

Research Foundation

2014 Financial Statements



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University of Kentucky
Research Foundation
A Component Unit of the University of Kentucky
Financial Statements
Years Ended June 30, 2014 and 2013

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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, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended and the related notes to the basic 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, 2014 and 2013, 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.

Other Matters

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 3, 2014

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, 2014 and 2013. 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 2013-2014 report a solid financial condition at June 30, 2014. Financial operations were in accordance with the revenue expectations and the approved budget plan.
- Total assets decreased \$9,537,707 or 9.3%. The most significant component of the fluctuation was a decrease of \$9,557,961 in cash and cash equivalents.
- Total liabilities decreased \$7,397,801 or 14.0%. The most significant components of the decrease in total liabilities were decreases of \$5,848,682 in unearned revenue and \$566,500 in funds due to the University.
- Total net position decreased \$2,139,906 or 4.3%. Unrestricted net position decreased \$1,644,931 and net investment in capital assets decreased \$1,027,947, offset by an increase in restricted net position of \$532,972.
- Operating revenues decreased \$32,996,227 to \$266,120,302.
- Operating expenses decreased \$37,349,651 to \$246,537,223.

Using the Financial Statements

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; the 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, 2013 and December 31, 2012 are included in the Foundation's financial statements as of June 30, 2014 and 2013, respectively.

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, 2014, 2013 and 2012 is as follows:

Condensed Statements of Net Position

	2014	2013	2012
ASSETS			
Current assets	\$ 73,609,903	\$ 82,342,800	\$ 85,164,443
Capital assets, net	13,521,942	14,703,996	15,091,554
Other noncurrent assets	5,834,861	5,457,617	7,320,443
Total assets	92,966,706	102,504,413	107,576,440
LIABILITIES			
Current liabilities	44,473,783	51,521,568	58,524,793
Noncurrent liabilities	1,061,366	1,411,382	1,778,015
Total liabilities	45,535,149	52,932,950	60,302,808
NET POSITION			
Net investment in capital assets	13,439,621	14,467,568	13,907,139
Restricted			
Nonexpendable	822,801	822,111	754,509
Expendable	4,191,915	3,659,633	3,510,103
Unrestricted	28,977,220	30,622,151	29,101,881
Total net position	\$ 47,431,557	\$ 49,571,463	\$ 47,273,632

Assets. As of June 30, 2014, the Foundation's assets totaled \$92,966,706. Cash and cash equivalents represented the Foundation's largest asset, totaling \$37,114,714 or 39.9% of total assets. Accounts receivable, primarily from grant sponsors, totaled \$33,597,036 or 36.1% of total assets and capital assets, net totaled \$13,521,942 or 14.5% of total assets.

Total assets decreased \$9,537,707 during the year ended June 30, 2014. The most significant component of the decrease in total assets was a decrease of \$9,557,961 in cash and cash equivalents. Cash and cash equivalents decreased due to cash used by capital and related financing activities and noncapital financing activities, offset by cash provided by operating activities and investing activities.

Liabilities. At June 30, 2014, the Foundation's liabilities totaled \$45,535,149. Unearned revenue amounted to \$28,709,672 or 63.0% of total liabilities. Unearned revenue reflects advance receipts from grant sponsors and other customers. Accounts payable and accrued liabilities totaling \$14,021,653, funds due to the University of \$1,564,047 and long-term liabilities of \$1,239,777 accounted for the remainder of the Foundation's liabilities.

Total liabilities decreased \$7,397,801 during the year ended June 30, 2014. The most significant components of the decrease in total liabilities were decreases of \$5,848,682 in unearned revenue and \$566,500 in funds due to the University. Unearned revenue decreased primarily due to less received in advance from sponsors because of less grant activity this year. The funds due to the University decreased in the amount owed to the UK Healthcare Hospital System for the amount loaned to the Foundation for investment in CLI.

Net Position. Net position at June 30, 2014 totaled \$47,431,557 or 51.0% of total assets. Net investment in capital assets totaled \$13,439,621 or 28.3% of total net position. Restricted net position totaled \$5,014,716 or 10.6% of total net position. Unrestricted net position accounted for \$28,977,220 or 61.1% of total net position.

Total net position decreased \$2,139,906 during the year ended June 30, 2014. Unrestricted net position was the most significant component, decreasing \$1,644,931 primarily due to expenses in unrestricted funds exceeding revenues from recoveries of facilities and administrative costs. In addition, net investment in capital assets decreased \$1,027,947 due mainly to depreciation in CLI and KTI.

2013 Versus 2012. During the year ended June 30, 2013:

- Total assets decreased \$5,072,027. The most significant components of the decrease in total assets were a \$10,012,287 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.
- Total liabilities decreased \$7,369,858. The most significant components of the decrease in total liabilities were a decrease of \$5,588,613 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. The funds due to the University decreased in the amount owed to the UK Healthcare Hospital System for the amount loaned to the Foundation for investment in CLI.
- Total net position increased \$2,297,831. 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.

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.

