278,636)</u>

## 11. GRANTS AND CONTRACTS AWARDED

At June 30, 2009, grants and contracts of approximately \$370.3 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 2008 to 2009. 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 \$59,446 and \$72,701 for the periods ended December 31, 2008 and June 30, 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 \$67,632 and \$105,725 for the periods ended December 31, 2008 and June 30, 2008, respectively. Future minimum rental revenue at December 31, 2008 is \$67,853 and \$4,096 for the years ended December 31, 2009 and December 31, 2010, respectively.

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 \$186,925 and \$373,850 for the periods ended December 31, 2008 and June 30, 2008, respectively. Following is a schedule of minimum lease payments related to this lease for future fiscal years (in thousands):

Year ending December 31,		
2009	\$	374
2010		374
2011		374
2012		374
2013		374
2014-2015		809
Total minimum lease payments	\$	<u>2,679</u>

KTI is also responsible for 33.49% of actual expenses related to common area maintenance, utilities and property taxes. This amounted to approximately \$277,000 and \$318,000 during the periods ended December 31, 2008 and June 30, 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 \$166,266 (including \$88,419 from CLI and \$7,222 from the University's College of Engineering) and \$417,785 (including \$131,731 from CLI and \$31,091 from the College of Engineering) for the periods ended December 31, 2008 and June 30, 2008, respectively. The following is a schedule of future minimum rental receipts to be received under the leases at December 31, 2008 (in thousands):

Year ending December 31,		
2009	\$	305
2010		202
2011		144
2012		144
2013		50
Total minimum rental receipts	\$	<u>845</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 \$254,670 and \$509,340 for the periods ended December 31, 2008 and June 30, 2008, respectively. Rent payment is deferred until July 2009, at which time monthly rent in the amount of \$54,185 will be due. CLI also leases its labs in the Coldstream Center Building from KTI and 150 Bull Lea. 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, 2008 are as follows (in thousands):

Year ending December 31,		
2009	\$	590
2010		843
2011		788
2012		788
2013		669
2014-2016		2,167
Total minimum lease payments	\$	<u>5,845</u>

#### **14. CURRENT ECONOMIC CONDITIONS**

The current economic environment presents not-for-profit organizations with unprecedented 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.

#### **15. RECLASSIFICATIONS**

Certain reclassifications to fiscal year 2008 comparative amounts have been made to conform to the fiscal year 2009 financial statement classifications. Certain transactions previously recorded as instruction in the Statements of Revenues, Expenses and Changes in Net Assets are now being reported as research.



UNIVERSITY OF KENTUCKY RESEARCH FOUNDATION  
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY  
STATEMENT OF NET ASSETS SCHEDULE  
JUNE 30, 2009

	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	\$ 15,893,500	\$ 1,940,081	\$ 134,034	\$ -	\$ 17,967,615
Accounts receivable	45,097,892	92,142	688,490	-	45,878,524
Other current assets, net	2,716,539	188,180	213,480	-	3,118,199
Total current assets	63,707,931	2,220,403	1,036,004	-	66,964,338
<b>Noncurrent Assets</b>					
Endowment investments	3,224,754	-	-	-	3,224,754
Other long-term investments	6,321,944	1,604,380	25,091	(6,321,838)	1,604,486
Other noncurrent assets, net	2,349,199	1,589,845	5,003,601	1,560,000	1,585,091
Capital assets, net	11,895,897	3,194,225	5,028,692	(4,761,838)	8,942,645
Total noncurrent assets	75,603,828	5,414,628	6,064,696	(4,761,838)	15,356,976
Total assets					82,321,314
<b>LIABILITIES</b>					
<b>Current Liabilities</b>					
Accounts payable and accrued liabilities	11,603,248	306,749	1,407,722	-	13,317,719
Deferred revenue	41,505,441	217,706	559,800	-	42,282,947
Due to affiliated corporations	1,568,817	-	-	-	1,568,817
Long-term liabilities - current portion	-	15,880	659,003	-	674,883
Total current liabilities	54,677,506	540,335	2,626,525	-	57,844,366
<b>Noncurrent Liabilities</b>					
Long term liabilities	-	184,120	3,366,506	-	3,550,626
Total noncurrent liabilities	-	184,120	3,366,506	-	3,550,626
Total liabilities	54,677,506	724,455	5,993,031	-	61,394,992
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	2,349,199	1,389,845	1,602,061	-	5,341,105
Restricted					
Nonexpendable	750,954	-	-	-	750,954
Expendable	3,018,594	-	-	-	3,018,594
Total restricted	3,769,548	-	-	-	3,769,548
Unrestricted	14,807,575	3,300,328	(1,530,396)	(4,761,838)	11,815,669
Total net assets	\$ 20,926,322	\$ 4,690,173	\$ 71,665	\$ (4,761,838)	\$ 20,926,322

