

**UK**  
UNIVERSITY OF  
KENTUCKY



**2011**

**Research Foundation  
Financial Statements**



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

CONTENTS	PAGE
Independent Accountants' Report	1
Management's Discussion and Analysis	3
Financial Statements	
Statements of Net Assets	10
Statements of Revenues, Expenses and Changes in Net Assets	11
Statements of Cash Flows	12
Notes to Financial Statements	13
Supplemental Information	
Statement of Net Assets Schedule	25
Statement of Revenues, Expenses and Changes in Net Assets Schedule	26
Board of Directors	

## 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, 2011 and 2010, 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 audit 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, 2011 and 2010, 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  
Page 2

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

*BKD, LLP*

September 29, 2011

# Management's Discussion and Analysis

The University of Kentucky Research Foundation's (the Foundation) Management's Discussion and Analysis (MD&A) of its financial condition provides an overview of the financial position and activities of the Foundation for the years ended June 30, 2011 and 2010. 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 2010-2011 report a solid financial condition at June 30, 2011. Financial operations were in accordance with the revenue expectations and the approved budget plan.
- Total assets increased approximately \$13.5 million or 14.2%. The most significant components of the fluctuation were a \$15.5 million increase in cash and cash equivalents and a \$2.4 million increase in capital assets, net, partially offset by a \$6.3 million decrease in accounts receivable.
- Total liabilities increased approximately \$3.2 million or 5.2%. The amount due to the University increased \$2.8 million, deferred revenue increased \$1.9 million and long term liabilities increased \$1.7 million, while accounts payable and accrued liabilities decreased \$3.2 million.
- Total net assets increased approximately \$10.3 million or 30.8%. Unrestricted net assets increased \$7.6 million, invested in capital assets, net of related debt increased \$2.2 million and restricted net assets increased \$413,000.
- Operating revenues increased approximately \$11.9 million to \$339.5 million.
- Operating expenses increased approximately \$12.8 million to \$326.2 million.

## Using the Annual Report

This financial report consists of three financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*.

One of the most important questions asked about the Foundation's finances is whether the Foundation is better off as a result of the year's activities. One key to answering this question is the financial statements of the Foundation. The Statement of Net Assets; Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows present financial information on the Foundation in a format similar to that used by corporations and depict a long-term view of the Foundation's finances. The Foundation's net assets (the difference between assets and liabilities) are one indication of the Foundation's financial health.

## Reporting Entity

The University of Kentucky Research Foundation is a not-for-profit Kentucky corporation established to receive, invest and expend funds in promoting and implementing scientific, educational and developmental activities at the University of Kentucky (the University). The Foundation is considered to be an affiliate and component unit of the University because all Board members are related to the University as faculty, staff or trustees and/or are appointed by the Board of Trustees of the University, and certain officers of the Foundation are officers of the University.

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

- University of Kentucky Research Foundation
- Kentucky Technology, Inc. (KTI) (a 100% owned, for-profit subsidiary of the Foundation) and its for-profit subsidiaries:
  - Secat, Inc. (100% ownership)
  - Therix Medical, Inc. (69% ownership)
- Coldstream Laboratories, Inc. (CLI) (a 100% owned, for-profit subsidiary of the Foundation)

KTI and CLI have a calendar-year basis fiscal year from January 1 through December 31. Therefore, the financial statements of KTI and CLI as of December 31, 2010 and December 31, 2009 are included in the Foundation's financial statements as of June 30, 2011 and 2010.

### 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, 2011, 2010 and 2009 is as follows:

#### Condensed Statements of Net Assets

	2011	2010	2009
<b>ASSETS</b>			
Current assets	\$ 84,058,170	\$ 74,972,663	\$ 66,964,338
Capital assets	14,478,379	12,065,890	8,942,645
Other noncurrent assets	9,687,535	7,730,822	6,414,331
Total assets	108,224,084	94,769,375	82,321,314
<b>LIABILITIES</b>			
Current liabilities	60,421,335	58,939,359	57,844,366
Noncurrent liabilities	4,197,160	2,488,093	3,550,626
Total liabilities	64,618,495	61,427,452	61,394,992
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	12,608,775	10,375,487	5,341,105
Restricted			
Nonexpendable	752,254	751,004	750,954
Expendable	3,646,407	3,235,015	3,018,594
Unrestricted	26,598,153	18,980,417	11,815,669
Total net assets	\$ 43,605,589	\$ 33,341,923	\$ 20,926,322

**Assets.** As of June 30, 2011, the Foundation's assets totaled \$108.2 million. Accounts receivable, primarily from grant sponsors, represented the Foundation's largest asset, totaling \$42.4 million or 39.2% of total assets. Cash and cash equivalents totaled \$37.7 million or 34.8% of total assets and capital assets, net totaled \$14.5 million or 13.3% of total assets.

Total assets increased \$13.5 million or 14.2% during the year ended June 30, 2011. The most significant components of the increase in total assets was a \$15.5 million increase in cash and cash equivalents, a \$2.4 million increase in capital assets, net, partially offset by a \$6.3 million decrease in accounts receivable. The cash and cash equivalents increase was mainly due to increased collections of grants receivable and increased recoveries of facilities and administrative costs in excess of expenses and transfers. The increase in capital assets, net, was primarily the result of additional capital assets in KTI.

**Liabilities.** At June 30, 2011, the Foundation's liabilities totaled \$64.6 million. Deferred revenue amounted to \$39.1 million or 60.6% of total liabilities. Deferred revenue reflects advance receipts from grant sponsors and other customers. Accounts payable and accrued liabilities totaling \$16.8 million, long-term liabilities of \$4.9 million and funds due to the University of \$3.8 million accounted for the remainder of the Foundation's liabilities.

Total liabilities increased \$3.2 million during the year ended June 30, 2011. The most significant components of the increase in total liabilities were an increase of \$2.8 million in due to the University, \$1.9 million in deferred revenue and \$1.7 million in long term liabilities. Due to the University increased because additional funds were loaned to the Foundation by UK HealthCare Hospital System for investment in CLI. Deferred revenue increased primarily due to more grant cash received in advance of expenditures. Long term liabilities increased mainly due to a deferred tax liability recorded by KTI. Offsetting these increases, accounts payable and accrued liabilities decreased \$3.2 million, primarily in the amount owed by grants.