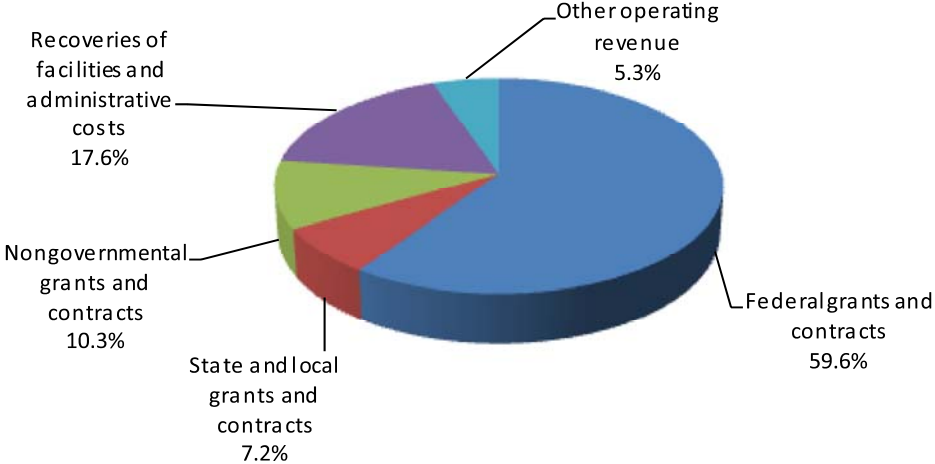
A summarized comparison of the Foundation's revenues, expenses and changes in net position for the years ended June 30, 2014, 2013 and 2012 is as follows:

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2014</u>	<u>2013</u>	<u>2012</u>
OPERATING REVENUES			
Federal grants and contracts	\$ 158,830,975	\$ 163,787,819	\$ 178,613,210
State and local grants and contracts	19,101,797	46,527,849	73,843,119
Nongovernmental grants and contracts	27,283,076	30,320,577	28,045,352
Recoveries of facilities and administrative costs	46,839,286	47,598,962	51,542,511
Other operating revenue	14,065,168	10,881,322	10,230,013
Total operating revenues	<u>266,120,302</u>	<u>299,116,529</u>	<u>342,274,205</u>
OPERATING EXPENSES			
Research	157,450,830	165,669,528	177,164,354
Other educational and general	86,324,821	114,908,366	145,891,792
Student financial aid	1,281,227	1,756,131	1,718,883
Depreciation	1,480,345	1,552,849	1,427,389
Total operating expenses	<u>246,537,223</u>	<u>283,886,874</u>	<u>326,202,418</u>
OPERATING INCOME	<u>19,583,079</u>	<u>15,229,655</u>	<u>16,071,787</u>
NONOPERATING REVENUES (EXPENSES)			
Gifts	191,350	115,500	130,600
Investment income	399,443	395,117	203,236
Patent income	2,563,738	1,957,457	1,263,082
Interest on capital asset-related debt	(14,304)	(61,381)	(76,822)
Other nonoperating revenues and expenses, net	367,926	611,230	21,842
Capital grants and gifts	3,599,180	5,369,516	23,471,226
Additions to permanent endowments	690	2,100	2,255
Grants to the University of Kentucky	(28,782,333)	(21,063,964)	(36,937,599)
Other	(48,675)	(257,399)	(481,564)
Total nonoperating revenues (expenses)	<u>(21,722,985)</u>	<u>(12,931,824)</u>	<u>(12,403,744)</u>
Total increase in net position	(2,139,906)	2,297,831	3,668,043
Net position, beginning of year	<u>49,571,463</u>	<u>47,273,632</u>	<u>43,605,589</u>
Net position, end of year	<u>\$ 47,431,557</u>	<u>\$ 49,571,463</u>	<u>\$ 47,273,632</u>

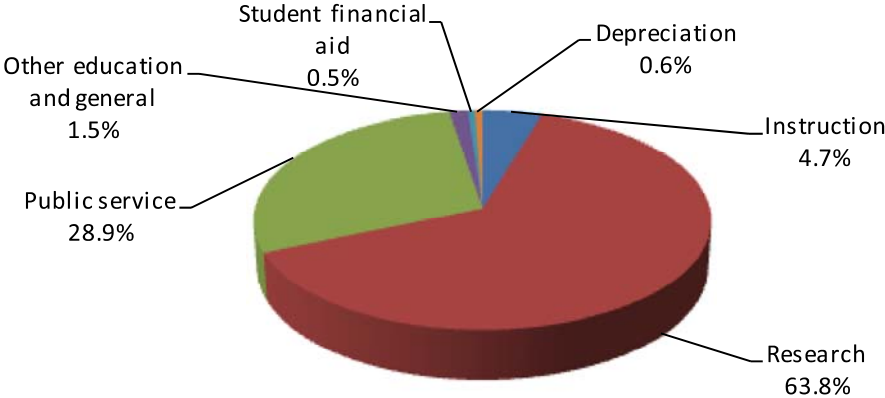
Total operating revenues, consisting primarily of grants and contracts, and related recoveries of facilities and administrative costs, were \$266,120,302 for the year ended June 30, 2014. Federal, state and nongovernmental grants and contracts, and related recoveries of facilities and administrative costs, accounted for 94.7% of operating revenues. Operating revenues decreased \$32,996,227 or 11.0%, primarily caused by a \$27,426,052 or 58.9% decrease in state and local grants and contracts and a \$4,956,844 or 3.0% 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 closed last year. 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 \$246,537,223. Of this amount, \$157,450,830 or 63.8% was used for research expenses, \$71,145,079 or 28.9% was used for public service expenses and \$11,545,662 or 4.7% was used for instruction. Operating expenses decreased \$37,349,651. This decrease was primarily attributable to a decrease in public service and research activity.

TOTAL OPERATING EXPENSES



2013 Versus 2012. Total operating revenues, consisting primarily of grants and contracts, and related recoveries of facilities and administrative costs, were \$299,116,529. 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 closed mid-year. The decrease in federal grants and contracts mainly resulted from decreases in grants funded by the American Recovery and Reinvestment Act of 2009.

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.

