



2017 Financial Statements

 University of  
**Kentucky**<sup>®</sup>

**Research Foundation**

**University of Kentucky**  
**Research Foundation**  
**A Component Unit of the University of Kentucky**  
**Financial Statements**  
**Years Ended June 30, 2017 and 2016**

CONTENTS	PAGE
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Financial Statements	
Statements of Net Position	10
Statements of Revenues, Expenses and Changes in Net Position	11
Statements of Cash Flows	12
Notes to Financial Statements	13
Board of Directors	31

## Independent Auditor's Report

Board of Directors  
University of Kentucky  
Research Foundation  
Lexington, Kentucky

We have audited the accompanying financial statements of the University of Kentucky Research Foundation (Foundation), a not-for-profit corporation affiliated with and a component unit of the University of Kentucky (University), as of and for the years ended June 30, 2017 and 2016, and the related notes to financial statements, which collectively comprise the Foundation's basic financial statements as listed in the table of contents.

### 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 entity'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 entity'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 that 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, 2017 and 2016, 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 as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a 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 audits 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 audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Foundation's basic financial statements. 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.

The board of directors listing 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 19, 2017

**UNIVERSITY OF KENTUCKY  
RESEARCH FOUNDATION  
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2017 AND 2016**

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, 2017 and 2016. 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**

- Total assets increased \$9,378,067 or 8.4%. The most significant components of the fluctuation were increases of \$8,410,785 in cash and cash equivalents and \$1,561,873 in accounts receivable, net.
- Total liabilities decreased \$3,838,086 or 8.8%. The most significant component of the decrease in total liabilities was \$3,958,496 in accounts payable and accrued liabilities.
- Total net position increased \$13,216,153 or 19.3%. Unrestricted net position increased \$13,407,896, restricted net position increased \$231,795, offset by a decrease in net investment in capital assets of \$423,538.
- Operating revenues increased \$13,136,376 to \$285,278,344.
- Operating expenses increased \$11,080,593 to \$264,289,029.

**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. Over time, increases or decreases in net position indicate the improvement or erosion 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) (formerly a 100% owned, for-profit subsidiary of the Foundation)

KTI has a calendar-year basis fiscal year from January 1 through December 31. Therefore, the financial statements of KTI as of December 31, 2016 and 2015 are included in the Foundation's financial statements as of June 30, 2017 and 2016, respectively.

CLI has a calendar-year basis fiscal year from January 1 through December 31. On January 16, 2015, the Foundation sold the stock of CLI to PH Kentucky, Inc. for \$25,000,000, which resulted in a gain of \$18,126,947 as of June 30, 2015. CLI's final financial statements as a Foundation-held entity included financial information from the first 15 days of January 2015 included with financial data as of December 31, 2014, which were included in the Foundation's financial statements as of June 30, 2015.

### **Statements 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, 2017, 2016 and 2015 is as follows:

#### **Condensed Statements of Net Position**

	2017	2016	2015
<b>ASSETS</b>			
Current assets	\$ 98,121,885	\$ 89,251,319	\$ 84,280,173
Capital assets, net	8,611,160	9,034,698	9,504,344
Other noncurrent assets	14,669,412	13,738,373	5,377,905
Total assets	121,402,457	112,024,390	99,162,422
<b>LIABILITIES</b>			
Current liabilities	39,403,010	43,220,257	40,272,268
Noncurrent liabilities	383,559	404,398	479,635
Total liabilities	39,786,569	43,624,655	40,751,903
<b>NET POSITION</b>			
Net investment in capital assets	8,611,160	9,034,698	9,504,344
Restricted			
Nonexpendable	839,843	832,043	823,405
Expendable	4,206,588	3,982,593	4,394,737
Unrestricted	67,958,297	54,550,401	43,688,033
Total net position	\$ 81,615,888	\$ 68,399,735	\$ 58,410,519

**Assets.** As of June 30, 2017, the Foundation's assets totaled \$121,402,457. Cash and cash equivalents represented the Foundation's largest asset, totaling \$62,977,137 or 51.9% of total assets. Accounts receivable, net, primarily from grant sponsors, totaled \$32,357,889 or 26.7% of total assets, endowment investments totaled \$13,867,494 or 11.4% of total assets, and capital assets, net, totaled \$8,611,160 or 7.1% of total assets.

Total assets increased \$9,378,067 during the year ended June 30, 2017. The most significant components of the increase in total assets were increases of \$8,410,785 in cash and cash equivalents and \$1,561,873 in accounts receivable, net.

Cash and cash equivalents increased due to cash provided by operating activities and investing activities, offset by cash used by noncapital financing activities and capital and related financing activities. Accounts receivable, net increased primarily due to numerous grants received this year.

**Liabilities.** At June 30, 2017, the Foundation's liabilities totaled \$39,786,569. Unearned revenue amounted to \$32,925,496 or 82.8% of total liabilities. Unearned revenue reflects advance receipts from grant sponsors and other customers. Accounts payable and accrued liabilities and long-term liabilities of \$6,477,514 and \$383,559 respectively, accounted for the remainder of the Foundation's liabilities.

Total liabilities decreased \$3,838,086 during the year ended June 30, 2017. The most significant component of the decrease in total liabilities was \$3,958,496 in accounts payable and accrued liabilities primarily in grants due to a decrease in accrued payroll and less owed to vendors this year.

**Net Position.** Net position at June 30, 2017 totaled \$81,615,888 or 67.2% of total assets. Net investment in capital assets totaled \$8,611,160 or 10.6% of total net position. Restricted net position totaled \$5,046,431 or 6.2% of total net position. Unrestricted net position accounted for \$67,958,297 or 83.3% of total net position.

Total net position increased \$13,216,153 during the year ended June 30, 2017. Unrestricted net position was the most significant component, increasing \$13,407,896 due to revenues from recoveries of facilities and administrative costs exceeding expenses in unrestricted funds. Restricted net position increased \$231,795 primarily due to the endowment pool posting a total gain of 9.4% this year compared to a total loss of 1.8% last year. Net investment in capital assets decreased \$423,538 primarily from a loss on disposal of fixed assets along with current year depreciation.

**2016 Versus 2015.** During the year ended June 30, 2016:

- Total assets increased \$12,861,968. The most significant component of the increase in total assets was an increase of \$8,521,301 in endowment investments and \$4,974,866 in cash and cash equivalents. Endowment investments increased primarily due to two new quasi endowments established by the Foundation's board in fiscal year 2016. Cash and cash equivalents increased due to cash provided by operating activities, offset by cash used by noncapital financing activities, capital and related financing activities and investing activities.
- Total liabilities increased \$2,872,752. The most significant component of the increase in total liabilities was \$3,000,637 in unearned revenue due to additional prepaid funds received from sponsors for grants and contracts.
- Total net position increased \$9,989,216. Unrestricted net position was the most significant component, increasing \$10,862,368 due to revenues from recoveries of facilities and administrative costs exceeding expenses in unrestricted funds. Net investment in capital assets decreased \$469,646 primarily due to depreciation.