**Net Assets.** Net assets at June 30, 2011 totaled \$43.6 million, or 40.3% of total assets. Net assets invested in capital, net of related debt, totaled \$12.6 million or 28.9% of total net assets. Restricted net assets totaled \$4.4 million or 10.1% of total net assets. Unrestricted net assets accounted for \$26.6 million or 61.0% of total net assets.

Total net assets increased \$10.3 million during the year ended June 30, 2011. Unrestricted net assets were the most significant component, increasing \$7.6 million, primarily due to revenues from recoveries of facilities and administrative costs exceeding expenses in unrestricted funds. In addition, invested in capital assets, net of related debt increased \$2.2 million due mainly to capital additions by KTI.

**2010 Versus 2009.** During the year ended June 30, 2010:

- Total assets increased \$12.4 million or 15.1%. The most significant components of the increase in total assets were a \$4.2 million increase in cash and cash equivalents, a \$3.1 million increase in capital assets, net and a \$2.9 million increase in accounts receivable. The cash and cash equivalents and accounts receivable increases were mainly due to increased grant activity. The increase in capital assets, net, was primarily the result of additional capital assets in KTI.
- Total liabilities only increased \$32,000. However, within that category there was an increase of \$6.7 million in accounts payable and accrued liabilities owed by grants and a decrease in deferred revenue primarily due to less grant cash received in advance of expenditures.
- Total net assets increased \$12.4 million. Unrestricted net assets were the most significant component, increasing \$7.2 million, primarily due to revenues from recoveries of facilities and administrative costs exceeding expenses in unrestricted funds. In addition, invested in capital assets, net of related debt increased \$5.0 million due mainly to capital additions by KTI.

### **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, 2011, 2010 and 2009 is as follows:

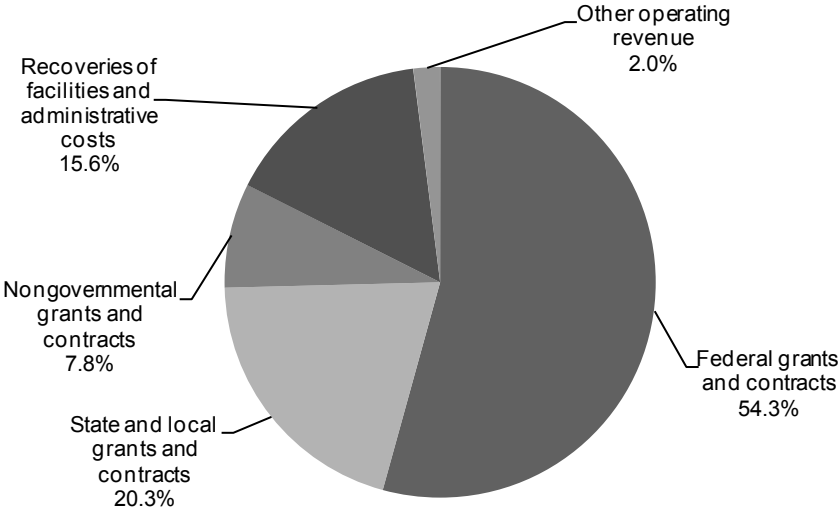
**Condensed Statements of Revenues, Expenses and Changes in Net Assets**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>OPERATING REVENUES</b>			
Federal grants and contracts	\$184,234,729	\$172,308,015	\$155,559,281
State and local grants and contracts	68,954,104	72,218,583	69,476,000
Nongovernmental grants and contracts	26,717,448	25,243,830	26,530,570
Recoveries of facilities and administrative costs	52,808,778	50,599,314	44,473,386
Other operating revenue	6,779,596	7,222,773	1,923,523
Total operating revenues	<u>339,494,655</u>	<u>327,592,515</u>	<u>297,962,760</u>
<b>OPERATING EXPENSES</b>			
Research	185,031,677	178,673,810	163,298,915
Other educational and general	138,772,392	132,671,354	122,220,144
Student financial aid	1,245,285	1,136,276	1,709,054
Depreciation	1,126,366	888,580	534,465
Total operating expenses	<u>326,175,720</u>	<u>313,370,020</u>	<u>287,762,578</u>
<b>OPERATING INCOME</b>	<u>13,318,935</u>	<u>14,222,495</u>	<u>10,200,182</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Gifts	80,500	80,500	197,875
Investment income (loss)	671,173	698,800	(732,370)
Patent income	1,657,467	1,715,329	1,101,750
Interest on capital asset-related debt	(158,089)	(226,693)	(115,189)
Other nonoperating revenues and expenses, net	313,708	130,482	360,717
Capital grants and gifts	15,849,799	6,810,520	3,270,411
Additions to permanent endowments	1,250	50	100
Grants to the University of Kentucky	(21,471,077)	(10,993,277)	(12,956,418)
Other	-	(22,605)	(149,814)
Total nonoperating revenues (expenses)	<u>(3,055,269)</u>	<u>(1,806,894)</u>	<u>(9,022,938)</u>
Total increase in net assets	10,263,666	12,415,601	1,177,244
<b>Net assets, beginning of year</b>	<u>33,341,923</u>	<u>20,926,322</u>	<u>19,749,078</u>
<b>Net assets, end of year</b>	<u>\$ 43,605,589</u>	<u>\$ 33,341,923</u>	<u>\$ 20,926,322</u>

Total operating revenues, consisting primarily of grants and contracts, and related recoveries of facilities and administrative costs, were \$339.5 million for the year ended June 30, 2011. 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 \$11.9 million or 3.6%, primarily caused by a \$11.9 million or 6.9% increase in federal grants and contracts and an increase of \$2.2 million or 4.4% in recoveries of facilities and administrative costs. These increases were mainly caused by increased federal grants and contracts resulting from the American Recovery and Reinvestment Act of 2009.