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, 2014, 2013 and 2012 is as follows:

Condensed Statements of Cash Flows

	2014	2013	2012
CASH PROVIDED (USED) BY:			
Operating activities	\$ 12,884,023	\$ 22,260,891	\$ 15,658,295
Noncapital financing activities	(8,578,913)	(7,608,778)	(6,848,464)
Capital and related financing activities	(13,882,333)	(7,507,426)	(7,978,417)
Investing activities	19,262	520,574	512,336
Net increase in cash and cash equivalents	(9,557,961)	7,665,261	1,343,750
Cash and cash equivalents, beginning of year	46,672,675	39,007,414	37,663,664
Cash and cash equivalents, end of year	\$ 37,114,714	\$ 46,672,675	\$ 39,007,414

Major sources of cash included in operating activities were grants and contracts of \$198,982,797 and recoveries of facilities and administrative costs of \$45,407,796. The largest cash payments for operating activities were made to the University as reimbursements for employee salaries and benefits of \$154,907,721 and to suppliers of \$84,757,381.

The largest use of cash in the noncapital financing activities group related to grants to the University totaling \$12,405,285. Cash provided in this category is mostly from other receipts of \$3,634,332, 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 \$16,966,135 and purchases of capital assets of \$795,598, offset by capital grants and gifts of \$3,599,180.

Cash provided by investing activities reflects proceeds from sales and maturities of investments of \$2,432,447 and interest and dividends on investments of \$106,877, net of cash used to purchase investments of \$2,520,062.

2013 Versus 2012. Cash increased \$7,665,261 primarily due to cash flows provided by operating activities and investing activities, offset by cash used by noncapital financing activities and capital and related financing activities.

Capital Asset and Debt Administration

Capital Assets. Capital assets, net of accumulated depreciation, totaled \$13,521,942 at June 30, 2014, a decrease of \$1,182,054. Capital assets as of June 30, 2014, and significant changes in capital assets during the years ended June 30, 2014 and 2013 are as follows (in thousands):

	Net		Net		Balance June 30, 2014
	Balance June 30, 2012	Additions FY 12-13	Balance June 30, 2013	Additions FY 13-14	
Land	\$ 2,336	\$ -	\$ 2,336	\$ -	\$ 2,336
Buildings	3,024	436	3,460	22	3,482
Infrastructure	6,061	506	6,567	-	6,567
Equipment	8,746	501	9,247	330	9,577
Vehicles	21	-	21	-	21
Software	130	(54)	76	3	79
Construction in progress	1,279	180	1,459	(77)	1,382
Accumulated depreciation	(6,505)	(1,957)	(8,462)	(1,460)	(9,922)
Total	\$ 15,092	\$ (388)	\$ 14,704	\$ (1,182)	\$ 13,522

Debt. The Foundation had long-term liabilities totaling \$1,239,777 at June 30, 2014 for capital leases of \$82,321 by CLI, \$399,841 other long-term liabilities of CLI and \$757,615 other long-term liabilities of KTI. 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.

Factors Impacting Future Periods

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

- At June 30, 2014, grants and contracts of \$177,691,281 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 50.0% for fiscal year 2014 and will remain the same for fiscal year 2015. It will increase to 50.5% for fiscal year 2016. The future increase in the 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 last year 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. 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. In fiscal year 2014, total awards of grants and contracts decreased; however, direct federal awards increased. An increase in direct federal awards is anticipated to partially offset decreases in other areas because direct federal awards provide most of the recoveries of facilities and administrative costs.

UNIVERSITY OF KENTUCKY RESEARCH FOUNDATION
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY
STATEMENTS OF NET POSITION
JUNE 30, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 37,114,714	\$ 46,672,675
Accounts receivable	33,597,036	33,331,621
Other current assets, net	2,898,153	2,338,504
Total current assets	<u>73,609,903</u>	<u>82,342,800</u>
Noncurrent Assets		
Endowment investments	4,256,129	3,808,971
Other long term investments	1,417,252	1,486,456
Other noncurrent assets, net	161,480	162,190
Capital assets, net	13,521,942	14,703,996
Total noncurrent assets	<u>19,356,803</u>	<u>20,161,613</u>
Total assets	<u>92,966,706</u>	<u>102,504,413</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	14,021,653	14,520,981
Unearned revenue	28,709,672	34,558,354
Due to the University of Kentucky	1,564,047	2,130,547
Long-term liabilities - current portion	178,411	311,686
Total current liabilities	<u>44,473,783</u>	<u>51,521,568</u>
Noncurrent Liabilities		
Long-term liabilities	1,061,366	1,411,382
Total noncurrent liabilities	<u>1,061,366</u>	<u>1,411,382</u>
Total liabilities	<u>45,535,149</u>	<u>52,932,950</u>
NET POSITION		
Net investment in capital assets	<u>13,439,621</u>	<u>14,467,568</u>
Restricted		
Nonexpendable	822,801	822,111
Expendable	4,191,915	3,659,633
Total restricted	<u>5,014,716</u>	<u>4,481,744</u>
Unrestricted		
Total net position	<u>\$ 47,431,557</u>	<u>\$ 49,571,463</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, 2014 AND 2013**

