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UNIVERSITY OF  
**KENTUCKY**<sup>®</sup>  
2013 Financial Statements  
*Research Foundation*

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

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## Independent Auditor's Report

Board of Directors  
University of Kentucky  
Research Foundation  
Lexington, Kentucky

We have audited the accompanying basic financial statements, which are comprised of statements of net position as of June 30, 2013 and 2012, and statements of revenues, expenses and changes in net position and of cash flows for the years then ended and the related notes to the financial statements, as listed in the table of contents, of the University of Kentucky Research Foundation (Foundation), a not-for-profit corporation affiliated with and a component unit of the University of Kentucky (University).

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **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, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Required Supplementary Information**

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

## **Other Information**

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The board of directors listing 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 not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*BKD, LLP*

Louisville, Kentucky  
October 1, 2013

# 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, 2013 and 2012. 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 2012-2013 report a solid financial condition at June 30, 2013. Financial operations were in accordance with the revenue expectations and the approved budget plan.
- Total assets decreased \$2,362,102 or 2.2%. The most significant components of the fluctuation were decreases of \$7,302,362 in accounts receivable and \$2,087,810 in other noncurrent assets, net, offset by an increase of \$7,665,261 in cash and cash equivalents.
- Total liabilities decreased \$4,659,933 or 7.7%. Accounts payable and accrued liabilities decreased \$2,878,688 and funds due to the University decreased \$1,389,594.
- Total net position increased \$2,297,831 or 4.9%. Unrestricted net position increased \$1,520,270, net investment in capital assets increased \$560,429 and restricted net position increased \$217,132.
- Operating revenues decreased \$43,157,676 to \$299,116,529.
- Operating expenses decreased \$42,315,544 to \$283,886,874.

## Using the Annual Report

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

One of the most important questions asked about the 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 Position; Statement of Revenues, Expenses and Changes in Net Position; 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 position (the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources) is 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 subsidiary:
  - Secat, Inc. (100% 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, 2012 and December 31, 2011 are included in the Foundation's financial statements as of June 30, 2013 and 2012.

### Statement of Net Position

The Statement of Net Position includes all assets, deferred outflows of resources, liabilities and deferred inflows of resources. 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 position at June 30, 2013, 2012 and 2011 is as follows:

#### Condensed Statements of Net Position

	2013	2012	2011
<b>ASSETS</b>			
Current assets	\$ 85,052,725	\$ 85,164,443	\$ 84,058,170
Capital assets, net	14,703,996	15,091,554	14,478,379
Other noncurrent assets	5,457,617	7,320,443	9,687,535
Total assets	105,214,338	107,576,440	108,224,084
<b>LIABILITIES</b>			
Current liabilities	54,231,493	58,524,793	60,421,335
Noncurrent liabilities	1,411,382	1,778,015	4,197,160
Total liabilities	55,642,875	60,302,808	64,618,495
<b>NET POSITION</b>			
Net investment in capital assets	14,467,568	13,907,139	12,608,775
Restricted			
Nonexpendable	822,111	754,509	752,254
Expendable	3,659,633	3,510,103	3,646,407
Unrestricted	30,622,151	29,101,881	26,598,153
Total net position	\$ 49,571,463	\$ 47,273,632	\$ 43,605,589

**Assets.** As of June 30, 2013, the Foundation's assets totaled \$105,214,338. Cash and cash equivalents represented the Foundation's largest asset, totaling \$46,672,675 or 44.4% of total assets. Accounts receivable, primarily from grant sponsors, totaled \$36,041,546 or 34.3% of total assets and capital assets, net totaled \$14,703,996 or 14.0% of total assets.

Total assets decreased \$2,362,102 during the year ended June 30, 2013. The most significant components of the decrease in total assets were a \$7,302,362 decrease in accounts receivable and a decrease of \$2,087,810 in other noncurrent assets, net, offset by an increase of \$7,665,261 in cash and cash equivalents. Accounts receivable decreased due to less grants receivable. Other noncurrent assets decreased due to less invested in CLI after December 31, 2012 than after December 31, 2011. Cash and cash equivalents increased due to operating revenues exceeding operating and nonoperating expenses.

**Liabilities.** At June 30, 2013, the Foundation's liabilities totaled \$55,642,875. Unearned revenue amounted to \$34,558,354 or 62.1% of total liabilities. Unearned revenue reflects advance receipts from grant sponsors and other customers. Accounts payable and accrued liabilities totaling \$17,230,906, long-term liabilities of \$1,723,068 and funds due to the University of \$2,130,547 accounted for the remainder of the Foundation's liabilities.

Total liabilities decreased \$4,659,933 during the year ended June 30, 2013. The most significant components of the decrease in total liabilities were a decrease of \$2,878,688 in accounts payable and accrued liabilities and \$1,389,594 in funds due to the University. Accounts payable and accrued liabilities decreased primarily due to less owed to vendors because of less grant activity this year. The funds due to the University decreased in the amount owed to the UK Hospital for the amount loaned to the Foundation for investment in CLI.

**Net Position.** Net position at June 30, 2013 totaled \$49,571,463 or 47.1% of total assets. Net investment in capital assets totaled \$14,467,568 or 29.2% of total net position. Restricted net position totaled \$4,481,744 or 9.0% of total net position. Unrestricted net position accounted for \$30,622,151 or 61.8% of total net position.

Total net position increased \$2,297,831 during the year ended June 30, 2013. Unrestricted net position was the most significant component, increasing \$1,520,270 primarily due to revenues from recoveries of facilities and administrative costs exceeding expenses in unrestricted funds. In addition, net investment in capital assets increased \$560,429 due mainly to capital additions by CLI.

**2012 Versus 2011.** During the year ended June 30, 2012:

- Total assets decreased \$647,644. The most significant components of the decrease in total assets were a \$1,706,378 decrease in other noncurrent assets, net and a \$1,488,924 decrease in other current assets, net. The other noncurrent asset decrease was due to less invested in CLI after December 31, 2011 than after December 31, 2010. The other current assets, net decrease was mainly due to a decrease in KTI's deferred income taxes.
- Total liabilities decreased \$4,315,687 or 6.7%. The most significant components of the decrease in total liabilities were a decrease of \$5,324,992 in unearned revenue and \$2,018,328 in long term liabilities, offset by an increase of accounts payable and accrued liabilities of \$3,295,852. Unearned revenue decreased primarily due to less grant cash received in advance of expenses. Long term liabilities decreased mainly due to less deferred tax liability recorded by KTI.
- Total net position increased \$3,668,043. Unrestricted net position was the most significant component, increasing \$2,503,728, primarily due to revenues from recoveries of facilities and administrative costs exceeding expenses in unrestricted funds. In addition, net investment in capital assets increased \$1,298,364 due mainly to capital additions by KTI.