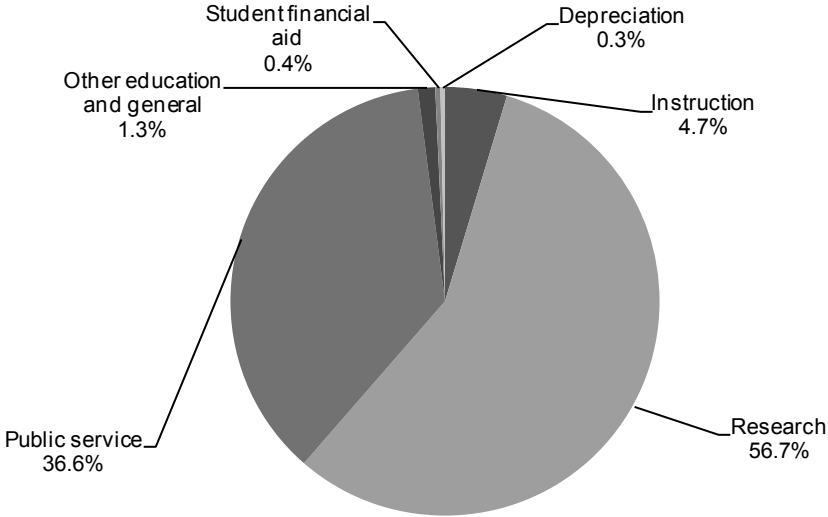


**TOTAL OPERATING REVENUES**



Operating expenses totaled \$326.2 million. Of this amount, \$185.0 million or 56.7% was used for research expenses, \$119.2 million or 36.6% was used for public service expenses and \$15.2 million or 4.7% was used for instruction. Operating expenses increased \$12.8 million or 4.1%. This increase was primarily attributable to expenses associated with increased research, instruction and public service activity.

**TOTAL OPERATING EXPENSES**



**2010 Versus 2009.** Total operating revenues, consisting primarily of grants and contracts, and related recoveries of facilities and administrative costs, were \$327.6 million. Operating revenues increased \$29.6 million or 9.9%, primarily caused by a \$16.7 million or 10.8% increase in federal grants and contracts and an increase of \$6.1 million or 13.8% in recoveries of facilities and administrative costs. This increase was mainly caused by increased federal grants and contracts resulting from the American Recovery and Reinvestment Act of 2009.

Operating expenses totaled \$313.4 million. Of this amount, \$178.7 million or 57.0% was used for research expenses, \$116.9 million or 37.3% was used for public service expenses and \$12.6 million or 4.0% was used for instruction. Operating expenses increased \$25.6 million or 8.9%. This increase 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, 2011, 2010 and 2009 is as follows:

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

	2011	2010	2009
<b>CASH PROVIDED (USED) BY:</b>			
Operating activities	\$19,727,417	\$11,745,086	\$22,995,904
Noncapital financing activities	(231,762)	(3,740,544)	(2,256,275)
Capital and related financing activities	(3,883,624)	(4,296,889)	(5,639,885)
Investing activities	(127,429)	503,794	196,938
Net increase (decrease) in cash and cash equivalents	15,484,602	4,211,447	15,296,682
<b>Cash and cash equivalents, beginning of year</b>	<b>22,179,062</b>	<b>17,967,615</b>	<b>2,670,933</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$37,663,664</b>	<b>\$22,179,062</b>	<b>\$17,967,615</b>

Major sources of cash included in operating activities were grants and contracts of \$287.8 million and recoveries of facilities and administrative costs of \$54.5 million. The largest cash payments for operating activities were made to suppliers of \$162.6 million and to the University as reimbursements for employee salaries and benefits of \$158.6 million.

The largest use of cash in the noncapital financing activities group related to grants to the University totaling \$3.5 million. Cash provided in this category is mostly from other receipts of \$3.2 million, primarily patent income.

Cash used by capital and related financing activities was primarily expended on grants to the University for the construction and acquisition of capital assets totaling \$15.6 million and purchases of capital assets of \$3.8 million, offset by capital grants and gifts of \$15.8 million.

Cash provided by investing activities reflects proceeds from sales and maturities of investments of \$3.8 million and interest and dividends on investments of \$35,000, net of cash used to purchase investments of \$4.0 million.

**2010 Versus 2009.** Cash increased \$4.2 million primarily due to cash flows provided by operating activities and investing activities offset by cash used by capital and related financing activities and noncapital financing activities.

### Capital Asset and Debt Administration

**Capital Assets.** Capital assets, net of accumulated depreciation, totaled \$14.5 million at June 30, 2011, an increase of \$2.4 million. Capital assets as of June 30, 2011, and significant changes in capital assets during the years ended June 30, 2011 and 2010 are as follows (in thousands):

	Balance June 30, 2009	Net Additions FY 09-10	Balance June 30, 2010	Net Additions FY 10-11	Balance June 30, 2011
Land	\$ 2,336		\$ 2,336		\$ 2,336
Buildings	2,231	\$ 34	2,265	\$ 1,113	3,378
Infrastructure	-	-	-	5,021	5,021
Equipment	7,190	220	7,410	679	8,089
Vehicles	21	-	21	-	21
Software	-	-	-	89	89
Construction in progress	312	3,757	4,069	(3,364)	705
Accumulated depreciation	<u>(3,147)</u>	<u>(888)</u>	<u>(4,035)</u>	<u>(1,126)</u>	<u>(5,161)</u>
Total	<u>\$ 8,943</u>	<u>\$ 3,123</u>	<u>\$ 12,066</u>	<u>\$ 2,412</u>	<u>\$ 14,478</u>

**Debt.** The Foundation had long-term liabilities totaling \$4.9 million at June 30, 2011 for capital leases of \$916,000 by CLI, \$1.2 million other long-term liabilities of CLI and \$2.8 million other long-term liabilities of KTI. The Foundation had long-term liabilities totaling \$3.2 million at June 30, 2010 for capital leases of \$1.3 million by CLI, \$1.4 million other long-term liabilities of CLI and \$424,000 other long-term liabilities of KTI.