### **Statements 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, 2017, 2016 and 2015 is as follows:

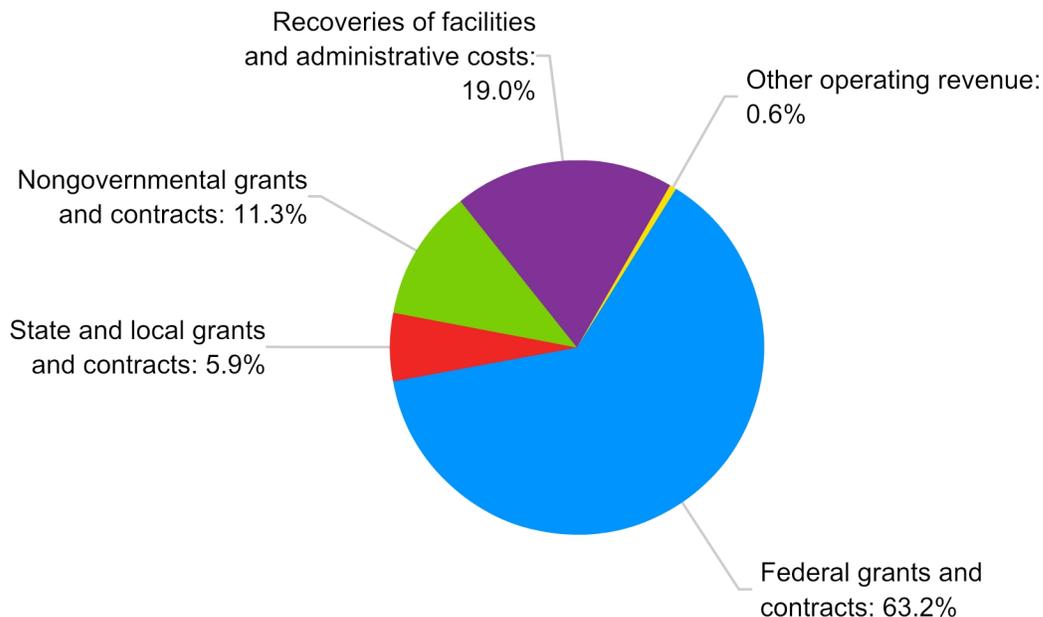
**Condensed Statements of Revenues, Expenses and Changes in Net Position**

	2017	2016	2015
<b>OPERATING REVENUES</b>			
Federal grants and contracts	\$ 180,423,608	\$ 167,832,272	\$ 166,573,254
State and local grants and contracts	16,880,801	16,458,887	16,889,578
Nongovernmental grants and contracts	32,078,358	33,803,354	28,851,305
Recoveries of facilities and administrative costs	54,179,381	50,887,589	47,882,437
Other operating revenue	1,716,196	3,159,866	15,273,339
Total operating revenues	<u>285,278,344</u>	<u>272,141,968</u>	<u>275,469,913</u>
<b>OPERATING EXPENSES</b>			
Research	176,409,303	166,755,694	160,755,227
Other educational and general	84,969,844	84,472,556	88,623,788
Student financial aid	2,489,023	1,494,365	1,328,135
Depreciation	420,859	485,821	1,379,189
Total operating expenses	<u>264,289,029</u>	<u>253,208,436</u>	<u>252,086,339</u>
<b>NET INCOME (LOSS) FROM OPERATIONS</b>	<u>20,989,315</u>	<u>18,933,532</u>	<u>23,383,574</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Gifts	239,921	245,126	460,763
Investment income (loss)	1,461,239	134,424	(80,397)
Gain on CLI sale	—	—	18,126,947
License income	4,547,906	8,157,314	1,403,172
Interest on capital asset-related debt	—	—	(48,529)
Other nonoperating revenues and expenses, net	141,737	209,077	439,618
Capital grants and gifts	9,035,476	4,675,058	6,423,827
Additions to permanent endowments	7,800	7,971	605
Grants to the University of Kentucky	(22,690,861)	(22,352,347)	(37,606,833)
Other, net	(516,380)	(20,939)	(1,523,785)
Total nonoperating revenues (expenses)	<u>(7,773,162)</u>	<u>(8,944,316)</u>	<u>(12,404,612)</u>
<b>INCREASE IN NET POSITION</b>	13,216,153	9,989,216	10,978,962
<b>NET POSITION, beginning of year</b>	68,399,735	58,410,519	47,431,557
<b>NET POSITION, end of year</b>	<u>\$ 81,615,888</u>	<u>\$ 68,399,735</u>	<u>\$ 58,410,519</u>

**2017.** Total operating revenues, consisting primarily of grants and contracts, and related recoveries of facilities and administrative costs, were \$285,278,344 for the year ended June 30, 2017. Federal, state and nongovernmental grants and contracts, and related recoveries of facilities and administrative costs, accounted for 99.4% of operating revenues. Operating revenues increased \$13,136,376 or 4.8%, primarily caused by increases of \$12,591,336 or 7.5% in federal grants and contracts and \$3,291,792 or 6.5% in recoveries of facilities

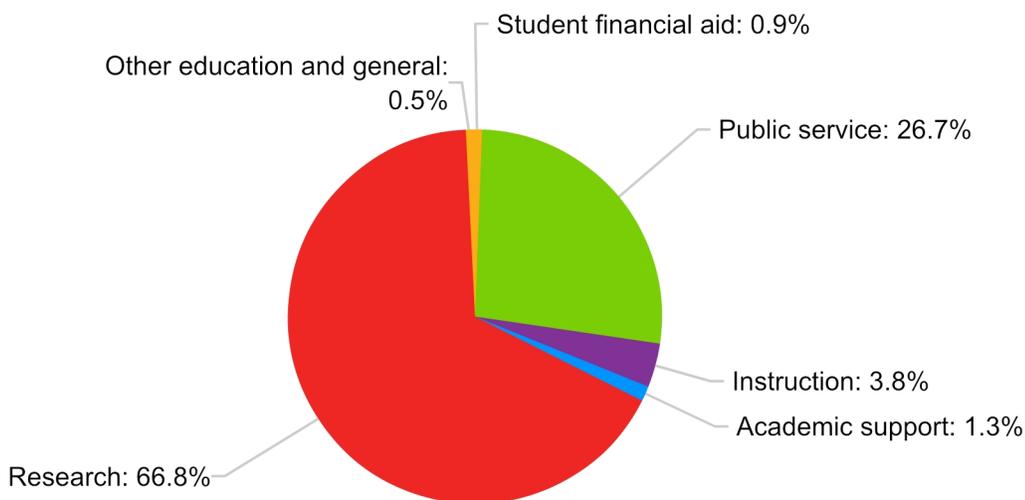
and administrative costs, offset by decreases of \$1,724,996 or 5.1% in nongovernmental grants and contracts and \$1,443,670 or 45.7% in other operating revenues. The increases in federal grants and contracts and recoveries of facilities and administrative costs were due to increases in numerous grants.

**TOTAL OPERATING REVENUES**



Operating expenses totaled \$264,289,029. Of this amount, \$176,409,303 or 66.8% was used for research expenses, \$70,618,096 or 26.7% was used for public service expenses and \$10,041,505 or 3.8% was used for instruction. Operating expenses increased \$11,080,593. This increase was primarily attributable to an increase in research activity and academic support, offset by a decrease in public service.

**TOTAL OPERATING EXPENSES**



**2016 Versus 2015.** Total operating revenues, consisting primarily of grants and contracts, and related recoveries of facilities and administrative costs, were \$272,141,968. Federal, state and nongovernmental grants and contracts, and related recoveries of facilities and administrative costs, accounted for 98.8% of operating revenues. Operating revenues decreased \$3,327,945 or 1.2%, primarily caused by a \$12,113,473 or 79.3% decrease in other operating revenues, offset by an increase of \$4,952,049 or 17.2% in nongovernmental grants and contracts and an increase of \$3,005,152 or 6.3% in recoveries of facilities and administrative costs. The decrease in other operating revenues was caused by the sale of CLI in fiscal year 2015.