### **Statement of Revenues, Expenses and Changes in Net Position**

The Statement of Revenues, Expenses and Changes in Net Position presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. GASB 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 position for the years ended June 30, 2013, 2012 and 2011 is as follows:

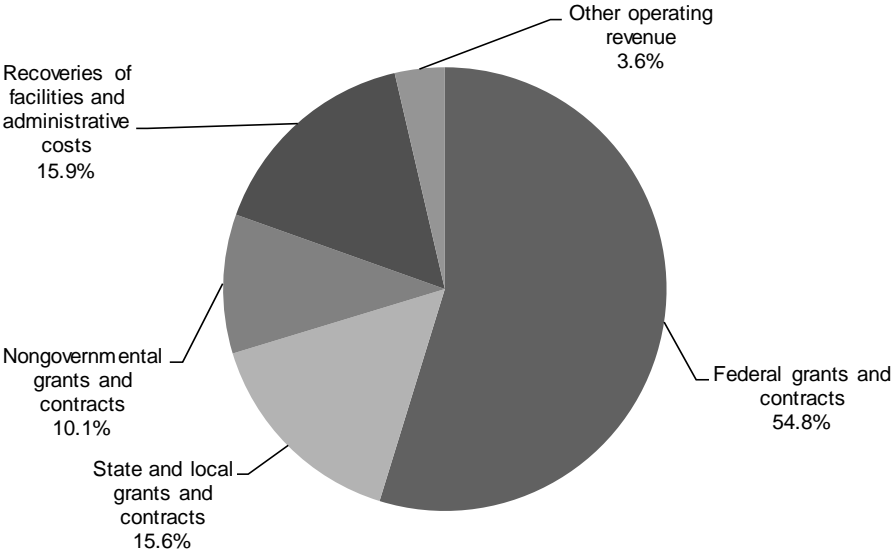
**Condensed Statements of Revenues, Expenses and Changes in Net Position**

	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>OPERATING REVENUES</b>			
Federal grants and contracts	\$ 163,787,819	\$ 178,613,210	\$ 184,234,729
State and local grants and contracts	46,527,849	73,843,119	68,954,104
Nongovernmental grants and contracts	30,320,577	28,045,352	26,717,448
Recoveries of facilities and administrative costs	47,598,962	51,542,511	52,808,778
Other operating revenue	10,881,322	10,230,013	6,779,596
Total operating revenues	<u>299,116,529</u>	<u>342,274,205</u>	<u>339,494,655</u>
<b>OPERATING EXPENSES</b>			
Research	165,669,528	177,164,354	185,031,677
Other educational and general	114,908,366	145,891,792	138,772,392
Student financial aid	1,756,131	1,718,883	1,245,285
Depreciation	1,552,849	1,427,389	1,126,366
Total operating expenses	<u>283,886,874</u>	<u>326,202,418</u>	<u>326,175,720</u>
<b>OPERATING INCOME</b>	<u>15,229,655</u>	<u>16,071,787</u>	<u>13,318,935</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Gifts	115,500	130,600	80,500
Investment income (loss)	395,117	203,236	671,173
Patent income	1,957,457	1,263,082	1,657,467
Interest on capital asset-related debt	(61,381)	(76,822)	(158,089)
Other nonoperating revenues and expenses, net	611,230	21,842	313,708
Capital grants and gifts	5,369,516	23,471,226	15,849,799
Additions to permanent endowments	2,100	2,255	1,250
Grants to the University of Kentucky	(21,063,964)	(36,937,599)	(21,471,077)
Other	(257,399)	(481,564)	-
Total nonoperating revenues (expenses)	<u>(12,931,824)</u>	<u>(12,403,744)</u>	<u>(3,055,269)</u>
Total increase in net position	2,297,831	3,668,043	10,263,666
<b>Net position, beginning of year</b>	<u>47,273,632</u>	<u>43,605,589</u>	<u>33,341,923</u>
<b>Net position, end of year</b>	<u>\$ 49,571,463</u>	<u>\$ 47,273,632</u>	<u>\$ 43,605,589</u>

Total operating revenues, consisting primarily of grants and contracts, and related recoveries of facilities and administrative costs, were \$299,116,529 for the year ended June 30, 2013. Federal, state and nongovernmental grants and contracts, and related recoveries of facilities and administrative costs, accounted for 96.4% of operating revenues. Operating revenues decreased \$43,157,676 or 12.6%, primarily caused by a \$27,315,270 or 37.0% decrease in state and local grants and contracts and a \$14,825,391 or 8.3% decrease in federal grants and contracts. The decrease in state and local grants and contracts was mainly caused by a decrease in the Department of Corrections Health Care Network grant, which has closed. The decrease in federal grants and contracts mainly resulted from decreases in grants funded by the American Recovery and Reinvestment Act of 2009.

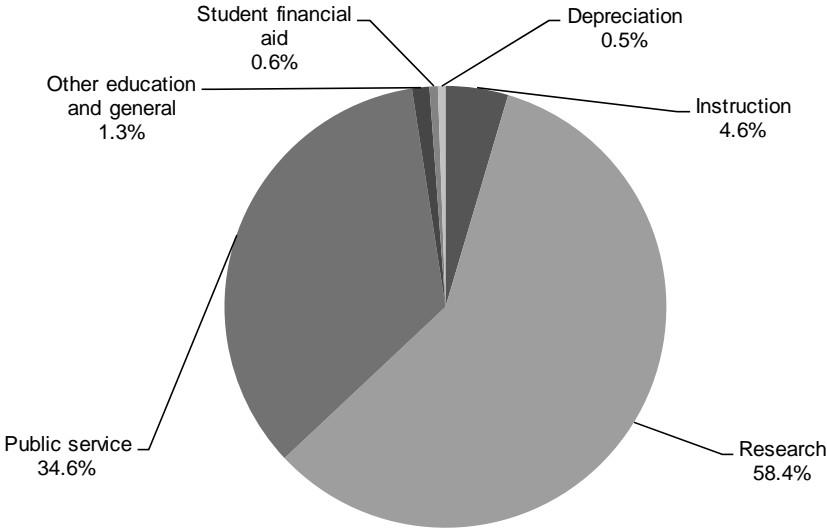


**TOTAL OPERATING REVENUES**



Operating expenses totaled \$283,886,874. Of this amount, \$165,669,528 or 58.4% was used for research expenses, \$98,174,761 or 34.6% was used for public service expenses and \$12,997,511 or 4.6% was used for instruction. Operating expenses decreased \$42,315,544. This decrease was primarily attributable to a decrease in public service and research activity.

**TOTAL OPERATING EXPENSES**



**2012 Versus 2011.** Total operating revenues, consisting primarily of grants and contracts, and related recoveries of facilities and administrative costs, were \$342,274,205. 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 \$2,779,550, primarily caused by a \$4,889,015 or 7.1% increase in state and local grants and contracts and an increase of \$3,450,417 or 50.9% in other operating revenues. The increase in state and local grants and contracts was mainly caused by increases in several grants, mainly the Department of Corrections Health Care Network grant. The increase in other operating revenues was caused by an increase in sales at CLI. Offsetting these increases was a decrease of \$5,621,519 or 3.1% in federal grants and contracts resulting from decreases in grants funded by the American Recovery and Reinvestment Act of 2009.