### Factors Impacting Future Periods

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

- At June 30, 2011, grants and contracts of \$411.3 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. The major reason for the component of this increase was the grants and contracts awarded as part of the American Recovery and Reinvestment Act of 2009, which was in effect for fiscal years 2010 and 2011. The ending of this source of awards could have a serious impact since other awards for grants and contracts were slightly lower in the current fiscal year. In addition, if the current economic environment continues, it could make it more difficult for sponsors in the future to continue funding grants and contracts near 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, 2011 AND 2010

	2011	2010
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 37,663,664	\$ 22,179,062
Accounts receivable	42,443,711	48,756,346
Other current assets, net	3,950,795	4,037,255
Total current assets	<u>84,058,170</u>	<u>74,972,663</u>
<b>Noncurrent Assets</b>		
Endowment investments	3,928,366	3,383,101
Other long term investments	1,802,791	1,641,145
Other noncurrent assets, net	3,956,378	2,706,576
Capital assets, net	14,478,379	12,065,890
Total noncurrent assets	<u>24,165,914</u>	<u>19,796,712</u>
Total assets	<u>108,224,084</u>	<u>94,769,375</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	16,813,742	20,049,583
Deferred revenue	39,123,898	37,262,725
Due to the University of Kentucky	3,788,360	955,376
Long-term liabilities - current portion	695,335	671,675
Total current liabilities	<u>60,421,335</u>	<u>58,939,359</u>
<b>Noncurrent Liabilities</b>		
Long-term liabilities	4,197,160	2,488,093
Total noncurrent liabilities	<u>4,197,160</u>	<u>2,488,093</u>
Total liabilities	<u>64,618,495</u>	<u>61,427,452</u>
<b>NET ASSETS</b>		
<b>Invested in capital assets, net of related debt</b>	<u>12,608,775</u>	<u>10,375,487</u>
<b>Restricted</b>		
Nonexpendable	752,254	751,004
Expendable	3,646,407	3,235,015
Total restricted	<u>4,398,661</u>	<u>3,986,019</u>
<b>Unrestricted</b>	<u>26,598,153</u>	<u>18,980,417</u>
Total net assets	<u>\$ 43,605,589</u>	<u>\$ 33,341,923</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, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
<b>OPERATING REVENUES</b>		
Federal grants and contracts	\$ 184,234,729	\$ 172,308,015
State and local grants and contracts	68,954,104	72,218,583
Nongovernmental grants and contracts	26,717,448	25,243,830
Recoveries of facilities and administrative costs	52,808,778	50,599,314
Other operating revenues	6,779,596	7,222,773
Total operating revenues	<u>339,494,655</u>	<u>327,592,515</u>
<b>OPERATING EXPENSES</b>		
Educational and general:		
Instruction	15,242,828	12,561,525
Research	185,031,677	178,673,810
Public service	119,247,161	116,885,963
Academic support	3,298,154	2,617,897
Student services	28,024	42,882
Institutional support	873,689	536,310
Operations and maintenance of plant	82,536	26,777
Student financial aid	1,245,285	1,136,276
Depreciation	1,126,366	888,580
Total operating expenses	<u>326,175,720</u>	<u>313,370,020</u>
Net income (loss) from operations	<u>13,318,935</u>	<u>14,222,495</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Gifts	80,500	80,500
Investment income (loss)	671,173	698,800
Patent income	1,657,467	1,715,329
Grants (to) from the University of Kentucky for noncapital purposes	(6,371,317)	(3,822,278)
Interest on capital asset-related debt	(158,089)	(226,693)
Other nonoperating revenues and expenses	313,708	130,482
Net nonoperating revenues (expenses)	<u>(3,806,558)</u>	<u>(1,423,860)</u>
Net income (loss) before other revenues, expenses, gains, or losses	<u>9,512,377</u>	<u>12,798,635</u>
Capital grants and gifts	15,849,799	6,810,520
Additions to permanent endowments	1,250	50
Grants (to) from the University of Kentucky for capital purposes	(15,099,760)	(7,170,999)
Other, net	-	(22,605)
Total other revenues (expenses)	<u>751,289</u>	<u>(383,034)</u>
Increase (decrease) in net assets	<u>10,263,666</u>	<u>12,415,601</u>
<b>NET ASSETS, beginning of year</b>	<u>33,341,923</u>	<u>20,926,322</u>
<b>NET ASSETS, end of year</b>	<u>\$ 43,605,589</u>	<u>\$ 33,341,923</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, 2011 AND 2010**

	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Grants and contracts	\$ 287,843,240	\$ 260,695,908
Recoveries of facilities and administrative costs	54,528,557	48,653,498
Payments to vendors and contractors	(162,602,958)	(149,424,583)
Salaries, wages and benefits reimbursement to the University of Kentucky	(158,610,801)	(154,672,431)
Salaries, wages and benefits	(5,649,096)	(5,418,844)
Other receipts (payments)	4,218,475	11,911,538
Net cash provided (used) by operating activities	19,727,417	11,745,086
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Gifts and grants received for other than capital purposes:		
Private gifts for endowment purposes	1,250	50
Private gifts for other purposes	80,500	80,500
Grants (to) from the University of Kentucky	(3,538,333)	(5,604,925)
Other receipts (payments)	3,224,821	1,783,831
Net cash provided (used) by noncapital financing activities	(231,762)	(3,740,544)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Grants (to) from the University of Kentucky for capital purposes	(15,599,794)	(8,326,008)
Capital grants and gifts	15,849,799	6,810,520
Purchases of capital assets	(3,821,427)	(2,539,377)
Proceeds from capital debt	600,000	500,255
Principal paid on capital debt and leases	(799,702)	(497,981)
Interest paid on capital debt and leases	(158,089)	(226,693)
Other receipts (payments)	45,589	(17,605)
Net cash provided (used) by capital and related financing activities	(3,883,624)	(4,296,889)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	3,794,723	5,114,377
Interest and dividends on investments	34,711	268,668
Purchase of investments	(3,956,863)	(4,879,251)
Net cash provided (used) by investing activities	(127,429)	503,794
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	15,484,602	4,211,447
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	22,179,062	17,967,615
<b>CASH AND CASH EQUIVALENTS, end of year</b>	\$ 37,663,664	\$ 22,179,062
<b>Reconciliation of net income (loss) from operations to net cash provided (used) by operating activities:</b>		
Net income (loss) from operations	\$ 13,318,935	\$ 14,222,495
Adjustments to reconcile net income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation expense	1,126,366	888,580
Change in assets and liabilities:		
Accounts receivable	6,312,865	(2,877,822)
Other current assets	(2,558,488)	(1,514,934)
Accounts payable and accrued liabilities	(2,707,363)	6,409,425
Long-term liabilities	1,932,429	101,191
Deferred revenue	2,302,673	(5,483,849)
<b>Net cash provided (used) by operating activities</b>	\$ 19,727,417	\$ 11,745,086
<b>NON-CASH TRANSACTIONS</b>		
Equipment acquired through capital lease	\$ -	\$ 287,277
Capital asset transfer from the University of Kentucky	\$ 526,374	\$ 547,944
Capital lease forgiveness - CLI	\$ -	\$ 1,169,206
Capital asset additions in accounts payable	\$ 166,147	\$ (607,065)
CPST building lease payments - CLI	\$ (119,952)	\$ (186,086)