Operating expenses totaled \$253,208,436. Of this amount, \$166,755,694 or 65.8% was used for research expenses, \$72,313,712 or 28.6% was used for public service expenses and \$9,482,355 or 3.7% was used for instruction. Operating expenses increased \$1,122,097. This increase was primarily attributable to an increase in research activity, offset by a decreases in public service and instruction.

### **Statements of Cash Flows**

The Statement of Cash Flows presents information related to the Foundation’s cash inflows and outflows and is summarized by operating, noncapital financing, capital and related 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 Foundation’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, 2017, 2016 and 2015 is as follows:

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>CASH PROVIDED (USED) BY:</b>			
Operating activities	\$ 18,576,807	\$ 23,829,164	\$ 29,305,886
Noncapital financing activities	(8,606,869)	(6,149,704)	(23,824,976)
Capital and related financing activities	(1,781,288)	(4,462,409)	(5,979,143)
Investing activities	<u>222,135</u>	<u>(8,242,185)</u>	<u>12,975,005</u>
Net increase in cash and cash equivalents	8,410,785	4,974,866	12,476,772
<b>Cash and cash equivalents, beginning of year</b>	<u>54,566,352</u>	<u>49,591,486</u>	<u>37,114,714</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 62,977,137</u>	<u>\$ 54,566,352</u>	<u>\$ 49,591,486</u>

**2017.** Major sources of cash provided by operating activities were grants and contracts of \$229,919,182 and recoveries of facilities and administrative costs of \$54,320,977. The largest cash payments used for operating activities were made to the University as reimbursements for employee salaries and benefits of \$169,958,777 and to suppliers of \$96,700,860.

The largest use of cash in the noncapital financing activities related to grants to the University for noncapital purposes totaling \$12,442,196. Cash provided by this category is mostly from other receipts of \$3,587,606, primarily license income.

Cash used by capital and related financing activities was primarily expended on grants to the University for capital purposes of which included the construction and acquisition of capital assets totaling \$10,303,062, offset by capital grants and gifts of \$9,035,476.

During the year ended June 30, 2017, cash provided by investing activities reflects proceeds from sales and maturities of investments of \$8,173,289 and interest and dividend income on investments of \$147,189, net of cash used to purchase investments of \$8,098,343.

**2016 Versus 2015.** Cash and cash equivalents increased \$4,974,866 primarily due to less cash used by noncapital financing and capital and related financing activities offset by an increase in cash used by investing activities along with a decrease in cash provided by operating activities.

### **Capital Assets and Debt Administration**

**Capital Assets.** Capital assets, net of accumulated depreciation, totaled \$8,611,160 at June 30, 2017, a decrease of \$423,538. The decrease was primarily due to KTI's loss on the disposal of leasehold improvements. Capital assets as of June 30, 2017, and significant changes in capital assets during the years ended June 30, 2017 and 2016 are as follows (in thousands):

	Net		Net		Balance June 30, 2017
	Balance June 30, 2015	Additions FY 15-16	Balance June 30, 2016	Additions FY 16-17	
Land	\$ 2,336	\$ —	\$ 2,336	\$ —	\$ 2,336
Land improvements	593	—	593	—	593
Buildings	2,480	—	2,480	(1,390)	1,090
Infrastructure	6,567	—	6,567	—	6,567
Equipment	2,216	17	2,233	463	2,696
Accumulated depreciation	(4,688)	(486)	(5,174)	503	(4,671)
<b>Total</b>	<b>\$ 9,504</b>	<b>\$ (469)</b>	<b>\$ 9,035</b>	<b>\$ (424)</b>	<b>\$ 8,611</b>

**Debt.** The Foundation had long-term liabilities totaling \$383,559 and \$404,398 at June 30, 2017 and 2016, respectively, for 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, 2017, grants and contracts of \$226,490,359 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 50.5% for fiscal year 2017. It will increase to 53.0% for fiscal year 2018. 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 an increase this year due to increases in several grants and additional grant awards. Total grant awards were \$331.3 million, an 4.7% increase over the previous period. Federal grant awards continue to comprise the majority of grant awards at \$178.3 million or 53.8% of total awards. Funding has increased from the National Science Foundation, a major federal sponsor. Increases in federal award funding are significant as these 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, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 62,974,784	\$ 54,566,352
Accounts receivable, net	32,357,889	30,796,016
Other current assets, net	2,789,212	3,888,951
Total current assets	<u>98,121,885</u>	<u>89,251,319</u>
<b>Noncurrent Assets</b>		
Restricted cash and cash equivalents	2,353	—
Endowment investments	13,867,494	12,816,860
Other long-term investments	764,565	886,513
Notes receivable	35,000	35,000
Capital assets, net	8,611,160	9,034,698
Total noncurrent assets	<u>23,280,572</u>	<u>22,773,071</u>
Total assets	<u>121,402,457</u>	<u>112,024,390</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	6,477,514	10,436,010
Unearned revenue	32,925,496	32,784,247
Total current liabilities	<u>39,403,010</u>	<u>43,220,257</u>
<b>Noncurrent Liabilities</b>		
Long-term liabilities	383,559	404,398
Total noncurrent liabilities	<u>383,559</u>	<u>404,398</u>
Total liabilities	<u>39,786,569</u>	<u>43,624,655</u>
<b>NET POSITION</b>		
<b>Net investment in capital assets</b>	<u>8,611,160</u>	<u>9,034,698</u>
<b>Restricted</b>		
Nonexpendable	839,843	832,043
Expendable	4,206,588	3,982,593
Total restricted	<u>5,046,431</u>	<u>4,814,636</u>
<b>Unrestricted</b>		
Total net position	<u>\$ 81,615,888</u>	<u>\$ 68,399,735</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, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>OPERATING REVENUES</b>		
Federal grants and contracts	\$ 180,423,608	\$ 167,832,272
State and local grants and contracts	16,880,801	16,458,887
Nongovernmental grants and contracts	32,078,358	33,803,354
Recoveries of facilities and administrative costs	54,179,381	50,887,589
Other operating revenues	1,716,196	3,159,866
Total operating revenues	<u>285,278,344</u>	<u>272,141,968</u>
<b>OPERATING EXPENSES</b>		
Educational and general:		
Instruction	10,041,505	9,482,355
Research	176,409,303	166,755,694
Public service	70,618,096	72,313,712
Academic support	3,504,638	1,803,421
Student services	9,691	5,181
Institutional support	791,608	856,730
Operations and maintenance of plant	4,306	11,157
Student financial aid	2,489,023	1,494,365
Depreciation	420,859	485,821
Total operating expenses	<u>264,289,029</u>	<u>253,208,436</u>
Net income (loss) from operations	<u>20,989,315</u>	<u>18,933,532</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Gifts	239,921	245,126
Investment income (loss)	1,461,239	134,424
License income	4,547,906	8,157,314
Grants (to) from the University of Kentucky for noncapital purposes	(12,442,196)	(13,245,058)
Other nonoperating revenues and (expenses)	141,737	209,077
Net nonoperating revenues (expenses)	<u>(6,051,393)</u>	<u>(4,499,117)</u>
Net income (loss) before other revenues, expenses, gains, or losses	<u>14,937,922</u>	<u>14,434,415</u>
Capital grants and gifts	9,035,476	4,675,058
Additions to permanent endowments	7,800	7,971
Grants (to) from the University of Kentucky for capital purposes	(10,248,665)	(9,107,289)
Other, net	(516,380)	(20,939)
Total other revenues (expenses)	<u>(1,721,769)</u>	<u>(4,445,199)</u>
<b>INCREASE IN NET POSITION</b>	<u>13,216,153</u>	<u>9,989,216</u>
<b>NET POSITION, beginning of year</b>	<u>68,399,735</u>	<u>58,410,519</u>
<b>NET POSITION, end of year</b>	<u>\$ 81,615,888</u>	<u>\$ 68,399,735</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, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Grants and contracts	\$ 229,919,182	\$ 221,584,469
Recoveries of facilities and administrative costs	54,320,977	52,098,099
Payments to vendors and contractors	(96,700,860)	(91,899,959)
Salaries, wages and benefits reimbursement to the University of Kentucky	(169,958,777)	(160,578,439)
Salaries, wages and benefits	(569,146)	(560,327)
Other receipts (payments)	<u>1,565,431</u>	<u>3,185,321</u>
Net cash provided (used) by operating activities	<u>18,576,807</u>	<u>23,829,164</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Gifts and grants received for other than capital purposes:		
Private gifts for endowment purposes	7,800	7,971
Private gifts for other purposes	239,921	263,507
Grants (to) from the University of Kentucky	(12,442,196)	(13,245,058)
Other receipts (payments)	<u>3,587,606</u>	<u>6,823,876</u>
Net cash provided (used) by noncapital financing activities	<u>(8,606,869)</u>	<u>(6,149,704)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Grants (to) from the University of Kentucky for capital purposes	(10,303,062)	(9,100,353)
Capital grants and gifts	9,035,476	4,675,058
Purchases of capital assets	(488,912)	(16,175)
Other receipts (payments)	<u>(24,790)</u>	<u>(20,939)</u>
Net cash provided (used) by capital and related financing activities	<u>(1,781,288)</u>	<u>(4,462,409)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments, net	8,173,289	4,311,479
Interest and dividends on investments	147,189	58,217
Purchase of investments	<u>(8,098,343)</u>	<u>(12,611,881)</u>
Net cash provided (used) by investing activities	<u>222,135</u>	<u>(8,242,185)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	8,410,785	4,974,866
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>54,566,352</u>	<u>49,591,486</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 62,977,137</u>	<u>\$ 54,566,352</u>
<b>Reconciliation of net income (loss) from operations to net cash provided (used) by operating activities:</b>		
Net income (loss) from operations	\$ 20,989,315	\$ 18,933,532
Adjustments to reconcile net income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation expense	420,859	485,821
Change in assets and liabilities:		
Accounts receivable	(1,561,874)	1,711,913
Other current and noncurrent assets	357,088	(1,763,136)
Accounts payable and accrued liabilities	(3,904,097)	(59,584)
Long-term liabilities	(20,839)	(75,237)
Unearned revenue	<u>2,296,355</u>	<u>4,595,855</u>
<b>Net cash provided (used) by operating activities</b>	<u>\$ 18,576,807</u>	<u>\$ 23,829,164</u>
<b>NONCASH TRANSACTIONS</b>		
Capital asset change in accounts payable	\$ (54,397)	\$ 6,936