Operating expenses totaled \$326,202,418. Of this amount, \$177,164,354 or 54.3% was used for research expenses, \$129,004,737 or 39.5% was used for public service expenses and \$12,728,620 or 3.9% was used for instruction. Operating expenses increased marginally, \$26,698. This increase was primarily attributable to an increase in public service activity, offset by expenses associated with decreased research 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, 2013, 2012 and 2011 is as follows:

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

	2013	2012	2011
<b>CASH PROVIDED (USED) BY:</b>			
Operating activities	\$ 22,260,891	\$ 15,658,295	\$ 19,727,417
Noncapital financing activities	(7,608,778)	(6,848,464)	(231,762)
Capital and related financing activities	(7,507,426)	(7,978,417)	(3,883,624)
Investing activities	520,574	512,336	(127,429)
Net increase in cash and cash equivalents	7,665,261	1,343,750	15,484,602
<b>Cash and cash equivalents, beginning of year</b>	<b>39,007,414</b>	<b>37,663,664</b>	<b>22,179,062</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 46,672,675</b>	<b>\$ 39,007,414</b>	<b>\$ 37,663,664</b>

Major sources of cash included in operating activities were grants and contracts of \$248,583,137 and recoveries of facilities and administrative costs of \$49,181,272. The largest cash payments for operating activities were made to the University as reimbursements for employee salaries and benefits of \$153,415,660 and to suppliers of \$124,556,095.

The largest use of cash in the noncapital financing activities group related to grants to the University totaling \$12,575,173. Cash provided in this category is mostly from other receipts of \$4,848,795, 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 \$9,964,195 and purchases of capital assets of \$1,992,916, offset by capital grants and gifts of \$5,369,516.

Cash provided by investing activities reflects proceeds from sales and maturities of investments of \$3,144,436 and interest and dividends on investments of \$64,553, net of cash used to purchase investments of \$2,688,415.

**2012 Versus 2011.** Cash increased \$1,343,750 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 \$14,703,996 at June 30, 2013, a decrease of \$387,558. Capital assets as of June 30, 2013, and significant changes in capital assets during the years ended June 30, 2013 and 2012 are as follows (in thousands):

	Balance	Net	Balance	Net	Balance
	June 30, 2011	Additions	June 30, 2012	Additions	June 30, 2013
Land	\$ 2,336		\$ 2,336		\$ 2,336
Buildings	3,378	\$ (354)	3,024	\$ 436	3,460
Infrastructure	5,021	1,040	6,061	506	6,567
Equipment	8,089	657	8,746	501	9,247
Vehicles	21	-	21	-	21
Software	89	41	130	(54)	76
Construction in progress	705	574	1,279	180	1,459
Accumulated depreciation	(5,161)	(1,344)	(6,505)	(1,957)	(8,462)
Total	\$ 14,478	\$ 614	\$ 15,092	\$ (388)	\$ 14,704

**Debt.** The Foundation had long-term liabilities totaling \$1,723,068 at June 30, 2013 for capital leases of \$207,732 by CLI, \$548,490 other long-term liabilities of CLI and \$966,846 other long-term liabilities of KTI. The Foundation had long-term liabilities totaling \$2,874,167 at June 30, 2012 for capital leases of \$686,751 by CLI, \$1,242,316 other long-term liabilities of CLI and \$945,100 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, 2013, grants and contracts of \$189,043,016 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 Facilities and Administrative Cost Rates applicable to federal grants and contracts are negotiated with the Department of Health and Human Services. The rate applicable to organized research was 48.5% for fiscal years 2010-2013 and will increase to 50.0% for fiscal years 2014-2015 and 50.5% for fiscal year 2016. The increase in rate will provide additional recoveries of facilities and administrative costs.
- The Foundation is funded primarily by grants and contracts funded by sponsors. Operating revenues in grants and contracts showed a decline this year due to the closing of a large state grant and contract for the Department of Corrections and a decrease in funds available from grants and contracts awarded as part of the American Recovery and Reinvestment Act of 2009. Not only have these sources of funding ended, further declines in federal awards are anticipated and could have a serious impact in future fiscal years. 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 POSITION  
JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 46,672,675	\$ 39,007,414
Accounts receivable	36,041,546	43,343,908
Investments	-	351,250
Other current assets, net	2,338,504	2,461,871
Total current assets	<u>85,052,725</u>	<u>85,164,443</u>
<b>Noncurrent Assets</b>		
Endowment investments	3,808,971	3,598,169
Other long term investments	1,486,456	1,472,274
Other noncurrent assets, net	162,190	2,250,000
Capital assets, net	14,703,996	15,091,554
Total noncurrent assets	<u>20,161,613</u>	<u>22,411,997</u>
Total assets	<u>105,214,338</u>	<u>107,576,440</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	17,230,906	20,109,594
Unearned revenue	34,558,354	33,798,906
Due to the University of Kentucky	2,130,547	3,520,141
Long-term liabilities - current portion	311,686	1,096,152
Total current liabilities	<u>54,231,493</u>	<u>58,524,793</u>
<b>Noncurrent Liabilities</b>		
Long-term liabilities	1,411,382	1,778,015
Total noncurrent liabilities	<u>1,411,382</u>	<u>1,778,015</u>
Total liabilities	<u>55,642,875</u>	<u>60,302,808</u>
<b>NET POSITION</b>		
<b>Net investment in capital assets</b>	<u>14,467,568</u>	<u>13,907,139</u>
<b>Restricted</b>		
Nonexpendable	822,111	754,509
Expendable	3,659,633	3,510,103
Total restricted	<u>4,481,744</u>	<u>4,264,612</u>
<b>Unrestricted</b>		
Total net position	<u>\$ 49,571,463</u>	<u>\$ 47,273,632</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 POSITION  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<b>OPERATING REVENUES</b>		
Federal grants and contracts	\$ 163,787,819	\$ 178,613,210
State and local grants and contracts	46,527,849	73,843,119
Nongovernmental grants and contracts	30,320,577	28,045,352
Recoveries of facilities and administrative costs	47,598,962	51,542,511
Other operating revenues	<u>10,881,322</u>	<u>10,230,013</u>
Total operating revenues	<u>299,116,529</u>	<u>342,274,205</u>
<b>OPERATING EXPENSES</b>		
Educational and general:		
Instruction	12,997,511	12,728,620
Research	165,669,528	177,164,354
Public service	98,174,761	129,004,737
Academic support	2,878,837	2,678,591
Student services	39,083	30,663
Institutional support	817,965	995,961
Operations and maintenance of plant	209	453,220
Student financial aid	1,756,131	1,718,883
Depreciation	<u>1,552,849</u>	<u>1,427,389</u>
Total operating expenses	<u>283,886,874</u>	<u>326,202,418</u>
Net income (loss) from operations	<u>15,229,655</u>	<u>16,071,787</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Gifts	115,500	130,600
Investment income (loss)	395,117	203,236
Patent income	1,957,457	1,263,082
Grants (to) from the University of Kentucky for noncapital purposes	(11,185,579)	(8,570,181)
Interest on capital asset-related debt	(61,381)	(76,822)
Other nonoperating revenues and expenses	<u>611,230</u>	<u>21,842</u>
Net nonoperating revenues (expenses)	<u>(8,167,656)</u>	<u>(7,028,243)</u>
Net income (loss) before other revenues, expenses, gains, or losses	<u>7,061,999</u>	<u>9,043,544</u>
Capital grants and gifts	5,369,516	23,471,226
Additions to permanent endowments	2,100	2,255
Grants (to) from the University of Kentucky for capital purposes	(9,878,385)	(28,367,418)
Other, net	<u>(257,399)</u>	<u>(481,564)</u>
Total other revenues (expenses)	<u>(4,764,168)</u>	<u>(5,375,501)</u>
Increase (decrease) in net assets	<u>2,297,831</u>	<u>3,668,043</u>
<b>NET POSITION, beginning of year</b>	<u>47,273,632</u>	<u>43,605,589</u>
<b>NET POSITION, end of year</b>	<u>\$ 49,571,463</u>	<u>\$ 47,273,632</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, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Grants and contracts	\$ 248,583,137	\$ 277,043,787
Recoveries of facilities and administrative costs	49,181,272	50,780,218
Payments to vendors and contractors	(124,556,095)	(153,049,164)
Salaries, wages and benefits reimbursement to the University of Kentucky	(153,415,660)	(161,071,068)
Salaries, wages and benefits	(7,798,348)	(6,751,772)
Other receipts (payments)	10,266,585	8,706,294
Net cash provided (used) by operating activities	<u>22,260,891</u>	<u>15,658,295</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Gifts and grants received for other than capital purposes:		
Private gifts for endowment purposes	2,100	2,255
Private gifts for other purposes	115,500	130,600
Grants (to) from the University of Kentucky	(12,575,173)	(8,838,400)
Other receipts (payments)	4,848,795	1,857,081
Net cash provided (used) by noncapital financing activities	<u>(7,608,778)</u>	<u>(6,848,464)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Grants (to) from the University of Kentucky for capital purposes	(9,964,195)	(27,670,954)
Capital grants and gifts	5,369,516	23,471,226
Purchases of capital assets	(1,992,916)	(3,227,279)
Proceeds from capital debt	-	590,622
Principal paid on capital debt and leases	(1,245,867)	(1,307,495)
Interest paid on capital debt and leases	(61,381)	(76,822)
Other receipts (payments)	387,417	242,285
Net cash provided (used) by capital and related financing activities	<u>(7,507,426)</u>	<u>(7,978,417)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	3,144,436	2,096,547
Interest and dividends on investments	64,553	577,014
Purchase of investments	(2,688,415)	(2,161,225)
Net cash provided (used) by investing activities	<u>520,574</u>	<u>512,336</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<u>7,665,261</u>	<u>1,343,750</u>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>39,007,414</u>	<u>37,663,664</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 46,672,675</u>	<u>\$ 39,007,414</u>
<b>Reconciliation of net income (loss) from operations to net cash provided (used) by operating activities:</b>		
Net income (loss) from operations	\$ 15,229,655	\$ 16,071,787
Adjustments to reconcile net income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation expense	1,552,849	1,427,389
Change in assets and liabilities:		
Accounts receivable	7,302,362	(900,427)
Other current and noncurrent assets	2,227,194	2,958,772
Accounts payable and accrued liabilities	(2,490,509)	3,062,848
Long-term liabilities	(23,983)	(1,301,455)
Unearned revenue	(1,536,677)	(5,660,619)
<b>Net cash provided (used) by operating activities</b>	<u>\$ 22,260,891</u>	<u>\$ 15,658,295</u>
<b>NONCASH TRANSACTIONS</b>		
Equipment acquired through capital lease	\$ 118,751	\$ 240,623
Capital asset transfer from the University of Kentucky	\$ -	\$ 598,279
Capital asset additions in accounts payable	\$ -	\$ 301,560
CPST building lease payments - CLI	\$ (119,952)	\$ (119,952)