See notes to financial statements

## NOTES TO FINANCIAL STATEMENTS

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

#### Reporting Entity

The University of Kentucky Research Foundation (the Foundation) is a not-for-profit Kentucky corporation established to receive, invest and expend funds in promoting and implementing scientific, educational and developmental activities at the University of Kentucky (the University). The Foundation is considered to be an affiliate and component unit of the University because all Board members are related to the University as faculty, staff or trustees and/or are appointed by the Board of Trustees of the University, and certain officers of the Foundation are officers of the University.

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

- University of Kentucky Research Foundation
- Kentucky Technology, Inc. (KTI) (a 100% owned, for-profit subsidiary of the Foundation) and its for-profit subsidiaries:
  - Secat, Inc. (100% ownership)
  - Therix Medical, Inc. (69% ownership)
- Coldstream Laboratories, Inc. (CLI) (a 100% owned, for-profit subsidiary of the Foundation)

KTI and CLI have a calendar-year basis fiscal year from January 1 through December 31. Therefore, the financial statements of KTI and CLI as of December 31, 2010 and December 31, 2009 are included in the Foundation's financial statements as of June 30, 2011 and 2010.

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

In accordance with the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), as adopted by the Commonwealth of Kentucky in July 2010, the University employs a total return method for establishing investment objectives and spending policies designed to achieve financial equilibrium for endowment funds over the long-term. Prior to the passage of UPMIFA, the University was subject to the Uniform Management of Institutional Funds Act ("UMIFA"), as adopted by the Commonwealth of Kentucky, which also allowed for total return management.

The University utilizes a spending policy designed to smooth spending distributions and protect endowed programs from market volatility by calculating distributions based on a percentage of the average market value of the endowment over a specified period of time. The University has made expenditure decisions in accordance with prevailing UPMIFA or UMIFA statutes and donor gift agreements. UPMIFA allows institutions to appropriate for expenditure so much of an endowment fund as the institution deems is prudent based on a review of various factors set forth in the Act, subject to terms set forth in a gift agreement. UMIFA allowed institutions to appropriate for expenditure a prudent amount of realized and unrealized gains over the historic dollar value of an endowment fund, also subject to terms set forth in a gift agreement.

For the year ended June 30, 2011 the University's endowment spending rule provided for annual distributions of 4.375 percent of the sixty month moving average market value of fund units. For the year ended June 30, 2010, the University's endowment spending rule provided for annual distributions of 4.5 percent of the thirty-six month moving average market value of fund units. Approximately \$97,000 and \$104,000, respectively, was transferred from endowment realized and unrealized gains to support current programs in accordance with the University's endowment spending rule. Additionally, for the year ended June 30, 2011, the University assessed eligible endowment accounts with a management fee of 0.375 percent of total asset value. For the year ended June 30, 2010, the University assessed eligible endowment accounts with a management fee of 0.5 percent of total asset value.

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



Investments. Investments in marketable securities are carried at fair value, as determined by the major securities markets. Certain KTI investments in companies are accounted for on the cost or equity method, depending on control and KTI's ability to exercise significant influence, and are included in other noncurrent assets. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the Statement of Revenues, Expenses and Changes in Net Assets.

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

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

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

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

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

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

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

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

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to use estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The accompanying financial statements include estimates for items such as bad debt, accrued expenses and other liability accounts.

## 2. DEPOSITS AND INVESTMENTS

The fair value of deposits and investments, by type, at June 30, 2011 and 2010 is as follows:

	2011	2010
Cash on deposit with local banks and the University of Kentucky	\$ 37,663,664	\$ 22,179,062
Investment in University of Kentucky pooled endowment fund	3,928,366	3,383,101
Investment in pooled equity funds	140,657	93,496
Investment in private equity funds	1,488,399	1,248,016
Investment in corporate bond fund	-	28,514
Common stocks	14,363	14,080
Certificates of deposit	159,266	256,933
Other	106	106
	\$ 43,394,821	\$ 27,203,308
	2011	2010
Statement of Net Assets classification		
Cash and cash equivalents	\$ 37,663,664	\$ 22,179,062
Endowment investments	3,928,366	3,383,101
Other long-term investments	1,802,791	1,641,145
	\$ 43,394,821	\$ 27,203,308

At June 30, 2011, the University's pooled endowment fund consisted of common and preferred stock (5.3%), pooled equity funds (37.0%), pooled private equity funds (4.7%), pooled absolute return funds (19.1%), pooled real return funds (10.4%), pooled real estate funds (5.5%), U.S. treasury fixed income (0.8%), government agency fixed income funds (1.8%), corporate fixed income funds (2.2%), pooled fixed income funds (13.1%) and cash and cash equivalents (0.1%). At June 30, 2010, the University's pooled endowment fund consisted of pooled equity funds (48.2%), pooled private equity funds (3.6%), pooled absolute return funds (10.0%), pooled real return funds (7.1%), pooled real estate funds (6.9%), U.S. treasury fixed income (4.4%), government agency fixed income funds (2.0%), corporate fixed income funds (4.4%), pooled fixed income funds (12.1%) and cash and cash equivalents (1.3%).