See notes to financial statements

**UNIVERSITY OF KENTUCKY  
RESEARCH FOUNDATION  
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017 AND 2016**

**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)

KTI has a calendar-year basis fiscal year from January 1 through December 31. Therefore, the financial statements of KTI as of December 31, 2016 and December 31, 2015 are included in the Foundation's financial statements as of June 30, 2017 and 2016, 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 assets 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 2,200 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 of Kentucky (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 with the long-term objective to maintain the purchasing power of each endowment and provide a predictable and sustainable level of income to support current operations.

The adopted spending policy is a "hybrid" policy, which includes both the market value of the endowment and the current level of inflation in determining spending each year. Annual spending is 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 is constrained so that the calculated rate is at least three percent, and not more than six percent, of the current endowment market value.

The University also utilizes an endowment management fee to support internal management and fundraising costs related to the endowment. For the years ended June 30, 2017 and 2016, the University's annual endowment management fee was 0.50%.

To protect endowment funds from permanent impairment of value, spending and management fee withdrawals are suspended on endowments with a market value less than the contributed value by more than 20%. Additionally, endowments with a market value less than the contributed value by more than 10% undergo a formal review to determine the appropriate level of spending in accordance with various factors set forth in UPMIFA. All donor restrictions and stipulations prevail in decisions regarding preservation and spending of endowment funds.

The amount of gross spending policy distribution in accordance with the University's endowment spending policy was \$462,425 and \$137,965 for the years ended June 30, 2017 and 2016, respectively.

Investments. Investments in marketable securities are carried at fair value. See footnote 2 for more information on the fair value determination. 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

long-term investments. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income (loss) in the Statements 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 \$5,000 or more (\$2,500 or more for KTI) 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, 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 2016 financial statements to conform to the fiscal year 2017 financial statements presentation. These reclassifications had no effect on the change in net position.

## 2. DEPOSITS AND INVESTMENTS

The fair value of deposits and investments, by Statements of Net Position classification, at June 30, 2017 and 2016 are as follows:

	2017	2016
<u>Statement of Net Position classification</u>		
Cash and cash equivalents	\$ 62,974,784	\$ 54,566,352
Restricted cash and cash equivalents	2,353	—
Total cash and cash equivalents	62,977,137	54,566,352
Endowment investments	13,867,494	12,816,860
Other long-term investments	764,565	886,513
Total	\$ 77,609,196	\$ 68,269,725

Fair Value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at a measurement date. The framework for measuring fair value established by generally accepted accounting principles provides a fair value hierarchy as follows:

Level 1	Quoted prices in active markets for identical assets or liabilities.
Level 2	Observable inputs other than level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
Level 3	Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities.

The University categorizes its fair value measurements within the fair value hierarchy. Certain investments are measured at fair value using net asset value per share (or its equivalent), practical expedient, amortized costs, or historical costs and therefore have not been classified in the fair value hierarchy. These investments have been included in the table below to permit reconciliation of the fair value hierarchy to the amounts presented in the Statements of Net Position.

The Foundation had the following valuation measurements, by type, at June 30, 2017:

	Fair Value Measurement Using					
	Total Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Measured at Fair Value	
Cash and cash equivalents	\$ 62,977,137	\$ —	\$ —	\$ —	\$ —	\$ 62,977,137
Global equity - U.S.	679,466	59,633	—	—	59,633	619,833
Global fixed income - high quality/rate sensitive	62,233	30,980	31,253	—	62,233	—
Global fixed income - private	19,860	—	19,860	—	19,860	—
Endowed deposits and investments	13,867,494	—	—	13,867,494	13,867,494	—
Other	6	—	—	—	—	6
Total	\$ 77,606,196	\$ 90,613	\$ 51,113	\$ 13,867,494	\$ 14,009,220	\$ 63,596,976

The Foundation had the following valuation measurements, by type, at June 30, 2016:

	Fair Value Measurement Using					Amortized or Historical Cost
	Total Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Measured at Fair Value	
Cash and cash equivalents	\$ 54,566,352	\$ —	\$ —	\$ —	\$ —	\$ 54,566,352
Global equity - U.S.	447,496	—	—	—	—	447,496
Global fixed income - high quality/rate sensitive	129,749	94,810	34,939	—	129,749	—
Global fixed income - private	309,262	87,075	—	—	87,075	222,187
Endowed deposits and investments	12,816,860	—	—	12,816,860	12,816,860	—
Other	6	—	—	—	—	6
<b>Total</b>	<b>\$ 68,269,725</b>	<b>\$ 181,885</b>	<b>\$ 34,939</b>	<b>\$ 12,816,860</b>	<b>\$ 13,033,684</b>	<b>\$ 55,236,041</b>

Where quoted market prices are available in an active market, securities are classified within level 1 of the valuation hierarchy. If quoted prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatiles, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in level 2 of the valuation hierarchy.