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 subsidiary:
  - Secat, Inc. (100% 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, 2012 and December 31, 2011 are included in the Foundation's financial statements as of June 30, 2013 and 2012.

#### Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). GASB establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following net position categories:

- Net investment in capital assets: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Restricted:
  - Nonexpendable* – Net position subject to externally imposed stipulations that it be maintained permanently by the Foundation. Such positions include the principal of the Foundation's permanent endowment funds.
  - Expendable* – Net position 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 position whose use by the Foundation is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

The financial statement presentation is intended to provide a comprehensive, entity-wide perspective of the Foundation's assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, expenses, changes in net position and cash flows.

During the year ended June 30, 2013, the Foundation adopted GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*.

The objective of GASB No. 63 is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position and related disclosures. GASB No. 63 has been applied retrospectively, by reclassifying certain 2012 financial statement line items to conform with the presentation requirements of the standard.

In addition to assets, GASB No. 63 requires the presentation of a separate financial statement element, deferred outflows of resources, which represents a consumption of net position that applies to a future period. The Foundation has no items that qualify for reporting in this category.

In addition to liabilities, GASB No. 63 requires the presentation of a separate financial statement element, deferred inflows of resources, which represents an acquisition of net position that applies to a future period. The Foundation has no items that qualify for reporting in this category.

### **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. All endowments are managed in a consolidated investment pool, which consists of more than 2,000 named 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 Kentucky Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted by the Commonwealth 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. The University has made expenditure decisions in accordance with UPMIFA and donor gift agreements. UPMIFA prescribes guidelines for expenditure of a donor-restricted endowment fund (in the absence of overriding, explicit donor stipulations) and focuses on the entirety of a donor-restricted endowment fund, that is, both the original gift amount(s) and net appreciation. In accordance with the standard of prudence prescribed by UPMIFA and consistent with industry standards, the University has adopted a spending policy whose long-term objective is to maintain the purchasing power of each endowment and provide a predictable and sustainable level of income to support current operations.

For the years ended June 30, 2013 and 2012, the University's endowment standard spending rule provided for annual distributions of 4.25% of the 60 month moving average market value of fund units. In recognition of recent adverse market performance, reduced spending rules were established for certain endowments whose market value was less than the contributed value as of December 31<sup>st</sup>, which is the measurement date for calculating spending distributions for the following fiscal year. Additionally, for the years ended June 30, 2013 and 2012, the University's annual endowment management fee was 0.25%; however, endowments whose market value was less than the contributed value as of December 31<sup>st</sup> were exempt from the management fee in the subsequent fiscal year.

The amount of gross spending policy distribution in accordance with the University's endowment spending policy was \$145,627 and \$150,687 for the years ended June 2013 and 2012, respectively.



For future years the University has established a "hybrid" spending policy, which includes both the market value of the endowment and the current level of inflation in determining spending each year. Annual spending will be calculated by taking a weighted average comprising 60 percent of the prior year's spending, adjusted for inflation, and 40% of the amount that results when the target annual spending rate of four percent is applied to the average market value of the Endowment over the preceding 36 months. The spending amount determined by the formula will be constrained so that the calculated rate is at least three percent, and not more than six percent, of the current Endowment market value. The hybrid spending policy will be phased in over two years. The year ended June 30, 2014 will serve as a transition year to the new policy and spending will be based on four percent of the average market value for the preceding 60 months. The hybrid policy will be fully implemented in the year ending June 30, 2015.

Additionally, for fiscal years ending June 30, 2014 and thereafter, spending and management fee withdrawals will be suspended on all endowments with a market value less than the contributed value by more than 20% at December 31<sup>st</sup> of the prior year. Endowments with a market value less than the contributed value by more than 10% will undergo a formal review to determine the appropriate level of spending in accordance with various factors set forth in UPMIFA.

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 Position.

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.