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

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

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

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

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

**Deposit and investment risks.** The Foundation's deposits and investments are exposed to various risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could affect the investment amounts in the statement of net assets.

**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 for balances exceeding amounts covered by the Federal Deposit Insurance Corporation. On November 9, 2010, the FDIC Board of Directors issued a final rule to implement Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act that provides temporary unlimited deposit insurance coverage for noninterest-bearing transaction accounts at all FDIC-insured depository institutions (the "Dodd-Frank Provision"). The separate coverage for noninterest-bearing transaction accounts became effective on December 31, 2010 and terminates on December 31, 2012. The Foundation's deposits are non-interest bearing and are fully insured by FDIC coverage. Credit risk on deposits in local banks is minimized by the financial institutions' participation in the Federal Deposit Insurance Corporation's (FDIC) insurance coverage.
- Credit risk on repurchase agreements is mitigated by requiring the issuing financial institution's pledge of specific U.S. treasury or agency securities, held in the name of the University by the Federal Reserve Bank. Credit risk on repurchase agreements with the Commonwealth of Kentucky is mitigated by the Commonwealth's requirement that providers of overnight repurchase agreements collateralize these investments at 102% of face value with U.S. treasury or agency securities, pledged in the name of the Commonwealth. Endowment managers are permitted to use derivative instruments to limit credit risk. Additionally, endowment investments held by the University's fixed income managers are generally limited to holdings of high quality fixed income securities. These managers may invest a portion of the portfolio in other below-investment grade bonds, non-U.S. dollar denominated bonds, and emerging market bonds, provided the overall credit quality of the fixed income portfolios is not lower than A-.

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

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

- Cash on deposit with the University is invested in deposits and repurchase agreements and held in the University's name. Deposits and repurchase agreements with the Commonwealth of Kentucky are held in the Commonwealth's name. The University maintains records evidencing the Foundation's ownership interest in such balances.
- Custodial credit risk on deposits in local banks is minimized by the financial institutions' participation in the FDIC's insurance coverage.
- 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 deposits 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 insurance coverage.
- The University's endowment investment managers are limited to a maximum investment in any one issuer of no more than 5% of total investments excluding sovereign debt of governments belonging to the Organization for Economic Cooperation and Development and U.S. agencies.

At June 30, 2011, the Foundation had a certificate of deposit at a local bank that represented 3% of investments. Concentration risk is minimized by the financial institution's participation in the FDIC's insurance coverage.

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

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

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

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

The Foundation's exposure to foreign currency risk derives from certain endowment investments of the University's pooled endowment fund. The University's investment policy allows fixed-income managers to invest a portion of their portfolios in non-U.S. securities. Additionally, the investment policy allows various pooled fund managers to invest in accordance with the guidelines established in each individual fund's prospectus, which allows for investment in non-U.S. securities. The University's investments in the various pooled funds are denominated in U.S. dollars, with the exception of two private equity funds denominated in Euros. Endowment managers are permitted to use derivative instruments to limit foreign currency risk.

### **3. TRANSACTIONS WITH RELATED PARTIES**

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. For fiscal year 2011, UKRF subsidiary CLI recorded other nonoperating revenues of \$446,000 from UK HealthCare Hospital System related to certain expenses incurred by CLI.

#### 4. ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2011 and 2010, totaling \$42,443,711 and \$48,756,346, respectively, primarily represent net reimbursements receivable from sponsors for funds expended on grants and contracts.

#### 5. OTHER CURRENT ASSETS

Other current assets as of June 30, 2011 and 2010 are summarized as follows:

	<u>2011</u>	<u>2010</u>
Deferred charges - patents	\$ 1,844,513	\$ 3,238,326
Inventories	411,109	610,010
Deferred income taxes	1,439,788	-
Other	255,385	188,919
Total	<u>\$ 3,950,795</u>	<u>\$ 4,037,255</u>

#### 6. CAPITAL ASSETS, NET

Capital assets as of June 30, 2011 are summarized as follows:

	<u>2011</u>			
<u>Capital Assets</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Land	\$ 2,336,455			\$ 2,336,455
Buildings	2,265,226	\$ 1,112,792		3,378,018
Infrastructure	-	5,021,392		5,021,392
Equipment	7,409,778	724,598	\$ 45,589	8,088,787
Vehicles	21,034	-	-	21,034
Software	-	88,627	-	88,627
Construction in process	4,068,767	2,849,206	6,212,171	705,802
	<u>16,101,260</u>	<u>9,796,615</u>	<u>6,257,760</u>	<u>19,640,115</u>
<u>Accumulated Depreciation</u>				
Buildings	939,013	152,091	-	1,091,104
Infrastructure	-	100,428	-	100,428
Equipment	3,086,366	791,315	-	3,877,681
Vehicles	9,991	4,207	-	14,198
Software	-	78,325	-	78,325
	<u>4,035,370</u>	<u>1,126,366</u>	<u>-</u>	<u>5,161,736</u>
Net capital assets	<u>\$ 12,065,890</u>	<u>\$ 8,670,249</u>	<u>\$ 6,257,760</u>	<u>\$ 14,478,379</u>

The net book value of capitalized leased equipment was \$1.3 million at December 31, 2010 for CLI.

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

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

The net book value of capitalized leased equipment was \$1.5 million at December 31, 2009 for CLI.