	2014	2013
OPERATING REVENUES		
Federal grants and contracts	\$ 158,830,975	\$ 163,787,819
State and local grants and contracts	19,101,797	46,527,849
Nongovernmental grants and contracts	27,283,076	30,320,577
Recoveries of facilities and administrative costs	46,839,286	47,598,962
Other operating revenues	14,065,168	10,881,322
Total operating revenues	<u>266,120,302</u>	<u>299,116,529</u>
OPERATING EXPENSES		
Educational and general:		
Instruction	11,545,662	12,997,511
Research	157,450,830	165,669,528
Public service	71,145,079	98,174,761
Academic support	2,882,577	2,878,837
Student services	24,239	39,083
Institutional support	720,328	817,965
Operations and maintenance of plant	6,936	209
Student financial aid	1,281,227	1,756,131
Depreciation	1,480,345	1,552,849
Total operating expenses	<u>246,537,223</u>	<u>283,886,874</u>
Net income (loss) from operations	<u>19,583,079</u>	<u>15,229,655</u>
NONOPERATING REVENUES (EXPENSES)		
Gifts	191,350	115,500
Investment income (loss)	399,443	395,117
Patent income	2,563,738	1,957,457
Grants (to) from the University of Kentucky for noncapital purposes	(11,838,785)	(11,185,579)
Interest on capital asset-related debt	(14,304)	(61,381)
Other nonoperating revenues and expenses	367,926	611,230
Net nonoperating revenues (expenses)	<u>(8,330,632)</u>	<u>(8,167,656)</u>
Net income (loss) before other revenues, expenses, gains, or losses	<u>11,252,447</u>	<u>7,061,999</u>
Capital grants and gifts	3,599,180	5,369,516
Additions to permanent endowments	690	2,100
Grants (to) from the University of Kentucky for capital purposes	(16,943,548)	(9,878,385)
Other, net	(48,675)	(257,399)
Total other revenues (expenses)	<u>(13,392,353)</u>	<u>(4,764,168)</u>
Increase (decrease) in net assets	<u>(2,139,906)</u>	<u>2,297,831</u>
NET POSITION, beginning of year	<u>49,571,463</u>	<u>47,273,632</u>
NET POSITION, end of year	<u>\$ 47,431,557</u>	<u>\$ 49,571,463</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, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Grants and contracts	\$ 198,982,797	\$ 248,583,137
Recoveries of facilities and administrative costs	45,407,796	49,181,272
Payments to vendors and contractors	(84,757,381)	(124,556,095)
Salaries, wages and benefits reimbursement to the University of Kentucky	(154,907,721)	(153,415,660)
Salaries, wages and benefits	(6,910,986)	(7,798,348)
Other receipts (payments)	15,069,518	10,266,585
Net cash provided (used) by operating activities	<u>12,884,023</u>	<u>22,260,891</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Gifts and grants received for other than capital purposes:		
Private gifts for endowment purposes	690	2,100
Private gifts for other purposes	191,350	115,500
Grants (to) from the University of Kentucky	(12,405,285)	(12,575,173)
Other receipts (payments)	3,634,332	4,848,795
Net cash provided (used) by noncapital financing activities	<u>(8,578,913)</u>	<u>(7,608,778)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Grants (to) from the University of Kentucky for capital purposes	(16,966,135)	(9,964,195)
Capital grants and gifts	3,599,180	5,369,516
Purchases of capital assets	(795,598)	(1,992,916)
Principal paid on capital debt and leases	(201,720)	(1,245,867)
Interest paid on capital debt and leases	(14,304)	(61,381)
Other receipts (payments)	496,244	387,417
Net cash provided (used) by capital and related financing activities	<u>(13,882,333)</u>	<u>(7,507,426)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	2,432,447	3,144,436
Interest and dividends on investments	106,877	64,553
Purchase of investments	(2,520,062)	(2,688,415)
Net cash provided (used) by investing activities	<u>19,262</u>	<u>520,574</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(9,557,961)</u>	<u>7,665,261</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>46,672,675</u>	<u>39,007,414</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 37,114,714</u>	<u>\$ 46,672,675</u>
Reconciliation of net income (loss) from operations to net cash provided (used) by operating activities:		
Net income (loss) from operations	\$ 19,583,079	\$ 15,229,655
Adjustments to reconcile net income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation expense	1,480,345	1,552,849
Change in assets and liabilities:		
Accounts receivable	(265,415)	7,302,362
Other current and noncurrent assets	(508,945)	2,227,194
Accounts payable and accrued liabilities	(474,513)	(2,490,509)
Long-term liabilities	(329,183)	(23,983)
Unearned revenue	(6,601,345)	(1,536,677)
Net cash provided (used) by operating activities	<u>\$ 12,884,023</u>	<u>\$ 22,260,891</u>
NONCASH TRANSACTIONS		
Equipment acquired through capital lease	\$ 47,612	\$ 118,751
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, 2013 and December 31, 2012 are included in the Foundation's financial statements as of June 30, 2014 and 2013, respectively.

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.

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 2,100 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 makes 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.

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% 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 with the new policy fully implemented in the year ending June 30, 2015. The year ended June 30, 2014 served as a transition year to the new policy and spending was based on four percent of the average market value for the preceding 60 months. For the year ended June 30, 2013, 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.

Additionally, for the fiscal year ended June 30, 2014, spending and management fee withdrawals were suspended on all endowments with a market value less than the contributed value by more than 20% at December 31st of the prior year. Endowments with a market value less than the contributed value by more than 10% went through a formal review to determine the appropriate level of spending in accordance with various factors set forth in UPMIFA. For fiscal year 2013 reduced spending rules were also established for certain endowments whose market value was less than the contributed value as of December 31st of the prior year.

For the years ended June 30, 2014 and 2013, the University's annual endowment management fee was 0.25%; however, endowments whose market value was less than the contributed value as of December 31st 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 \$65,078 and \$145,627 for the years ended June 30, 2014 and 2013, respectively.

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.