Unearned Revenue. Unearned 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 subsidiary, 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 Position, as those that generally result from exchange transactions, such as payments received for providing goods and services and payments made for goods and services received. 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, 2013 and 2012 is as follows:

	2013	2012
Cash on deposit with local banks and the University of Kentucky	\$ 46,672,675	\$ 39,007,414
Investment in University of Kentucky pooled endowment fund	3,808,971	3,598,169
Government agency fixed income securities	80,306	30,177
Investment in pooled equity funds	52,532	101,307
Investment in private equity funds	1,349,678	1,330,295
Common stocks	3,834	10,389
Certificates of deposit	-	351,250
Other	106	106
<b>Total</b>	<b>\$ 51,968,102</b>	<b>\$ 44,429,107</b>
	2013	2012
Statement of Net Position classification		
Cash and cash equivalents	\$ 46,672,675	\$ 39,007,414
Investments	-	351,250
Endowment investments	3,808,971	3,598,169
Other long-term investments	1,486,456	1,472,274
<b>Total</b>	<b>\$ 51,968,102</b>	<b>\$ 44,429,107</b>

At June 30, 2013, the University's pooled endowment fund consisted of common and preferred stock (4.3%), pooled equity funds (37.9%), pooled private equity funds (8.3%), pooled absolute return funds (20.2%), pooled real return funds (8.5%), pooled real estate funds (6.7%), U.S. Treasury fixed income (0.8%), government agency fixed income funds (0.9%), corporate fixed income funds (2.3%), pooled fixed income funds (9.3%) and cash and cash equivalents (0.8%). At June 30, 2012, the University's pooled endowment fund consisted of common and preferred stock (3.6%), pooled equity funds (37.5%), pooled private equity funds (7.5%), pooled absolute return funds (19.7%), pooled real return funds (9.5%), pooled real estate funds (6.6%), U.S. Treasury fixed income (1.0%), government agency fixed income funds (1.0%), corporate fixed income funds (2.9%), pooled fixed income funds (10.5%) and cash and cash equivalents (0.2%).

**Deposit and investment policies.** The Foundation follows the deposit and investment policies established by the University'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, which the University invests in deposits and repurchase agreements and the Commonwealth,
- 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 Operating Fund Investment Policy.

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 statements of net position.

**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 (FDIC). The Foundation's deposits are insured up to \$250,000 at each FDIC insured institution. Credit risk on deposits in local banks is minimized by the financial institutions' participation in the FDIC's 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 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 five percent of total investments excluding sovereign debt of governments belonging to the Organization for Economic Cooperation and Development and U.S. agencies.

**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. 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 2012, UKRF subsidiary CLI received a line of credit from UKRF through amounts advanced by UK Healthcare Hospital System for \$3,000,000, with interest adjusted annually on March 1 to the two-year U.S. Treasury rate plus one percent (1.29 percent at December 31, 2012). Interest began to accumulate upon initial transfer of funds. Payment term on the line of credit is five years from the date of the final cash transfer. The agreement has no set maturity date. The amount outstanding under this line of credit at June 30, 2013 and 2012 was \$2,709,925 and \$1,118,835, respectively. In addition to the line of credit arrangement, on December 13, 2011, the University approved the transfer of up to \$4,000,000 to CLI to fund operations and capital improvements. As of June 30, 2013 and 2012, \$3,610,447 and \$2,250,000, respectively, had been transferred into CLI's additional paid in capital to fund operations and capital improvements.

### 4. ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2013 and 2012, totaling \$36,041,546 and \$43,343,908, 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, 2013 and 2012 are summarized as follows:

	2013	2012
Unrecognized charges - patents	\$ 1,626,370	\$ 1,601,854
Inventories	591,553	555,396
Deferred income taxes	29,503	157,636
Other	91,078	146,985
Total	<u>\$ 2,338,504</u>	<u>\$ 2,461,871</u>

## 6. CAPITAL ASSETS, NET

Capital assets as of June 30, 2013 and 2012 are summarized as follows:

	2013			
	Beginning Balance	Additions	Deletions	Ending Balance
<u>Capital Assets</u>				
Land	\$ 2,336,455			\$ 2,336,455
Buildings	3,024,137	\$ 436,062		3,460,199
Infrastructure	6,061,068	506,180		6,567,248
Equipment	8,745,793	684,404	\$ 183,060	9,247,137
Vehicles	21,034	-	-	21,034
Software	129,998	4,170	58,241	75,927
Construction in process	1,279,491	179,291	-	1,458,782
	<u>21,597,976</u>	<u>1,810,107</u>	<u>241,301</u>	<u>23,166,782</u>
<u>Accumulated Depreciation</u>				
Buildings	1,238,972	234,873	(226,740)	1,700,585
Infrastructure	310,662	254,254	-	564,916
Equipment	4,848,316	1,054,683	(210,855)	6,113,854
Vehicles	18,405	-	(43,992)	62,397
Software	90,067	9,039	78,072	21,034
	<u>6,506,422</u>	<u>1,552,849</u>	<u>(403,515)</u>	<u>8,462,786</u>
Net capital assets	<u>\$ 15,091,554</u>	<u>\$ 257,258</u>	<u>\$ 644,816</u>	<u>\$ 14,703,996</u>
	2012			
	Beginning Balance	Additions	Deletions	Ending Balance
<u>Capital Assets</u>				
Land	\$ 2,336,455			\$ 2,336,455
Buildings	3,378,018	\$ 251,971	\$ 605,852	3,024,137
Infrastructure	5,021,392	1,039,676	-	6,061,068
Equipment	8,088,787	680,246	23,240	8,745,793
Vehicles	21,034	-	-	21,034
Software	88,627	41,371	-	129,998
Construction in process	705,802	751,149	177,460	1,279,491
	<u>19,640,115</u>	<u>2,764,413</u>	<u>806,552</u>	<u>21,597,976</u>
<u>Accumulated Depreciation</u>				
Buildings	1,091,104	155,441	7,573	1,238,972
Infrastructure	100,428	210,234	-	310,662
Equipment	3,877,681	1,045,765	75,130	4,848,316
Vehicles	14,198	4,207	-	18,405
Software	78,325	11,742	-	90,067
	<u>5,161,736</u>	<u>1,427,389</u>	<u>82,703</u>	<u>6,506,422</u>
Net capital assets	<u>\$ 14,478,379</u>	<u>\$ 1,337,024</u>	<u>\$ 723,849</u>	<u>\$ 15,091,554</u>

The net book value of capitalized leased equipment for CLI as of December 31, 2012 and 2011 was \$697,970 and \$1,333,781, respectively.