## 7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Payable to vendors and contractors	\$ 13,814,238	\$ 17,606,285
Due to the University of Kentucky	927,824	543,063
Due to the University of Kentucky for accrued payroll	1,792,130	1,527,663
Accrued payroll	263,719	265,280
Accrued interest	15,831	107,292
Total	<u>\$ 16,813,742</u>	<u>\$ 20,049,583</u>

## 8. DEFERRED REVENUE

Deferred revenue as of June 30, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Unearned grants and contracts revenue	\$ 37,268,550	\$ 34,682,427
Unearned patent intellectual property	778,786	1,216,917
Other	1,076,562	1,363,381
Total	<u>\$ 39,123,898</u>	<u>\$37,262,725</u>

## 9. LONG TERM LIABILITIES

Long-term liabilities as of June 30, 2011 and 2010 are summarized as follows:

	2011					
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Noncurrent Portion
Capital leases	\$ 1,266,284		\$ 349,810	\$ 916,474	\$ 378,742	\$ 537,732
Deferred tax liability		\$ 2,052,381		2,052,381	-	2,052,381
Other long-term liabilities	1,893,484	600,000	569,844	1,923,640	316,593	1,607,047
Total long-term liabilities	<u>\$ 3,159,768</u>	<u>\$ 2,652,381</u>	<u>\$ 919,654</u>	<u>\$ 4,892,495</u>	<u>\$ 695,335</u>	<u>\$ 4,197,160</u>

Included in the other long-term liabilities ending balance as of June 30, 2011 is an amount owed to the University of Kentucky from CLI of \$759,699.

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

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

Principal maturities and interest on long-term liabilities, excluding deferred tax liability, for the next five years and in subsequent five-year periods as of June 30, 2011 are as follows:

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

	Principal	Interest	Total
2012	\$ 695,335	\$ 130,343	\$ 825,678
2013	1,516,724	43,124	1,559,848
2014	519,049	11,444	530,493
2015	38,657	6,028	44,685
2016	41,283	3,402	44,685
2017	29,066	725	29,791
	<u>\$ 2,840,114</u>	<u>\$ 195,066</u>	<u>\$ 3,035,180</u>

## 10. INVESTMENT INCOME

Components of investment income for the years ended June 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Interest and dividends earned on endowment investments	\$ 63,732	\$ 78,916
Realized and unrealized gains and losses on endowment investments	545,264	321,557
Interest on cash and non-endowment investments	46,503	281,413
Investment income from external trusts	15,674	16,914
Total	<u>\$ 671,173</u>	<u>\$ 698,800</u>

## 11. GRANTS AND CONTRACTS AWARDED

At June 30, 2011, grants and contracts of approximately \$411.3 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 \$1.00 billion 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 2010 to 2011. 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 \$82,071 and \$97,620 for the periods ended December 31, 2010 and December 31, 2009, respectively. KTI subleases the ASTeCC and AgTeCC buildings to developing industries in advanced technology, with renewal options and escalation clauses. Sublease rental income was \$151,042 (including \$39,608 from the University's College of Engineering) and \$144,803 (including \$21,375 from the University's College of Engineering) for the periods ended December 31, 2010 and December 31, 2009, respectively. Future minimum rental revenue at December 31, 2010 is \$48,188 (including \$19,581 from the University's College of Engineering and \$1,386 from Therix) for the year ending December 31, 2011.



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 \$358,332 and \$373,850 for the periods ended December 31, 2010 and December 31, 2009, respectively. Following is a schedule of minimum lease payments related to this lease for future fiscal years (in thousands):

Year ending December 31,		
2011	\$	358
2012		358
2013		358
2014		358
2015		358
2016		61
Total minimum lease payments	\$	<u>1,851</u>

KTI is also responsible for 26.84% of actual expenses related to common area maintenance, utilities and property taxes. This amounted to approximately \$295,000 and \$324,000 during the periods ended December 31, 2010 and December 31, 2009, 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 \$406,195 (including \$179,702 from CLI and \$53,370 from UK Coldstream Research Center Administration) and \$413,599 (including \$178,504 from CLI and \$53,370 from UK Coldstream Research Center Administration) for the periods ended December 31, 2010 and December 31, 2009, respectively. The following is a schedule of future minimum rental receipts to be received under the leases at December 31, 2010 (in thousands):

Year ending December 31,		
2011	\$	263
2012		189
2013		131
2014		42
Total minimum rental receipts	\$	<u>625</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 Foundation's 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 \$433,674 and \$433,674 for the periods ended December 31, 2010 and December 31, 2009, respectively. CLI also leases its labs in the Coldstream Center Building from KTI and 150 Bull Lea, an unrelated third party. The lease terms range from 2 to 5 years, with monthly rent ranging from \$833 to \$7,068. Future minimum lease payments related to this lease as of December 31, 2010 are as follows (in thousands):

Year ending December 31,		
2011	\$	689
2012		599
2013		451
2014		434
2015		434
2016-2017		540
Total minimum lease payments	\$	<u>3,147</u>

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

The current protracted economic decline continues to present not-for-profit organizations with difficult circumstances and challenges, which in some cases have resulted in large declines in grant funding. These conditions have made it difficult for many sponsors to continue to contribute to research at not-for-profit organizations. A significant decline in revenue from sponsors for grants could have an adverse impact on the Foundation's future operating results. The financial statements have been prepared using values and information currently available to the Foundation. Due to the volatility of capital markets subsequent to year end, changes in investment values have been significant and may continue to affect investment amounts in the statement of net assets in the near term.