The investment in University pooled endowment fund is derived based on the per unit calculation as described in footnote 1, thus is deemed to be a level 3 investment. For more information regarding the fair value measurements, refer to the University's financial statements, footnote 2. There have been no significant changes in the valuation techniques during the year ended June 30, 2017.

The composition of the University's pooled endowment fund based upon fair value at June 30, 2017 and 2016 is as follows:

	2017	2016
Cash and cash equivalents	0.4%	0.7%
Diversifying strategies - fund of hedge funds	18.8%	16.2%
Global equity - hedged fund	8.3%	13.5%
Global equity - international	13.8%	13.9%
Global equity - private	14.2%	14.2%
Global equity - U.S.	9.6%	13.7%
Global fixed income - high quality/rate sensitive	8.2%	3.7%
Global fixed income - private credit	3.0%	2.0%
Global fixed income - public credit	4.9%	4.1%
Real assets - private	9.6%	10.8%
Real assets - public	9.2%	7.2%
<b>Total</b>	<b>100%</b>	<b>100%</b>

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 four significant categories:

- Cash on deposit with the University, which the University invests in deposits with banks and the Commonwealth. The University also invests cash on deposit in money market funds and the University's pooled endowment fund;
- Cash on deposit with local banks and short-term investments in marketable securities;
- Investments in early stage development companies; 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, established by the Treasurer of the University.

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

The Foundation holds an alternative investment in a limited liability company whose fair market value is measured using its income tax basis of \$172,000 and \$222,000 as of December 31, 2016 and 2015, respectively. More information regarding this investment and additional investments in early stage development companies can be found in the Kentucky Technology, Inc and Subsidiary consolidated financial statements footnote 3.

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. The University's deposits in Federal Deposit Insurance Corporation (FDIC) insured financial institutions are covered up to \$250,000 at each FDIC insured institution, state law requires that deposits in excess of this coverage be fully collateralized. Depository institutions issue a pledge of specific U.S. Treasury or agency securities, held in the name of the University by the Federal Reserve Bank, to cover all amounts over the \$250,000 coverage;
- Deposits with the Commonwealth consist of securities eligible for short-term investments under state law. Money market funds held by the University are invested in U.S. Treasury and agency securities;
- Short-term investments in marketable fixed income securities consist of high quality holdings rated in one of the three highest categories by a nationally recognized rating organization; and
- 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 invested in deposits and money market funds are held in the University's name by various financial institutions. Deposits with the Commonwealth are held in the Commonwealth's name. The University maintains records evidencing the Foundation's ownership interest in such balances;

- Endowment investments are held in the University's name by the University's custodian. The University maintains records of the Foundation's ownership interest (units) in the University's pooled endowment fund.

Concentrations of Credit Risk. The Foundation's 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, the University's cash deposits in local banks are governed by state law which requires full collateralization of balances exceeding amounts covered by the FDIC;
- 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; and
- The University's endowment core-plus fixed income manager is limited to a maximum investment in any one issuer of no more than three percent of total investments excluding sovereign debt of governments belonging to the Organization for Economic Cooperation and Development and U.S. agencies.

At June 30, 2017 and 2016, the Foundation had no investment in any one issuer that represented five percent or more of total investments, other than U.S. Treasury and agency obligations.

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 money market funds be available for use on the next business day;
- Cash on deposit with local banks and short-term investments in marketable securities has limited exposure to interest rate risk due to the short-term nature of the investments and deposits; and
- 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 manager are limited to a duration that is within two years of the duration of the Barclays U.S. Aggregate Bond Index and unconstrained fixed income strategies have been implemented to further mitigate interest rate risk.

As of June 30, 2017 and 2016, the Foundation had fixed income securities managed based on duration. The securities duration was 3.0 years as of June 30, 2017 and 1.1 years as of June 30, 2016.

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 (from) 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.

The Foundation established escrow accounts resulting from the sale of CLI on January 16, 2015. The escrow balance at June 30, 2016 was \$1,109,545 and was recorded within the Foundation's cash and cash equivalents. The Foundation had a liability of \$249,888 as of June 30, 2016 for the minority shareholders' proportionate share of the escrow balance. The remainder of the escrow was released and the remainder of the liability was resolved in July 2016. After the sale of CLI, the Foundation transferred \$1,931,302 during the year ended June 30, 2016 to UK HealthCare Hospital System, which was reported in grants to the University for noncapital purposes.

#### 4. NOTES AND ACCOUNTS RECEIVABLE, NET

Notes and accounts receivable, net as of June 30, 2017 and 2016 are summarized as follows:

	2017		
	Gross Receivable	Allowance	Net Receivable
Reimbursement receivable - grants and contracts	\$ 32,503,197	\$ (325,000)	\$ 32,178,197
Other	214,692	—	214,692
Total	<u>\$ 32,717,889</u>	<u>\$ (325,000)</u>	<u>\$ 32,392,889</u>
Current portion			\$ 32,357,889
Noncurrent portion			35,000
Total			<u>\$ 32,392,889</u>
	2016		
	Gross Receivable	Allowance	Net Receivable
Reimbursement receivable - grants and contracts	\$ 30,911,160	\$ (325,000)	\$ 30,586,160
Other	244,856	—	244,856
Total	<u>\$ 31,156,016</u>	<u>\$ (325,000)</u>	<u>\$ 30,831,016</u>
Current portion			\$ 30,796,016
Noncurrent portion			35,000
Total			<u>\$ 30,831,016</u>

#### 5. OTHER CURRENT ASSETS

Other current assets as of June 30, 2017 and 2016 are summarized as follows:

	2017	2016
Unrecognized charges - patents	\$ 1,000,663	\$ 2,053,732
Inventories	1,773,271	1,714,794
Other	15,278	120,425
Total	<u>\$ 2,789,212</u>	<u>\$ 3,888,951</u>

## 6. CAPITAL ASSETS, NET

Capital assets as of June 30, 2017 and 2016 are summarized as follows:

2017				
<u>Capital Assets</u>	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 2,336,455	\$ —	\$ —	\$ 2,336,455
Land improvements	592,993	—	—	592,993
Buildings	2,479,939	—	1,390,166	1,089,773
Infrastructure	6,567,248	—	—	6,567,248
Equipment	2,232,525	488,912	26,180	2,695,257
	<u>14,209,160</u>	<u>488,912</u>	<u>1,416,346</u>	<u>13,281,726</u>
 <u>Accumulated Depreciation</u>				
Land improvements	74,125	59,299	—	133,424
Buildings	1,620,067	43,493	898,602	764,958
Infrastructure	1,352,985	262,690	—	1,615,675
Equipment	2,127,285	55,377	26,153	2,156,509
	<u>5,174,462</u>	<u>420,859</u>	<u>924,755</u>	<u>4,670,566</u>
Capital assets, net	<u>\$ 9,034,698</u>	<u>\$ 68,053</u>	<u>\$ 491,591</u>	<u>\$ 8,611,160</u>
 2016				
<u>Capital Assets</u>	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 2,336,455	\$ —	\$ —	\$ 2,336,455
Land improvements	592,993	—	—	592,993
Buildings	2,479,939	—	—	2,479,939
Infrastructure	6,567,248	—	—	6,567,248
Equipment	2,216,350	16,175	—	2,232,525
	<u>14,192,985</u>	<u>16,175</u>	<u>—</u>	<u>14,209,160</u>
 <u>Accumulated Depreciation</u>				
Land improvements	14,825	59,300	—	74,125
Buildings	1,479,415	140,652	—	1,620,067
Infrastructure	1,090,295	262,690	—	1,352,985
Equipment	2,104,106	23,179	—	2,127,285
	<u>4,688,641</u>	<u>485,821</u>	<u>—</u>	<u>5,174,462</u>
Capital assets, net	<u>\$ 9,504,344</u>	<u>\$ (469,646)</u>	<u>\$ —</u>	<u>\$ 9,034,698</u>

## 7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Payable to vendors and contractors	\$ 5,404,606	\$ 7,625,746
Due to the University of Kentucky	32,000	24,000
Due to the University of Kentucky for accrued payroll	1,014,251	2,755,500
Accrued payroll	26,657	30,764
Total	<u>\$ 6,477,514</u>	<u>\$ 10,436,010</u>

## 8. UNEARNED REVENUE

Unearned revenue as of June 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Unearned grants and contracts revenue	\$ 32,908,162	\$ 30,611,807
Unearned license income	17,334	2,172,440
Total	<u>\$ 32,925,496</u>	<u>\$ 32,784,247</u>

## 9. LONG TERM LIABILITIES

Long-term liabilities as of June 30, 2017 and 2016 are summarized as follows:

	<u>2017</u>					
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Noncurrent Portion</u>
Deferred tax liability - KTI	\$ 404,398	\$ —	\$ 20,839	\$ 383,559	\$ —	\$ 383,559
Total long-term liabilities	<u>\$ 404,398</u>	<u>\$ —</u>	<u>\$ 20,839</u>	<u>\$ 383,559</u>	<u>\$ —</u>	<u>\$ 383,559</u>
	<u>2016</u>					
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Noncurrent Portion</u>
Deferred tax liability - KTI	\$ 479,635	\$ —	\$ 75,237	\$ 404,398	\$ —	\$ 404,398
Total long-term liabilities	<u>\$ 479,635</u>	<u>\$ —</u>	<u>\$ 75,237</u>	<u>\$ 404,398</u>	<u>\$ —</u>	<u>\$ 404,398</u>

## 10. INVESTMENT INCOME (LOSS)

Components of investment income (loss) for the years ended June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Interest and dividends earned on endowment investments	\$ 190,045	\$ 47,109
Realized and unrealized gains and (losses) on endowment investments	1,050,634	(93,279)
Realized and unrealized gains and (losses) on non-endowment investments	206,116	165,281
Investment income from external trusts	14,444	15,313
Total	<u>\$ 1,461,239</u>	<u>\$ 134,424</u>

## 11. GRANTS AND CONTRACTS AWARDED

At June 30, 2017 and 2016, grants and contracts of \$226,490,359 and \$201,389,659 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 \$5,000 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. Buildings and contents are insured at replacement cost. 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 fiscal year 2016 to 2017. Settlements have not exceeded insurance coverage during the past three years.

## 13. LEASING ARRANGEMENTS

### KTI

KTI leases a facility from the University's Advanced Science and Technology Commercialization Center (ASTeCC). The lease automatically renews annually. Rent expense for this facility was \$108,191 and \$111,091 for the periods ended December 31, 2016 and 2015, respectively. KTI subleases the ASTeCC building to developing industries in advanced technology, with renewal options and escalation clauses. Sublease rental income was \$219,030 and \$222,350 for the periods ended December 31, 2016 and 2015, respectively. Future minimum rental revenue at December 31, 2016 is \$164,872 for the year ending December 31, 2017.

KTI leased space in the Coldstream Center on the Coldstream Research Campus under a long-term lease, which terminated on February 29, 2016. KTI management ended the lease in an effort to improve KTI's net cash flow and bottom line. Rental expense was \$51,444 and \$308,665 for the periods ended December 31, 2016 and 2015, respectively.

As of December 31, 2016 and 2015, KTI was also responsible for 24.3% per year of actual expenses related to common area maintenance, utilities and property taxes. This amounted to \$39,788 and \$255,352 during the periods ended December 31, 2016 and 2015, respectively.

KTI subleased office and laboratory space to tenants in the Coldstream Center. Rental income was \$61,199 (including \$7,935 from UK Coldstream Research Center Administration) and \$386,406 (including \$47,610 from UK Coldstream Research Center Administration) for the periods ended December 31, 2016 and 2015, respectively. KTI also offers virtual offices at the Coldstream Center. In the periods ended December 31, 2016 and 2015, rental income from virtual offices was \$1,350 and \$3,600, respectively, 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, 2016:

Years ending December 31,	
2017	\$ 165,772
2018	52,751
2019	5,192
Total minimum rental receipts	<u>\$ 223,715</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 for each of the years ended December 31, 2016 and 2015, which has been included as both in-kind revenue and expense on the Foundation's Statement of Revenues, Expenses, and Changes in Net Position.

#### 14. COMBINED STATEMENTS

The Foundation and its blended component unit's statements were summarized as follows for the years ended June 30, 2017 and 2016:

UNIVERSITY OF KENTUCKY RESEARCH FOUNDATION  
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY  
COMBINED STATEMENT OF NET POSITION  
AS OF JUNE 30, 2017

	University of Kentucky Research Foundation	Kentucky Technology, Inc.	Eliminations	Total
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 61,744,977	\$ 1,229,807	\$ —	\$ 62,974,784
Accounts receivable, net	32,187,405	170,484	—	32,357,889
Other current assets, net	2,774,442	14,770	—	2,789,212
Total current assets	<u>96,706,824</u>	<u>1,415,061</u>	<u>—</u>	<u>98,121,885</u>
<b>Noncurrent Assets</b>				
Restricted cash and cash equivalents	2,353	—	—	2,353
Endowment investments	13,867,494	—	—	13,867,494
Other long-term investments	7,190,112	760,624	(7,186,171)	764,565
Notes receivable	—	35,000	—	35,000
Capital assets, net	3,120,840	5,490,320	—	8,611,160
Total noncurrent assets	<u>24,180,799</u>	<u>6,285,944</u>	<u>(7,186,171)</u>	<u>23,280,572</u>
Total assets	<u>120,887,623</u>	<u>7,701,005</u>	<u>(7,186,171)</u>	<u>121,402,457</u>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Accounts payable and accrued liabilities	6,375,500	102,014	—	6,477,514
Unearned revenue	32,896,235	29,261	—	32,925,496
Total current liabilities	<u>39,271,735</u>	<u>131,275</u>	<u>—</u>	<u>39,403,010</u>
<b>Noncurrent Liabilities</b>				
Long-term liabilities	—	383,559	—	383,559
Total noncurrent liabilities	<u>—</u>	<u>383,559</u>	<u>—</u>	<u>383,559</u>
Total liabilities	<u>39,271,735</u>	<u>514,834</u>	<u>—</u>	<u>39,786,569</u>
<b>NET POSITION</b>				
Net investment in capital assets	<u>3,120,840</u>	<u>5,490,320</u>	<u>—</u>	<u>8,611,160</u>
<b>Restricted</b>				
Nonexpendable	839,843	—	—	839,843
Expendable	4,206,588	—	—	4,206,588
Total restricted	<u>5,046,431</u>	<u>—</u>	<u>—</u>	<u>5,046,431</u>
Unrestricted	<u>73,448,617</u>	<u>1,695,851</u>	<u>(7,186,171)</u>	<u>67,958,297</u>
Total net position	<u>\$ 81,615,888</u>	<u>\$ 7,186,171</u>	<u>\$ (7,186,171)</u>	<u>\$ 81,615,888</u>