## 7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2013 and 2012 are as follows:

	2013	2012
Payable to vendors and contractors	\$ 9,910,760	\$ 15,676,572
Due to the University of Kentucky	4,670,134	1,476,802
Due to the University of Kentucky for accrued payroll	2,236,602	2,298,989
Accrued payroll	398,981	641,994
Accrued interest	14,429	15,237
Total	<u>\$ 17,230,906</u>	<u>\$ 20,109,594</u>

## 8. UNEARNED REVENUE

Unearned revenue as of June 30, 2013 and 2012 is as follows:

	2013	2012
Unearned grants and contracts revenue	\$ 29,552,926	\$ 31,040,898
Unearned patent intellectual property	3,410,538	1,114,413
Other	1,594,890	1,643,595
Total	<u>\$ 34,558,354</u>	<u>\$ 33,798,906</u>

## 9. LONG TERM LIABILITIES

Long-term liabilities as of June 30, 2013 are summarized as follows:

	2013					
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Noncurrent Portion
Capital leases	\$ 686,751	\$ 118,751	\$ 597,770	\$ 207,732	\$ 163,038	\$ 44,694
Deferred tax liability	870,877	95,969	-	966,846	-	966,846
Other long-term liabilities	1,316,539	-	768,049	548,490	148,648	399,842
Total long-term liabilities	<u>\$ 2,874,167</u>	<u>\$ 214,720</u>	<u>\$ 1,365,819</u>	<u>\$ 1,723,068</u>	<u>\$ 311,686</u>	<u>\$ 1,411,382</u>

Included in the other long-term liabilities ending balance as of June 30, 2013 is an amount owed to the University of Kentucky from CLI of \$519,794.

Long-term liabilities as of June 30, 2012 are summarized as follows:

	2012					
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Noncurrent Portion
Capital leases	\$ 916,474	\$ 240,622	\$ 470,345	\$ 686,751	\$ 473,643	\$ 213,108
Deferred tax liability	2,052,381	290,417	1,471,921	870,877	-	870,877
Other long-term liabilities	1,923,640	350,000	957,101	1,316,539	622,509	694,030
Total long-term liabilities	<u>\$ 4,892,495</u>	<u>\$ 881,039</u>	<u>\$ 2,899,368</u>	<u>\$ 2,874,167</u>	<u>\$ 1,096,152</u>	<u>\$ 1,778,015</u>

Included in the other long-term liabilities ending balance as of June 30, 2012 is an amount owed to the University of Kentucky from CLI of \$639,746.

Principal maturities and interest on long-term liabilities, excluding deferred tax liability, through the end of the lease term as of June 30, 2013 are as follows:

	Principal	Interest	Total
2014	\$ 311,686	\$ 2,134	\$ 313,820
2015	444,535	-	444,535
	<u>\$ 756,221</u>	<u>\$ 2,134</u>	<u>\$ 758,355</u>

## 10. INVESTMENT INCOME

Components of investment income for the years ended June 30, 2013 and 2012 are as follows:

	2013	2012
Interest and dividends earned on endowment investments	\$ 63,850	\$ 59,157
Realized and unrealized gains and losses on endowment investments	344,924	(86,854)
Realized and unrealized gains and losses on non-endowment investments	(28,358)	216,022
Investment income from external trusts	14,701	14,911
Total	<u>\$ 395,117</u>	<u>\$ 203,236</u>

## 11. GRANTS AND CONTRACTS AWARDED

At June 30, 2013, grants and contracts of \$189,043,016 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 2012 to 2013. 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, however, the lease with AgTeCC was not renewed and ended on April 30, 2013. Rent expense for these facilities was \$100,799 and \$93,497 for the periods ended December 31, 2012 and December 31, 2011, respectively. KTI subleases the ASTeCC and AgTeCC buildings to developing industries in advanced technology, with renewal options and escalation clauses. Sublease rental income was \$183,027 (including \$29,371 from the University's College of Engineering) and \$162,945 (including \$29,371 from the University's College of Engineering) for the periods ended December 31, 2012 and December 31, 2011, respectively. Future minimum rental revenue at December 31, 2012 is \$139,588 for the year ending December 31, 2013.

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 \$330,953 and \$358,332 for the periods ended December 31, 2012 and December 31, 2011, respectively. Following is a schedule of minimum lease payments related to this lease for future fiscal years:

Year ending December 31,	
2013	\$ 317,263
2014	317,263
2015	317,263
2016	52,877
Total minimum lease payments	<u>\$ 1,004,666</u>

As of December 31, 2012 and 2011, KTI was also responsible for 26.66% and 26.84%, respectively, of actual expenses related to common area maintenance, utilities and property taxes. This amounted to \$230,881 and \$233,571 during the periods ended December 31, 2012 and December 31, 2011, respectively.

KTI subleases office and laboratory space to tenants in the Coldstream Center with leases running from monthly to five years, with options to renew for one to three years. Rental income was \$842,560 (including \$224,244 from CLI and \$53,370 from UK Coldstream Research Center Administration) and \$736,615 (including \$195,668 from CLI and \$53,370 from UK Coldstream Research Center Administration) for the periods ended December 31, 2012 and December 31, 2011, respectively. The following is a schedule of future minimum rental receipts to be received under the leases at December 31, 2012:

Year ending December 31,	
2013	\$ 479,687
2014	153,780
2015	17,011
Total minimum rental receipts	<u>\$ 650,478</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 Position.

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 was \$433,674 for each of the periods ended December 31, 2012 and December 31, 2011. 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 \$1,073 to \$7,068. Future minimum lease payments related to this lease as of December 31, 2012 are as follows:

Year ending December 31,	
2013	\$ 594,571
2014	462,250
2015	433,674
2016	433,674
2017	180,698
Total minimum lease payments	<u>\$ 2,104,867</u>

#### 14. RECLASSIFICATIONS

Certain reclassifications have been made to the fiscal year 2012 financial statement amounts to conform to the fiscal year 2013 financial statements. Certain transactions previously reported as reductions of cash and cash equivalents are now being reported as accounts payable and accrued liabilities in the Statements of Net Position. Additionally, certain transactions previously reported as public services expenses are now being reported as research expenses in the Statements of Revenues, Expenses and Changes in Net Position. Such reclassifications had no effect on the change on net position.

#### 15. COMBINED CONDENSED STATEMENTS

The Foundation and its blended component units condensed statements were summarized as follows for the years ended June 30, 2013 and 2012:

UNIVERSITY OF KENTUCKY RESEARCH FOUNDATION  
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY  
COMBINED CONDENSED STATEMENT OF NET POSITION  
JUNE 30, 2013

	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	\$ 45,680,471	\$ 685,823	\$ 306,381	\$	\$ 46,672,675
Accounts receivable	32,529,037	175,217	3,337,292		36,041,546
Other current assets, net	1,629,274	49,776	675,654	(16,200)	2,338,504
Total current assets	79,838,782	910,816	4,319,327	(16,200)	85,052,725
<b>Noncurrent Assets</b>					
Endowment investments	3,808,971				3,808,971
Other long-term investments	8,931,691	1,482,516		(8,927,751)	1,486,456
Other noncurrent assets, net				162,190	162,190
Capital assets, net	2,757,512	6,976,700	4,969,784		14,703,996
Total noncurrent assets	15,498,174	8,459,216	4,969,784	(8,765,561)	20,161,613
Total assets	95,336,956	9,370,032	9,289,111	(8,781,761)	105,214,338
<b>LIABILITIES</b>					
<b>Current Liabilities</b>					
Accounts payable and accrued liabilities	10,805,412	214,016	6,211,478		17,230,906
Unearned revenue	32,829,534	150,130	1,594,890	(16,200)	34,558,354
Due to affiliated corporations	2,130,547				2,130,547
Long-term liabilities - current portion			311,686		311,686
Total current liabilities	45,765,493	364,146	8,118,054	(16,200)	54,231,493
<b>Noncurrent Liabilities</b>					
Long term liabilities		966,846	444,536		1,411,382
Total noncurrent liabilities	-	966,846	444,536	-	1,411,382
Total liabilities	45,765,493	1,330,992	8,562,590	(16,200)	55,642,875
<b>NET POSITION</b>					
<b>Net investment in capital assets</b>					
<b>Restricted</b>					
Nonexpendable	822,111				822,111
Expendable	3,659,633				3,659,633
Total restricted	4,481,744				4,481,744
<b>Unrestricted</b>					
	42,332,207	1,062,340	(4,006,835)	(8,765,561)	30,622,151
Total net position	\$ 49,571,463	\$ 8,039,040	\$ 726,521	\$ (8,765,561)	\$ 49,571,463