UNIVERSITY OF KENTUCKY RESEARCH FOUNDATION  
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY  
STATEMENT OF NET ASSETS SCHEDULE  
JUNE 30, 2011

	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	\$ 34,642,054	\$ 2,537,576	\$ 484,034		\$ 37,663,664
Accounts receivable	41,426,269	232,618	830,169	\$ (45,345)	42,443,711
Other current assets, net	1,933,552	1,566,305	450,938		3,950,795
Total current assets	<u>78,001,875</u>	<u>4,336,499</u>	<u>1,765,141</u>	<u>(45,345)</u>	<u>84,058,170</u>
<b>Noncurrent Assets</b>					
Endowment investments	3,928,366				3,928,366
Other long-term investments	13,043,480	1,798,850		(13,039,539)	1,802,791
Other noncurrent assets, net			25,925	3,930,453	3,956,378
Capital assets, net	3,403,913	6,257,577	4,816,889		14,478,379
Total noncurrent assets	<u>20,375,759</u>	<u>8,056,427</u>	<u>4,842,814</u>	<u>(9,109,086)</u>	<u>24,165,914</u>
Total assets	<u>98,377,634</u>	<u>12,392,926</u>	<u>6,607,955</u>	<u>(9,154,431)</u>	<u>108,224,084</u>
<b>LIABILITIES</b>					
<b>Current Liabilities</b>					
Accounts payable and accrued liabilities	14,404,264	357,569	2,097,254	(45,345)	16,813,742
Deferred revenue	36,579,421	1,467,915	1,076,562		39,123,898
Due to affiliated corporations	3,788,360				3,788,360
Long-term liabilities - current portion		57,749	637,586		695,335
Total current liabilities	<u>54,772,045</u>	<u>1,883,233</u>	<u>3,811,402</u>	<u>(45,345)</u>	<u>60,421,335</u>
<b>Noncurrent Liabilities</b>					
Long term liabilities		2,726,603	1,470,557		4,197,160
Total noncurrent liabilities	-	2,726,603	1,470,557	-	4,197,160
Total liabilities	<u>54,772,045</u>	<u>4,609,836</u>	<u>5,281,959</u>	<u>(45,345)</u>	<u>64,618,495</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	3,403,913	5,525,606	3,679,256		12,608,775
<b>Restricted</b>					
Nonexpendable	752,254				752,254
Expendable	3,646,407				3,646,407
Total restricted	<u>4,398,661</u>	-	-	-	<u>4,398,661</u>
Unrestricted	35,803,015	2,257,484	(2,353,260)	(9,109,086)	26,598,153
Total net assets	<u>\$ 43,605,589</u>	<u>\$ 7,783,090</u>	<u>\$ 1,325,996</u>	<u>\$ (9,109,086)</u>	<u>\$ 43,605,589</u>

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, 2011

	University of Kentucky Research Foundation	Kentucky Technology, Inc.	Coldstream Laboratories, Inc.	Elimination Entries	Total
<b>OPERATING REVENUES</b>					
Federal grants and contracts	\$ 184,015,979	\$ 218,750			\$ 184,234,729
State and local grants and contracts	68,954,104				68,954,104
Nongovernmental grants and contracts	25,593,858	1,123,590			26,717,448
Recoveries of facilities and administrative costs	52,808,778				52,808,778
Other operating revenues	132,704	1,020,682	\$ 5,804,714	\$ (178,504)	6,779,596
Total operating revenues	331,505,423	2,363,022	5,804,714	(178,504)	339,494,655
<b>OPERATING EXPENSES</b>					
Educational and general:					
Instruction	15,242,828				15,242,828
Research	182,100,126	2,938,706		(7,155)	185,031,677
Public service	108,799,212		10,626,453	(178,504)	119,247,161
Academic support	3,298,154				3,298,154
Student services	28,024				28,024
Institutional support	873,689				873,689
Operations and maintenance of plant	82,536				82,536
Student financial aid	1,245,285				1,245,285
Depreciation	19,603	318,150	788,613		1,126,366
Total operating expenses	311,689,457	3,256,856	11,415,066	(185,659)	326,175,720
Net income (loss) from operations	19,815,966	(893,834)	(5,610,352)	7,155	13,318,935
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Gifts	80,500				80,500
Investment income (loss)	(3,325,252)	1,147		3,995,278	671,173
Patent income	1,657,467				1,657,467
Grant (to) from the University of Kentucky for noncapital purposes	(6,371,317)				(6,371,317)
Interest on capital asset-related debt			(158,089)		(158,089)
Other nonoperating revenues and expenses, net	1,747	(464,682)	783,798	(7,155)	313,708
Net nonoperating revenues (expenses)	(7,956,855)	(463,535)	625,709	3,988,123	(3,806,558)
Net income (loss) before other revenues, expenses, gains, or losses	11,859,111	(1,357,369)	(4,984,643)	3,995,278	9,512,377
Capital grants and gifts	13,503,065	2,346,734			15,849,799
Additions to permanent endowments	1,250				1,250
Grant (to) from the University of Kentucky for capital purposes	(15,099,760)				(15,099,760)
Capital contributions from the foundation			6,568,660	(6,568,660)	-
Total other revenues (expenses)	(1,595,445)	2,346,734	6,568,660	(6,568,660)	751,289
INCREASE (DECREASE) IN NET ASSETS	10,263,666	989,365	1,584,017	(2,573,382)	10,263,666
NET ASSETS, beginning of year	33,341,923	6,793,725	(258,021)	(6,535,704)	33,341,923
NET ASSETS, end of year	\$ 43,605,589	\$ 7,783,090	\$ 1,325,996	\$ (9,109,086)	\$ 43,605,589

BOARD OF DIRECTORS  
As of June 30, 2011

Hollie Swanson  
Frank Butler  
Henry Jackson  
Michael Karpf  
F. Richard Kurzynske  
Penelope Brown  
Erwin Roberts  
Kumble Subbaswamy  
Brent Seales  
James W. Tracy  
Lee T. Todd, Jr.

OFFICERS

Lee T. Todd, Jr., President  
James W. Tracy, Vice President  
Kumble Subbaswamy, Executive Director  
Jack Supplee, Secretary  
Angie Martin, Treasurer



see blue.™



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

The University of Kentucky is committed to a policy of providing opportunities to people regardless of economic or social status and will not discriminate on the basis of race, color, ethnic origin, creed, religion, political belief, sex, sexual orientation, marital status, age veteran status, or physical or mental disability.

The University of Kentucky is an Equal Opportunity University. Questions concerning compliance with regulations may be directed to the Equal Opportunity Office, 13 Main Building, University of Kentucky, Lexington, KY 40506-0032. (859) 257-827 or at [www.uky.edu/evpfa/eo](http://www.uky.edu/evpfa/eo)

[www.uky.edu](http://www.uky.edu)