UNIVERSITY OF KENTUCKY RESEARCH FOUNDATION  
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY  
COMBINED STATEMENT OF NET POSITION  
AS OF JUNE 30, 2016

	University of Kentucky Research Foundation	Kentucky Technology, Inc.	Eliminations	Total
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 53,418,081	\$ 1,148,271	\$ —	\$ 54,566,352
Accounts receivable, net	30,594,977	201,039	—	30,796,016
Other current assets, net	3,769,034	119,917	—	3,888,951
Total current assets	<u>87,782,092</u>	<u>1,469,227</u>	<u>—</u>	<u>89,251,319</u>
<b>Noncurrent Assets</b>				
Endowment investments	12,816,860	—	—	12,816,860
Other long-term investments	7,500,530	882,572	(7,496,589)	886,513
Notes receivable	—	35,000	—	35,000
Capital assets, net	3,204,200	5,830,498	—	9,034,698
Total noncurrent assets	<u>23,521,590</u>	<u>6,748,070</u>	<u>(7,496,589)</u>	<u>22,773,071</u>
Total assets	<u>111,303,682</u>	<u>8,217,297</u>	<u>(7,496,589)</u>	<u>112,024,390</u>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Accounts payable and accrued liabilities	10,181,131	254,879	—	10,436,010
Unearned revenue	32,722,816	61,431	—	32,784,247
Total current liabilities	<u>42,903,947</u>	<u>316,310</u>	<u>—</u>	<u>43,220,257</u>
<b>Noncurrent Liabilities</b>				
Long-term liabilities	—	404,398	—	404,398
Total noncurrent liabilities	<u>—</u>	<u>404,398</u>	<u>—</u>	<u>404,398</u>
Total liabilities	<u>42,903,947</u>	<u>720,708</u>	<u>—</u>	<u>43,624,655</u>
<b>NET POSITION</b>				
Net investment in capital assets	<u>3,204,200</u>	<u>5,830,498</u>	<u>—</u>	<u>9,034,698</u>
<b>Restricted</b>				
Nonexpendable	832,043	—	—	832,043
Expendable	3,982,593	—	—	3,982,593
Total restricted	<u>4,814,636</u>	<u>—</u>	<u>—</u>	<u>4,814,636</u>
Unrestricted	<u>60,380,899</u>	<u>1,666,091</u>	<u>(7,496,589)</u>	<u>54,550,401</u>
Total net position	<u>\$ 68,399,735</u>	<u>\$ 7,496,589</u>	<u>\$ (7,496,589)</u>	<u>\$ 68,399,735</u>

UNIVERSITY OF KENTUCKY RESEARCH FOUNDATION  
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY  
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2017

	University of Kentucky Research Foundation	Kentucky Technology, Inc.	Eliminations	Total
<b>OPERATING REVENUES</b>				
Federal grants and contracts	\$ 180,423,608	\$ —	\$ —	\$ 180,423,608
State and local grants and contracts	16,880,801	—	—	16,880,801
Nongovernmental grants and contracts	30,321,807	1,756,551	—	32,078,358
Recoveries of facilities and administrative costs	54,179,381	—	—	54,179,381
Other operating revenues	1,085,096	631,100	—	1,716,196
Total operating revenues	<u>282,890,693</u>	<u>2,387,651</u>	<u>—</u>	<u>285,278,344</u>
<b>OPERATING EXPENSES</b>				
Educational and general:				
Instruction	10,041,505	—	—	10,041,505
Research	174,451,537	1,986,295	(28,529)	176,409,303
Public service	70,618,096	—	—	70,618,096
Academic support	3,504,638	—	—	3,504,638
Student services	9,691	—	—	9,691
Institutional support	791,608	—	—	791,608
Operations and maintenance of plant	4,306	—	—	4,306
Student financial aid	2,489,023	—	—	2,489,023
Depreciation	83,361	337,498	—	420,859
Total operating expenses	<u>261,993,765</u>	<u>2,323,793</u>	<u>(28,529)</u>	<u>264,289,029</u>
Net income (loss) from operations	<u>20,896,928</u>	<u>63,858</u>	<u>28,529</u>	<u>20,989,315</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Gifts	239,921	—	—	239,921
Investment income (loss)	1,202,988	(52,167)	310,418	1,461,239
License income	4,547,906	—	—	4,547,906
Grant (to) from the University of Kentucky for noncapital purposes	(12,442,196)	—	—	(12,442,196)
Other nonoperating revenues and expenses, net	784	169,482	(28,529)	141,737
Net nonoperating revenues (expenses)	<u>(6,450,597)</u>	<u>117,315</u>	<u>281,889</u>	<u>(6,051,393)</u>
Net income (loss) before other revenues, expenses, gains, or losses	<u>14,446,331</u>	<u>181,173</u>	<u>310,418</u>	<u>14,937,922</u>
Capital grants and gifts	9,035,476	—	—	9,035,476
Additions to permanent endowments	7,800	—	—	7,800
Grant (to) from the University of Kentucky for capital purposes	(10,248,665)	—	—	(10,248,665)
Other, net	(24,789)	(491,591)	—	(516,380)
Total other revenues (expenses)	<u>(1,230,178)</u>	<u>(491,591)</u>	<u>—</u>	<u>(1,721,769)</u>
INCREASE (DECREASE) IN NET POSITION	13,216,153	(310,418)	310,418	13,216,153
NET POSITION, beginning of year	68,399,735	7,496,589	(7,496,589)	68,399,735
NET POSITION, end of year	<u>\$ 81,615,888</u>	<u>\$ 7,186,171</u>	<u>\$ (7,186,171)</u>	<u>\$ 81,615,888</u>

UNIVERSITY OF KENTUCKY RESEARCH FOUNDATION  
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY  
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2016