UNIVERSITY OF KENTUCKY RESEARCH FOUNDATION  
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY  
COMBINED CONDENSED STATEMENT OF NET POSITION  
JUNE 30, 2012

	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	\$ 37,650,450	\$ 1,331,963	\$ 25,001	\$	\$ 39,007,414
Accounts receivable	41,460,735	196,443	1,705,417	(18,687)	43,343,908
Investments			351,250		351,250
Other current assets, net	1,610,470	185,621	665,780		2,461,871
Total current assets	80,721,655	1,714,027	2,747,448	(18,687)	85,164,443
<b>Noncurrent Assets</b>					
Endowment investments	3,598,169				3,598,169
Other long-term investments	11,805,469	1,468,333		(11,801,528)	1,472,274
Other noncurrent assets, net			5,422,751	2,250,000	2,250,000
Capital assets, net	2,781,574	6,887,229			15,091,554
Total noncurrent assets	18,185,212	8,355,562	5,422,751	(9,551,528)	22,411,997
Total assets	98,906,867	10,069,589	8,170,199	(9,570,215)	107,576,440
<b>LIABILITIES</b>					
<b>Current Liabilities</b>					
Accounts payable and accrued liabilities	16,591,846	558,292	2,978,143	(18,687)	20,109,594
Unearned revenue	31,521,248	634,063	1,643,595		33,798,906
Due to affiliated corporations	3,520,141				3,520,141
Long-term liabilities - current portion		74,223	1,021,929		1,096,152
Total current liabilities	51,633,235	1,266,578	5,643,667	(18,687)	58,524,793
<b>Noncurrent Liabilities</b>					
Long term liabilities		870,877	907,138		1,778,015
Total noncurrent liabilities	-	870,877	907,138	-	1,778,015
Total liabilities	51,633,235	2,137,455	6,550,805	(18,687)	60,302,808
<b>NET POSITION</b>					
<b>Net investment in capital assets</b>					
<b>Restricted</b>					
Nonexpendable	754,509				754,509
Expendable	3,510,103				3,510,103
Total restricted	4,264,612	-	-	-	4,264,612
<b>Unrestricted</b>					
	40,227,446	1,119,128	(2,693,165)	(9,551,528)	29,101,881
Total net position	\$ 47,273,632	\$ 7,932,134	\$ 1,619,394	\$ (9,551,528)	\$ 47,273,632

UNIVERSITY OF KENTUCKY RESEARCH FOUNDATION  
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY  
COMBINED CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2013

	University of Kentucky Research Foundation	Kentucky Technology, Inc.	Coldsream Laboratories, Inc.	Elimination Entries	Total
<b>OPERATING REVENUES</b>					
Federal grants and contracts	\$ 163,787,819				\$ 163,787,819
State and local grants and contracts	46,527,849				46,527,849
Nongovernmental grants and contracts	28,705,175	\$ 1,615,402			30,320,577
Recoveries of facilities and administrative costs	47,598,962				47,598,962
Other operating revenues	287,101	1,451,495	\$ 9,388,570	\$ (245,844)	10,881,322
Total operating revenues	286,906,906	3,066,897	9,388,570	(245,844)	299,116,529
<b>OPERATING EXPENSES</b>					
Educational and general:					
Instruction	12,997,511				12,997,511
Research	162,935,206	2,782,807		(48,485)	165,669,528
Public service	85,334,268		13,064,737	(224,244)	98,174,761
Academic support	2,878,837				2,878,837
Student services	39,083				39,083
Institutional support	817,965				817,965
Operations and maintenance of plant	209				209
Student financial aid	1,756,131				1,756,131
Depreciation	24,061	461,038	1,067,750		1,552,849
Total operating expenses	266,783,271	3,243,845	14,132,487	(272,729)	283,886,874
Net income (loss) from operations	20,123,635	(176,948)	(4,743,917)	26,885	15,229,655
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Gifts	115,500				115,500
Investment income (loss)	(3,836,622)				(3,836,622)
Patent income	1,957,457		1,328		1,957,457
Grant (to) from the University of Kentucky for noncapital purposes	(11,185,579)	(3,813)		4,234,224	(11,185,579)
Interest on capital asset-related debt					(61,381)
Other nonoperating revenues and expenses, net	1,641	(83,765)	720,239	(26,885)	611,230
Net nonoperating revenues (expenses)	(12,947,603)	(87,578)	660,186	4,207,339	(8,167,656)
Net income (loss) before other revenues, expenses, gains, or losses	7,176,032	(264,526)	(4,083,731)	4,234,224	7,061,999
Capital grants and gifts	4,998,084	371,432			5,369,516
Additions to permanent endowments	2,100				2,100
Grant (to) from the University of Kentucky for capital purposes	(9,878,385)		3,448,257	(3,448,257)	(9,878,385)
Capital contributions from the Foundation					-
Other, net			(257,399)		(257,399)
Total other revenues (expenses)	(4,878,201)	371,432	3,190,858	(3,448,257)	(4,764,168)
<b>INCREASE (DECREASE) IN NET POSITION</b>	2,297,831	106,906	(892,873)	785,967	2,297,831
NET POSITION, beginning of year	47,273,632	7,932,134	1,619,394	(9,551,528)	47,273,632
NET POSITION, end of year	\$ 49,571,463	\$ 8,039,040	\$ 726,521	\$ (8,765,561)	\$ 49,571,463

UNIVERSITY OF KENTUCKY RESEARCH FOUNDATION  
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY  
COMBINED CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2012