Reclassifications. Certain reclassifications have been made to the fiscal year 2013 financial statements to conform to the fiscal year 2014 financial statement presentation. Such reclassifications had no effect on the change in net position.

2. DEPOSITS AND INVESTMENTS

The fair value of deposits and investments, by type, at June 30, 2014 and 2013 is as follows:

	2014	2013
Cash on deposit with local banks and the University of Kentucky	\$ 37,114,714	\$ 46,672,675
Common stocks	3,834	3,834
Government agency fixed income securities	76,486	80,306
Investment in pooled equity funds	51,788	52,532
Investment in private equity funds	1,285,038	1,349,678
Investment in University of Kentucky pooled endowment fund	4,256,129	3,808,971
Other	106	106
Total	<u>\$ 42,788,095</u>	<u>\$ 51,968,102</u>
	2014	2013
Statement of Net Position classification		
Cash and cash equivalents	\$ 37,114,714	\$ 46,672,675
Endowment investments	4,256,129	3,808,971
Other long-term investments	1,417,252	1,486,456
Total	<u>\$ 42,788,095</u>	<u>\$ 51,968,102</u>

At June 30, 2014, the University's pooled endowment fund consisted of cash and cash equivalents (0.4%), common and preferred stock (4.6%), corporate fixed income funds (0.5%), government agency fixed income funds (0.2%), pooled absolute return funds (11.6%), pooled equity funds (28.3%), pooled fixed income funds (7.5%), pooled global tactical asset allocation funds (7.6%), pooled long/short equity funds (12.1%), pooled private equity funds (9.9%), pooled real estate funds (6.7%), pooled real return funds (9.6%), and U.S. Treasury fixed income (1.0%).

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

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 with banks and the Commonwealth of Kentucky (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 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.

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 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 deposit 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 core-plus fixed income managers are limited to a duration that is within two years of the duration of the Barclays Aggregate Bond Index and new unconstrained fixed income strategies have been implemented to further protect against rising interest rates.

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. During 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 (1.38 percent at December 31, 2013). 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, 2014 and 2013 was \$2,709,925 for both years, which is recorded within other noncurrent assets, net and noncurrent long term liabilities as noted within footnote 14. The amounts recorded within other noncurrent assets, net and noncurrent long term liabilities were further eliminated as reflected within footnote 14. Furthermore, additional amounts advanced from UK HealthCare Hospital System (an organizational unit of the University) to UKRF, which are recorded by UKRF within the financial statements in Due to the University of Kentucky, represent additional annual funding equal to the net losses of CLI. These additional advances are offset against amounts due to UK HealthCare Hospital System. 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, 2014 and 2013, \$4,000,000 and \$3,553,900, 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, 2014 and 2013, totaling \$33,597,036 and \$33,331,621, respectively, primarily represent net reimbursements receivable from sponsors for funds expended on grants and contracts. Allowances for uncollectible amounts were \$575,000 as of June 30, 2014 and 2013, respectively.

5. OTHER CURRENT ASSETS

Other current assets as of June 30, 2014 and 2013 are summarized as follows:

	2014	2013
Unrecognized charges - patents	\$ 1,673,491	\$ 1,626,370
Inventories	908,739	591,553
Deferred income taxes	22,689	29,503
Other	293,234	91,078
Total	<u>\$ 2,898,153</u>	<u>\$ 2,338,504</u>

6. CAPITAL ASSETS, NET

Capital assets as of June 30, 2014 are summarized as follows:

	2014			
	Beginning Balance	Additions	Deletions	Ending Balance
<u>Capital Assets</u>				
Land	\$ 2,336,455	\$ -	\$ -	\$ 2,336,455
Buildings	3,460,199	23,372	2,157	3,481,414
Infrastructure	6,567,248	-	-	6,567,248
Equipment	9,247,137	413,154	83,208	9,577,083
Vehicles	21,034	-	-	21,034
Software	75,927	2,915	-	78,842
Construction in process	1,458,782	403,769	480,663	1,381,888
	<u>23,166,782</u>	<u>843,210</u>	<u>566,028</u>	<u>23,443,964</u>
<u>Accumulated Depreciation</u>				
Buildings	1,700,585	236,609	-	1,937,194
Infrastructure	564,916	262,690	-	827,606
Equipment	6,113,854	971,784	21,109	7,064,529
Vehicles	62,397	9,262	-	71,659
Software	21,034	-	-	21,034
	<u>8,462,786</u>	<u>1,480,345</u>	<u>21,109</u>	<u>9,922,022</u>
Net capital assets	<u>\$ 14,703,996</u>	<u>\$ (637,135)</u>	<u>\$ 544,919</u>	<u>\$ 13,521,942</u>

The net book value of capitalized leased equipment for CLI as of December 31, 2013 was \$171,024.

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

	2013			
<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	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>

The net book value of capitalized leased equipment for CLI as of December 31, 2012 was \$697,970.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2014 and 2013 are as follows:

	2014	2013
Payable to vendors and contractors	\$ 8,549,237	\$ 9,910,760
Due to the University of Kentucky	2,483,447	1,960,209
Due to the University of Kentucky for accrued payroll	2,208,390	2,236,602
Accrued payroll	768,378	398,981
Accrued interest	12,201	14,429
Total	<u>\$ 14,021,653</u>	<u>\$ 14,520,981</u>

8. UNEARNED REVENUE

Unearned revenue as of June 30, 2014 and 2013 is as follows:

	2014	2013
Unearned grants and contracts revenue	\$ 23,178,643	\$ 29,552,926
Unearned patent intellectual property	4,163,200	3,410,538
Other	1,367,829	1,594,890
Total	<u>\$ 28,709,672</u>	<u>\$ 34,558,354</u>