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, 2009

	University of Kentucky Research Foundation	Kentucky Technology, Inc.	Coldstream Laboratories, Inc.	Elimination Entries	Total
<b>OPERATING REVENUES</b>					
Federal grants and contracts	\$ 155,520,661	\$ 38,620			\$ 155,559,281
State and local grants and contracts	69,476,000				69,476,000
Nongovernmental grants and contracts	25,794,484	736,086			26,530,570
Recoveries of facilities and administrative costs	44,473,386				44,473,386
Other operating revenues	52,952	360,828	1,598,162	(88,419)	1,923,523
Total operating revenues	295,317,483	1,135,534	1,598,162	(88,419)	297,962,760
<b>OPERATING EXPENSES</b>					
Educational and general:					
Instruction	13,106,698				13,106,698
Research	161,593,531	1,705,384			163,298,915
Public service	101,953,764		4,388,276	(106,133)	106,235,907
Academic support	2,082,073				2,082,073
Student services	43,817				43,817
Institutional support	711,410				711,410
Operations and maintenance of plant	40,239				40,239
Student financial aid	1,709,054				1,709,054
Depreciation		183,028	351,437		534,465
Total operating expenses	281,240,586	1,888,412	4,739,713	(106,133)	287,762,578
Net income (loss) from operations	14,076,897	(752,878)	(3,141,551)	17,714	10,200,182
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Gifts	197,875				197,875
Investment income (loss)	(4,527,759)				(732,370)
Patent income	1,101,750	(9,583)	2,339	3,802,633	1,101,750
Grant (to) from the University of Kentucky for noncapital purposes	(4,107,472)				(4,107,472)
Interest on capital asset-related debt			(115,189)		(115,189)
Other nonoperating revenues and expenses, net	14,388	365,825	(1,782)	(17,714)	360,717
Net nonoperating revenues (expenses)	(7,321,218)	356,242	(114,632)	3,784,919	(3,294,689)
Net income (loss) before other revenues, expenses, gains, or losses	6,755,679	(396,636)	(3,256,183)	3,802,633	6,905,493
Capital grants and gifts	3,270,411				3,270,411
Additions to permanent endowments	100				100
Grant (to) from the University of Kentucky for capital purposes	(8,848,946)		2,500,000	(2,560,000)	(8,848,946)
Capital contributions from the foundation		60,000			60,000
Other, net		(149,814)			(149,814)
Total other revenues (expenses)	(5,578,435)	(89,814)	2,500,000	(2,560,000)	(5,728,249)
<b>INCREASE (DECREASE) IN NET ASSETS</b>	1,177,244	(486,450)	(756,183)	1,242,633	1,177,244
<b>NET ASSETS, beginning of year</b>	19,749,078	5,176,623	827,848	(6,004,471)	19,749,078
<b>NET ASSETS, end of year</b>	\$ 20,926,322	\$ 4,690,173	\$ 71,665	\$ (4,761,838)	\$ 20,926,322

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