	University of Kentucky Research Foundation	Kentucky Technology, Inc.	Coldstream Laboratories, Inc.	Elimination Entries	Total
<b>OPERATING REVENUES</b>					
Federal grants and contracts	\$ 178,607,378	\$ 5,832			\$ 178,613,210
State and local grants and contracts	73,843,119				73,843,119
Nongovernmental grants and contracts	26,670,381	1,374,971			28,045,352
Recoveries of facilities and administrative costs	51,542,511				51,542,511
Other operating revenues	283,688	1,345,381	8,796,612	(195,668)	10,230,013
Total operating revenues	330,947,077	2,726,184	8,796,612	(195,668)	342,274,205
<b>OPERATING EXPENSES</b>					
Educational and general:					
Instruction	12,728,620				12,728,620
Research	174,576,111	2,616,496		(28,253)	177,164,354
Public service	116,305,837		12,894,568	(195,668)	129,004,737
Academic support	2,678,591				2,678,591
Student services	30,663				30,663
Institutional support	995,961				995,961
Operations and maintenance of plant	453,220				453,220
Student financial aid	1,718,883				1,718,883
Depreciation	24,060	425,035	978,294		1,427,389
Total operating expenses	309,511,946	3,041,531	13,872,862	(223,921)	326,202,418
Net income (loss) from operations	21,435,131	(315,347)	(5,076,250)	28,253	16,071,787
<b>NONOPERATING REVENUES (EXPENSES)</b>					
Gifts	130,600				130,600
Investment income (loss)	(4,969,008)				203,236
Patent income	1,263,082	168,857	2,376	5,001,011	1,263,082
Grant (to) from the University of Kentucky for noncapital purposes	(8,570,181)		(76,822)		(8,570,181)
Interest on capital asset-related debt			641	(28,253)	(76,822)
Other nonoperating revenues and expenses, net	1,896	47,558			21,842
Net nonoperating revenues (expenses)	(12,143,611)	216,415	(73,805)	4,972,758	(7,028,243)
Net income (loss) before other revenues, expenses, gains, or losses	9,291,520	(98,932)	(5,150,055)	5,001,011	9,043,544
Capital grants and gifts	22,741,686	729,540			23,471,226
Additions to permanent endowments	2,255				2,255
Grant (to) from the University of Kentucky for capital purposes	(28,367,418)		5,443,453	(5,443,453)	(28,367,418)
Capital contributions from the Foundation					-
Other, net	(5,623,477)	(481,564)			(481,564)
Total other revenues (expenses)	247,976	247,976	5,443,453	(5,443,453)	(5,375,501)
INCREASE (DECREASE) IN NET POSITION	3,668,043	149,044	293,398	(442,442)	3,668,043
NET POSITION, beginning of year	43,605,589	7,783,090	1,325,996	(9,109,086)	43,605,589
NET POSITION, end of year	47,273,632	7,932,134	1,619,394	(9,551,528)	47,273,632

UNIVERSITY OF KENTUCKY RESEARCH FOUNDATION  
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY  
COMBINED CONDENSED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2013

	University of Kentucky Research Foundation	Kentucky Technology, Inc.	Coldstream Laboratories, Inc.	Elimination Entries	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Grants and contracts	\$ 246,967,735	\$ 1,615,402		\$	248,583,137
Recoveries of facilities and administrative costs	49,181,272				49,181,272
Payments to vendors and contractors	(116,170,395)	(1,560,677)	\$ (6,327,985)	\$ (497,038)	(124,556,095)
Salaries, wages and benefits reimbursement to the University of Kentucky	(153,415,660)	(701,450)	(7,096,898)		(153,415,660)
Salaries, wages and benefits	(1,301,029)	657,206	11,172,452	(262,044)	10,266,585
Other receipts (payments)	25,261,923	10,481	(2,252,431)	(759,082)	22,260,891
Net cash provided (used) by operating activities					
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Grants and grants received for other than capital purposes:					
Private gifts for endowment purposes	2,100				2,100
Private gifts for other purposes	115,500				115,500
Grants (to) from the University of Kentucky	(12,575,173)				(12,575,173)
Other receipts (payments)	4,239,206	(83,765)	720,239	(26,885)	4,848,795
Net cash provided (used) by capital and related financing activities	(8,218,367)	(83,765)	720,239	(26,885)	(7,608,778)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Grants (to) from the University of Kentucky for capital purposes	(9,964,195)				(9,964,195)
Capital grants and gifts	4,998,084	371,432			5,369,516
Purchases of capital assets		(852,069)	(1,140,847)		(1,992,916)
Principal paid on capital debt and leases		(74,223)	(1,171,644)		(1,245,867)
Interest paid on capital debt and leases			(61,381)		(61,381)
Capital contributions from the Foundation			3,448,257	(3,448,257)	-
Other receipts (payments)			387,417		387,417
Net cash provided (used) by capital and related financing activities	(4,966,111)	(554,860)	1,461,802	(3,448,257)	(7,507,426)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from sales and maturities of investments	2,495,739	297,447	351,250		3,144,436
Interest and dividends on investments	(4,181,545)	11,354	520	4,234,224	64,553
Purchase of investments	(2,361,618)	(326,797)			(2,688,415)
Net cash provided (used) by investing activities	(4,047,424)	(17,996)	351,770	4,234,224	520,574
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	8,030,021	(646,140)	281,380	-	7,665,261
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	37,650,450	1,331,963	25,001		39,007,414
<b>CASH AND CASH EQUIVALENTS, end of year</b>	\$ 45,680,471	\$ 685,823	\$ 306,381	\$ -	\$ 46,672,675

UNIVERSITY OF KENTUCKY RESEARCH FOUNDATION  
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY  
COMBINED CONDENSED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2012

	University of Kentucky Research Foundation	Kentucky Technology, Inc.	Coldstream Laboratories, Inc.	Elimination Entries	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Grants and contracts	\$ 275,662,984	\$ 1,380,803		\$	\$ 277,043,787
Recoveries of facilities and administrative costs	50,780,218				50,780,218
Payments to vendors and contractors	(145,089,409)	(1,614,847)	(7,029,958)	\$ 685,050	(153,049,164)
Salaries, wages and benefits reimbursement to the University of Kentucky	(161,071,068)	(876,159)	(5,875,613)		(161,071,068)
Salaries, wages and benefits	(838,069)	686,703	9,072,015	(214,355)	(6,751,772)
Other receipts (payments)	19,444,656	(423,500)	(3,833,556)	470,695	8,706,294
Net cash provided (used) by operating activities					15,658,295
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Gifts and grants received for other than capital purposes:					
Private gifts for endowment purposes	2,255				2,255
Private gifts for other purposes	130,600				130,600
Grants (to) from the University of Kentucky	(8,838,400)				(8,838,400)
Other receipts (payments)	1,837,135	47,558	641	(28,253)	1,857,081
Net cash provided (used) by capital and related financing activities	(6,868,410)	47,558	641	(28,253)	(6,848,464)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Grants (to) from the University of Kentucky for capital purposes	(27,670,954)				(27,670,954)
Capital grants and gifts	22,741,686	729,540			23,471,226
Purchases of capital assets		(1,097,511)	(2,129,768)		(3,227,279)
Proceeds from capital debt			590,622		590,622
Principal paid on capital debt and leases		(657,748)	(649,747)		(1,307,495)
Interest paid on capital debt and leases		(76,822)	(76,822)		(153,644)
Capital contributions from the Foundation			5,443,453	(5,443,453)	
Other receipts (payments)		(303,327)	545,612		242,285
Net cash provided (used) by capital and related financing activities	(4,929,268)	(1,329,046)	3,723,350	(5,443,453)	(7,978,417)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from sales and maturities of investments	1,768,729	327,818			2,096,547
Interest and dividends on investments	(4,881,384)	455,605	1,782	5,001,011	577,014
Purchase of investments	(1,525,927)	(284,048)	(351,250)		(2,161,225)
Net cash provided (used) by investing activities	(4,638,582)	499,375	(349,468)	5,001,011	512,336
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>					
CASH AND CASH EQUIVALENTS, beginning of year	3,008,396	(1,205,613)	(459,033)		1,343,750
CASH AND CASH EQUIVALENTS, end of year	34,642,054	2,537,576	484,034	-	37,663,664
	\$ 37,650,450	\$ 1,331,963	\$ 25,001	\$ -	\$ 39,007,414



## BOARD OF DIRECTORS

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