	University of Kentucky Research Foundation	Kentucky Technology, Inc.	Eliminations	Total
<b>OPERATING REVENUES</b>				
Federal grants and contracts	\$ 167,832,272	\$ —	\$ —	\$ 167,832,272
State and local grants and contracts	16,458,887	—	—	16,458,887
Nongovernmental grants and contracts	32,190,650	1,612,704	—	33,803,354
Recoveries of facilities and administrative costs	50,887,589	—	—	50,887,589
Other operating revenues	2,213,555	946,311	—	3,159,866
Total operating revenues	<u>269,582,953</u>	<u>2,559,015</u>	<u>—</u>	<u>272,141,968</u>
<b>OPERATING EXPENSES</b>				
Educational and general:				
Instruction	9,482,355	—	—	9,482,355
Research	164,311,129	2,476,107	(31,542)	166,755,694
Public service	72,313,712	—	—	72,313,712
Academic support	1,803,421	—	—	1,803,421
Student services	5,181	—	—	5,181
Institutional support	856,730	—	—	856,730
Operations and maintenance of plant	11,157	—	—	11,157
Student financial aid	1,494,365	—	—	1,494,365
Depreciation	83,360	402,461	—	485,821
Total operating expenses	<u>250,361,410</u>	<u>2,878,568</u>	<u>(31,542)</u>	<u>253,208,436</u>
Net income (loss) from operations	<u>19,221,543</u>	<u>(319,553)</u>	<u>31,542</u>	<u>18,933,532</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Gifts	245,126	—	—	245,126
Investment income (loss)	50,707	34,576	49,141	134,424
License income	8,157,314	—	—	8,157,314
Grant (to) from the University of Kentucky for noncapital purposes	(13,245,058)	—	—	(13,245,058)
Other nonoperating revenues and expenses, net	4,783	235,836	(31,542)	209,077
Net nonoperating revenues (expenses)	<u>(4,787,128)</u>	<u>270,412</u>	<u>17,599</u>	<u>(4,499,117)</u>
Net income (loss) before other revenues, expenses, gains, or losses	<u>14,434,415</u>	<u>(49,141)</u>	<u>49,141</u>	<u>14,434,415</u>
Capital grants and gifts	4,675,058	—	—	4,675,058
Additions to permanent endowments	7,971	—	—	7,971
Grant (to) from the University of Kentucky for capital purposes	(9,107,289)	—	—	(9,107,289)
Other, net	(20,939)	—	—	(20,939)
Total other revenues (expenses)	<u>(4,445,199)</u>	<u>—</u>	<u>—</u>	<u>(4,445,199)</u>
INCREASE (DECREASE) IN NET POSITION	9,989,216	(49,141)	49,141	9,989,216
NET POSITION, beginning of year	58,410,519	7,545,730	(7,545,730)	58,410,519
NET POSITION, end of year	<u>\$ 68,399,735</u>	<u>\$ 7,496,589</u>	<u>\$ (7,496,589)</u>	<u>\$ 68,399,735</u>

UNIVERSITY OF KENTUCKY RESEARCH FOUNDATION  
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY  
COMBINED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2017

	University of Kentucky Research Foundation	Kentucky Technology, Inc.	Eliminations	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Grants and contracts	\$ 228,162,631	\$ 1,756,551	\$ —	\$ 229,919,182
Recoveries of facilities and administrative costs	54,320,977	—	—	54,320,977
Payments to vendors and contractors	(95,392,443)	(1,336,946)	28,529	(96,700,860)
Salaries, wages and benefits reimbursement to the University of Kentucky	(169,958,777)	—	—	(169,958,777)
Salaries, wages and benefits	—	(569,146)	—	(569,146)
Other receipts (payments)	1,084,705	480,726	—	1,565,431
Net cash provided (used) by operating activities	<u>18,217,093</u>	<u>331,185</u>	<u>28,529</u>	<u>18,576,807</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Gifts and grants received for other than capital purposes:				
Private gifts for endowment purposes	7,800	—	—	7,800
Private gifts for other purposes	239,921	—	—	239,921
Grants (to) from the University of Kentucky	(12,442,196)	—	—	(12,442,196)
Other receipts (payments)	3,446,653	169,482	(28,529)	3,587,606
Net cash provided (used) by noncapital financing activities	<u>(8,747,822)</u>	<u>169,482</u>	<u>(28,529)</u>	<u>(8,606,869)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Grants (to) from the University of Kentucky for capital purposes	(10,303,062)	—	—	(10,303,062)
Capital grants and gifts	9,035,476	—	—	9,035,476
Purchases of capital assets	—	(488,912)	—	(488,912)
Other receipts (payments)	(24,790)	—	—	(24,790)
Net cash provided (used) by capital and related financing activities	<u>(1,292,376)</u>	<u>(488,912)</u>	<u>—</u>	<u>(1,781,288)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from sales and maturities of investments	7,980,521	192,768	—	8,173,289
Interest and dividends on investments	152,354	(5,165)	—	147,189
Purchase of investments	(7,980,521)	(117,822)	—	(8,098,343)
Net cash provided (used) by investing activities	<u>152,354</u>	<u>69,781</u>	<u>—</u>	<u>222,135</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,329,249	81,536	—	8,410,785
CASH AND CASH EQUIVALENTS, beginning of year	53,418,081	1,148,271	—	54,566,352
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 61,747,330</u>	<u>\$ 1,229,807</u>	<u>\$ —</u>	<u>\$ 62,977,137</u>

UNIVERSITY OF KENTUCKY RESEARCH FOUNDATION  
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY  
COMBINED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2016

	University of Kentucky Research Foundation	Kentucky Technology, Inc.	Eliminations	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Grants and contracts	\$ 219,971,765	\$ 1,612,704	\$ —	\$ 221,584,469
Recoveries of facilities and administrative costs	52,098,099	—	—	52,098,099
Payments to vendors and contractors	(89,840,600)	(2,090,901)	31,542	(91,899,959)
Salaries, wages and benefits reimbursement to the University of Kentucky	(160,578,439)	—	—	(160,578,439)
Salaries, wages and benefits	—	(560,327)	—	(560,327)
Other receipts (payments)	2,204,738	980,583	—	3,185,321
Net cash provided (used) by operating activities	<u>23,855,563</u>	<u>(57,941)</u>	<u>31,542</u>	<u>23,829,164</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Gifts and grants received for other than capital purposes:				
Private gifts for endowment purposes	7,971	—	—	7,971
Private gifts for other purposes	263,507	—	—	263,507
Grants (to) from the University of Kentucky	(13,245,058)	—	—	(13,245,058)
Other receipts (payments)	6,619,582	235,836	(31,542)	6,823,876
Net cash provided (used) by noncapital financing activities	<u>(6,353,998)</u>	<u>235,836</u>	<u>(31,542)</u>	<u>(6,149,704)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Grants (to) from the University of Kentucky for capital purposes	(9,100,353)	—	—	(9,100,353)
Capital grants and gifts	4,675,058	—	—	4,675,058
Purchases of capital assets	—	(16,175)	—	(16,175)
Other receipts (payments)	(20,939)	—	—	(20,939)
Net cash provided (used) by capital and related financing activities	<u>(4,446,234)</u>	<u>(16,175)</u>	<u>—</u>	<u>(4,462,409)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from sales and maturities of investments	3,914,938	396,541	—	4,311,479
Interest and dividends on investments	141,986	(83,769)	—	58,217
Purchase of investments	(12,527,518)	(84,363)	—	(12,611,881)
Net cash provided (used) by investing activities	<u>(8,470,594)</u>	<u>228,409</u>	<u>—</u>	<u>(8,242,185)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,584,737	390,129	—	4,974,866
CASH AND CASH EQUIVALENTS, beginning of year	48,833,344	758,142	—	49,591,486
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 53,418,081</u>	<u>\$ 1,148,271</u>	<u>\$ —</u>	<u>\$ 54,566,352</u>

## BOARD OF DIRECTORS

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