9. LONG TERM LIABILITIES

Long-term liabilities as of June 30, 2014 and 2013 are summarized as follows:

2014						
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Noncurrent Portion
Capital leases	\$ 207,732	\$ 47,612	\$ 173,023	\$ 82,321	\$ 58,459	\$ 23,862
Deferred tax liability	966,846	-	209,231	757,615	-	757,615
Other long-term liabilities	548,490	-	148,649	399,841	119,952	279,889
Total long-term liabilities	\$ 1,723,068	\$ 47,612	\$ 530,903	\$ 1,239,777	\$ 178,411	\$ 1,061,366

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	\$ 2,874,167	\$ 214,720	\$ 1,365,819	\$ 1,723,068	\$ 311,686	\$ 1,411,382

Included in the other long-term liabilities ending balance as of June 30, 2014 and 2013 were amounts owed to the University of Kentucky from CLI of \$399,841 and \$519,764, respectively.

Principal maturities and interest on long-term liabilities, excluding deferred tax liability, through the end of the lease term as of June 30, 2014 are as follows:

	Principal	Interest	Total
2015	\$ 178,412	\$ 4,370	\$ 182,782
2016	139,353	1,232	140,585
2017	124,414	65	124,479
2018	39,983	-	39,983
Total	\$ 482,162	\$ 5,667	\$ 487,829

10. INVESTMENT INCOME

Components of investment income for the years ended June 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Interest and dividends earned on endowment investments	\$ 54,160	\$ 63,850
Realized and unrealized gains and losses on endowment investments	531,655	344,924
Realized and unrealized gains and losses on non-endowment investments	(200,544)	(28,358)
Investment income from external trusts	<u>14,172</u>	<u>14,701</u>
Total	<u>\$ 399,443</u>	<u>\$ 395,117</u>

11. GRANTS AND CONTRACTS AWARDED

At June 30, 2014, grants and contracts of \$177,691,281 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 \$1,000,000 per occurrence. Losses in excess of \$1,000,000 are insured by commercial carriers up to \$1.25 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 2013 to 2014. 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 \$87,306 and \$100,799 for the periods ended December 31, 2013 and 2012, respectively. KTI subleases the ASTeCC and AgTeCC buildings to developing industries in advanced technology, with renewal options and escalation clauses. Sublease rental income was \$171,957 and \$183,027 (including \$29,372 from the University's College of Engineering for the year ended December 31, 2012) for the periods ended December 31, 2013 and 2012, respectively. The University's College of Engineering did not rent space in the period ended December 31, 2013. Future minimum rental revenue at December 31, 2013 is \$152,424 for the year ending December 31, 2014.

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 \$317,263 and \$330,953 for the periods ended December 31, 2013 and 2012, respectively. Following is a schedule of minimum lease payments related to this lease for future fiscal years:

Year ending December 31,	
2014	\$ 310,098
2015	308,665
2016	<u>51,444</u>
Total minimum lease payments	<u>\$ 670,207</u>

As of December 31, 2013 and 2012, KTI was also responsible for 26.66% per year of actual expenses related to common area maintenance, utilities and property taxes. This amounted to \$219,142 and \$230,881 during the periods ended December 31, 2013 and 2012, 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 \$569,952 (including \$224,244 from CLI and \$50,490 from UK Coldstream Research Center Administration) and \$842,560 (including \$224,244 from CLI and \$53,370 from UK Coldstream Research Center Administration) for the periods ended December 31, 2013 and 2012, respectively. In February 2013, KTI began offering virtual offices at the Coldstream Center. In the period ended December 31, 2013, rental income from virtual offices was \$925 with no related expenses. The following is a schedule of future minimum rental receipts to be received under the leases at all locations at December 31, 2013:

Year ending December 31,	
2014	\$ 379,147
2015	141,236
2016	<u>44,365</u>
Total minimum rental receipts	<u>\$ 564,748</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, 2013 and 2012. 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 two to five years, with monthly rent ranging from \$1,073 to \$7,068. Future minimum lease payments related to this lease as of December 31, 2013 are as follows:

Year ending December 31,	
2014	\$ 613,786
2015	548,542
2016	548,542
2017	295,565
2018	<u>86,151</u>
Total minimum lease payments	<u>\$ 2,092,586</u>

14. COMBINED STATEMENTS

The Foundation and its blended component units statements were summarized as follows for the years ended June 30, 2014 and 2013:

UNIVERSITY OF KENTUCKY RESEARCH FOUNDATION
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY
COMBINED CONDENSED STATEMENT OF NET POSITION
AS OF JUNE 30, 2014

	University of Kentucky Research Foundation	Kentucky Technology, Inc.	Coldstream Laboratories, Inc.	Elimination Entries	Total
ASSETS					
Current Assets					
Cash and cash equivalents	\$ 35,395,654	\$ 862,454	\$ 856,606	\$ -	\$ 37,114,714
Accounts receivable	31,120,149	147,340	2,329,547	-	33,597,036
Other current assets, net	1,676,481	38,959	1,198,913	(16,200)	2,898,153
Total current assets	68,192,284	1,048,753	4,385,066	(16,200)	73,609,903
Noncurrent Assets					
Endowment investments	4,256,129	-	-	-	4,256,129
Other long-term investments	8,037,288	1,213,311	200,000	(8,033,347)	1,417,252
Other noncurrent assets, net	2,709,925	-	-	(2,548,445)	161,480
Capital assets, net	2,733,452	6,540,826	4,247,664	-	13,521,942
Total noncurrent assets	17,736,794	7,754,137	4,447,664	(10,581,792)	19,356,803
Total assets	85,929,078	8,802,890	8,832,730	(10,597,992)	92,966,706
LIABILITIES					
Current Liabilities					
Accounts payable and accrued liabilities	9,718,934	190,636	4,112,083	-	14,021,653
Unearned revenue	27,214,540	143,503	1,367,829	(16,200)	28,709,672
Due to the University of Kentucky	1,564,047	-	-	-	1,564,047
Long-term liabilities - current portion	-	-	178,411	-	178,411
Total current liabilities	38,497,521	334,139	5,658,323	(16,200)	44,473,783
Noncurrent Liabilities					
Long term liabilities	-	757,615	3,013,676	(2,709,925)	1,061,366
Total noncurrent liabilities	-	757,615	3,013,676	(2,709,925)	1,061,366
Total liabilities	38,497,521	1,091,754	8,671,999	(2,726,125)	45,535,149
NET POSITION					
Net investment in capital assets					
Restricted	2,733,452	6,540,826	4,165,343	-	13,439,621
Nonexpendable	822,801	-	-	-	822,801
Expendable	4,191,915	-	-	-	4,191,915
Total restricted	5,014,716	-	-	-	5,014,716
Unrestricted	39,683,389	1,170,310	(4,004,612)	(7,871,867)	28,977,220
Total net position	\$ 47,431,557	\$ 7,711,136	\$ 160,731	\$ (7,871,867)	\$ 47,431,557

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

	University of Kentucky Research Foundation	Kentucky Technology, Inc.	Coldstream Laboratories, Inc.	Elimination Entries	Total
ASSETS					
Current Assets					
Cash and cash equivalents	\$ 45,680,471	\$ 685,823	\$ 306,381	\$ -	\$ 46,672,675
Accounts receivable	29,819,112	175,217	3,337,292	-	33,331,621
Other current assets, net	1,629,274	49,776	675,654	(16,200)	2,338,504
Total current assets	77,128,857	910,816	4,319,327	(16,200)	82,342,800
Noncurrent Assets					
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	2,709,925	-	-	(2,547,735)	162,190
Capital assets, net	2,757,512	6,976,700	4,969,784	-	14,703,996
Total noncurrent assets	18,208,099	8,459,216	4,969,784	(11,475,486)	20,161,613
Total assets	95,336,956	9,370,032	9,289,111	(11,491,686)	102,504,413
LIABILITIES					
Current Liabilities					
Accounts payable and accrued liabilities	10,805,412	214,016	3,501,553	-	14,520,981
Unearned revenue	32,829,534	150,130	1,594,890	(16,200)	34,558,354
Due to the University of Kentucky	2,130,547	-	-	-	2,130,547
Long-term liabilities - current portion	-	-	311,686	-	311,686
Total current liabilities	45,765,493	364,146	5,408,129	(16,200)	51,521,568
Noncurrent Liabilities					
Long term liabilities	-	966,846	3,154,461	(2,709,925)	1,411,382
Total noncurrent liabilities	-	966,846	3,154,461	(2,709,925)	1,411,382
Total liabilities	45,765,493	1,330,992	8,562,590	(2,726,125)	52,932,950
NET POSITION					
Net investment in capital assets					
Restricted	2,757,512	6,976,700	4,733,356	-	14,467,568
Nonexpendable	822,111	-	-	-	822,111
Expendable	3,659,633	-	-	-	3,659,633
Total restricted	4,481,744	-	-	-	4,481,744
Unrestricted	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 REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

	University of Kentucky Research Foundation	Kentucky Technology, Inc.	Coldsream Laboratories, Inc.	Elimination Entries	Total
OPERATING REVENUES					
Federal grants and contracts	\$ 158,830,975	\$ -	\$ -	\$ -	\$ 158,830,975
State and local grants and contracts	19,101,797	-	-	-	19,101,797
Nongovernmental grants and contracts	25,908,942	1,374,134	-	-	27,283,076
Recoveries of facilities and administrative costs	46,839,286	-	-	-	46,839,286
Other operating revenues	186,123	1,068,294	\$ 13,067,395	\$ (256,644)	14,065,168
Total operating revenues	250,867,123	2,442,428	13,067,395	(256,644)	266,120,302
OPERATING EXPENSES					
Educational and general:					
Instruction	11,545,662	-	-	-	11,545,662
Research	155,085,833	2,420,653	-	(55,656)	157,450,830
Public service	58,298,248	-	13,071,075	(224,244)	71,145,079
Academic support	2,882,577	-	-	-	2,882,577
Student services	24,239	-	-	-	24,239
Institutional support	720,328	-	-	-	720,328
Operations and maintenance of plant	6,936	-	-	-	6,936
Student financial aid	1,281,227	-	-	-	1,281,227
Depreciation	24,060	454,388	1,001,897	-	1,480,345
Total operating expenses	229,869,110	2,875,041	14,072,972	(279,900)	246,537,223
Net income (loss) from operations	20,998,013	(432,613)	(1,005,577)	23,256	19,583,079
NONOPERATING REVENUES (EXPENSES)					
Gifts	191,350	-	-	-	191,350
Investment income (loss)	(711,949)	(229,559)	447	1,340,504	399,443
Patent income	2,563,738	-	-	-	2,563,738
Grant (to) from the University of Kentucky for noncapital purposes	(11,838,785)	-	-	-	(11,838,785)
Interest on capital asset-related debt	-	-	(14,304)	-	(14,304)
Other nonoperating revenues and expenses, net	1,405	334,268	55,509	(23,256)	367,926
Net nonoperating revenues (expenses)	(9,794,241)	104,709	41,652	1,317,248	(8,330,632)
Net income (loss) before other revenues, expenses, gains, or losses	11,203,772	(327,904)	(963,925)	1,340,504	11,252,447
Capital grants and gifts	3,599,180	-	-	-	3,599,180
Additions to permanent endowments	690	-	-	-	690
Grant (to) from the University of Kentucky for capital purposes	(16,943,548)	-	-	-	(16,943,548)
Capital contributions from the Foundation	-	-	446,810	(446,810)	-
Other, net	-	-	(48,675)	-	(48,675)
Total other revenues (expenses)	(13,343,678)	-	398,135	(446,810)	(13,392,353)
INCREASE (DECREASE) IN NET POSITION	(2,139,906)	(327,904)	(565,790)	893,694	(2,139,906)
NET POSITION, beginning of year	49,571,463	8,039,040	726,521	(8,765,561)	49,571,463
NET POSITION, end of year	\$ 47,431,557	\$ 7,711,136	\$ 160,731	\$ (7,871,867)	\$ 47,431,557

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
OPERATING REVENUES					
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
OPERATING EXPENSES					
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
NONOPERATING REVENUES (EXPENSES)					
Gifts	115,500	-	-	-	115,500
Investment income (loss)	(3,836,622)	(3,813)	1,328	4,234,224	395,117
Patent income	1,957,457	-	-	-	1,957,457
Grant (to) from the University of Kentucky for noncapital purposes	(11,185,579)	-	-	-	(11,185,579)
Interest on capital asset-related debt	-	-	(61,381)	-	(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)	-	-	-	(9,878,385)
Capital contributions from the Foundation	-	-	3,448,257	(3,448,257)	-
Other, net	-	-	(257,399)	-	(257,399)
Total other revenues (expenses)	(4,878,201)	371,432	3,190,858	(3,448,257)	(4,764,168)
INCREASE (DECREASE) IN NET POSITION	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 CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

	University of Kentucky Research Foundation	Kentucky Technology, Inc.	Coldstream Laboratories, Inc.	Elimination Entries	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Grants and contracts	\$ 197,608,663	\$ 1,374,134	\$ -	\$ -	\$ 198,982,797
Recoveries of facilities and administrative costs	45,407,796	-	-	-	45,407,796
Payments to vendors and contractors	(75,106,817)	(2,088,546)	(6,964,424)	(597,594)	(84,757,381)
Salaries, wages and benefits reimbursement to the University of Kentucky	(154,907,721)	-	-	-	(154,907,721)
Salaries, wages and benefits	-	(557,596)	(6,353,390)	-	(6,910,986)
Other receipts (payments)	184,758	1,093,239	14,064,365	(272,844)	15,069,518
Net cash provided (used) by operating activities	13,186,679	(178,769)	746,551	(870,438)	12,884,023
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Gifts and grants received for other than capital purposes:					
Private gifts for endowment purposes	690	-	-	-	690
Private gifts for other purposes	191,350	-	-	-	191,350
Grants (to) from the University of Kentucky	(12,405,285)	-	-	-	(12,405,285)
Other receipts (payments)	3,267,811	334,268	55,509	(23,256)	3,634,332
Net cash provided (used) by capital and related financing activities	(8,945,434)	334,268	55,509	(23,256)	(8,578,913)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Grants (to) from the University of Kentucky for capital purposes	(16,966,135)	-	-	-	(16,966,135)
Capital grants and gifts	3,599,180	-	-	-	3,599,180
Purchases of capital assets	-	(18,514)	(777,084)	-	(795,598)
Principal paid on capital debt and leases	-	-	(201,720)	-	(201,720)
Interest paid on capital debt and leases	-	-	(14,304)	-	(14,304)
Capital contributions from the Foundation	(1,159,107)	-	446,810	(446,810)	-
Other receipts (payments)	-	-	496,244	-	496,244
Net cash provided (used) by capital and related financing activities	(13,366,955)	(18,514)	(50,054)	(446,810)	(13,882,333)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sales and maturities of investments	2,354,623	77,824	-	-	2,432,447
Interest and dividends on investments	(1,243,604)	11,758	(1,781)	1,340,504	106,877
Purchase of investments	(2,270,126)	(49,936)	(200,000)	-	(2,520,062)
Net cash provided (used) by investing activities	(1,159,107)	39,646	(201,781)	1,340,504	19,262
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(10,284,817)	176,631	550,225	-	(9,557,961)
CASH AND CASH EQUIVALENTS, beginning of year	45,680,471	685,823	306,381	-	46,672,675
CASH AND CASH EQUIVALENTS, end of year	\$ 35,395,654	\$ 862,454	\$ 856,606	\$ -	\$ 37,114,714

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
CASH FLOWS FROM OPERATING ACTIVITIES					
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)	-	-	-	(153,415,660)
Salaries, wages and benefits	-	(701,450)	(7,096,898)	-	(7,798,348)
Other receipts (payments)	(1,301,029)	657,206	11,172,452	(262,044)	10,266,585
Net cash provided (used) by operating activities	25,261,923	10,481	(2,252,431)	(759,082)	22,260,891
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Grants and gifts 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)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
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)
CASH FLOWS FROM INVESTING ACTIVITIES					
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
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,030,021	(646,140)	281,380	-	7,665,261
CASH AND CASH EQUIVALENTS, beginning of year	37,650,450	1,331,963	25,001	-	39,007,414
CASH AND CASH EQUIVALENTS, end of year	\$ 45,680,471	\$ 685,823	\$ 306,381	\$ -	\$ 46,672,675

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