

UNIVERSITY OF KENTUCKY®



Research Foundation 2015 Financial Statements

University of Kentucky
Research Foundation
A Component Unit of the University of Kentucky
Financial Statements
Years Ended June 30, 2015 and 2014

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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, 2015 and 2014, 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 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, 2015 and 2014, 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 2, 2015

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, 2015 and 2014. 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 \$6,195,716 or 6.7%. The most significant components of the fluctuation were an increase of \$12,476,772 in cash and cash equivalents, offset by a decrease of \$4,017,598 in capital assets, net.
- Total liabilities decreased \$4,783,246 or 10.5%. The most significant component of the decrease in total liabilities was \$3,532,995 in accounts payable and accrued liabilities.
- Total net position increased \$10,978,962 or 23.1%. Unrestricted net position increased \$14,710,813 and restricted net position increased \$203,426, offset by a decrease in net investment in capital assets of \$3,935,277.
- Operating revenues increased \$9,349,611 to \$275,469,913.
- Operating expenses increased \$5,549,116 to \$252,086,339.

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) (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, 2014 and December 31, 2013 are included in the Foundation's financial statements as of June 30, 2015 and 2014, respectively.

CLI has a calendar-year basis fiscal year from January 1 through December 31. On January 16, 2015, the Foundation sold CLI to PH Kentucky, Inc. CLI's final financial statements as a Foundation-held entity include financial information from the first 15 days of January 2015 included with financial data as of December 31, 2014 and financial statements as of December 31, 2013, which are included in the Foundation's financial statements as of June 30, 2015 and 2014, 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, 2015, 2014 and 2013 is as follows:

Condensed Statements of Net Position

	2015	2014	2013
ASSETS			
Current assets	\$ 84,280,173	\$ 73,609,903	\$ 82,342,800
Capital assets, net	9,504,344	13,521,942	14,703,996
Other noncurrent assets	5,377,905	5,834,861	5,457,617
Total assets	99,162,422	92,966,706	102,504,413
LIABILITIES			
Current liabilities	40,272,268	44,473,783	51,521,568
Noncurrent liabilities	479,635	1,061,366	1,411,382
Total liabilities	40,751,903	45,535,149	52,932,950
NET POSITION			
Net investment in capital assets	9,504,344	13,439,621	14,467,568
Restricted			
Nonexpendable	823,405	822,801	822,111
Expendable	4,394,737	4,191,915	3,659,633
Unrestricted	43,688,033	28,977,220	30,622,151
Total net position	\$ 58,410,519	\$ 47,431,557	\$ 49,571,463

Assets. As of June 30, 2015, the Foundation's assets totaled \$99,162,422. Cash and cash equivalents represented the Foundation's largest asset, totaling \$49,591,486 or 50.0% of total assets. Accounts receivable, primarily from grant sponsors, totaled \$32,559,310 or 32.8% of total assets and capital assets, net, totaled \$9,504,344 or 9.6% of total assets.

Total assets increased \$6,195,716 during the year ended June 30, 2015. The most significant component of the increase in total assets was an increase of \$12,476,772 in cash and cash equivalents, offset by a decrease of \$4,017,598 in capital assets, 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. Capital assets, net, decreased mainly due to the sale of CLI's stock and deletion of CLI assets.

Liabilities. At June 30, 2015, the Foundation's liabilities totaled \$40,751,903. Unearned revenue amounted to \$29,783,610 or 73.1% of total liabilities. Unearned revenue reflects advance receipts from grant sponsors and other customers. Accounts payable and accrued liabilities totaling \$10,488,658 and long-term liabilities of \$479,635 accounted for the remainder of the Foundation's liabilities.

Total liabilities decreased \$4,783,246 during the year ended June 30, 2015. The most significant component of the decrease in total liabilities was \$3,532,995 in accounts payable and accrued liabilities caused by the sale of CLI.

Net Position. Net position at June 30, 2015 totaled \$58,410,519 or 58.9% of total assets. Net investment in capital assets totaled \$9,504,344 or 16.3% of total net position. Restricted net position totaled \$5,218,142 or 8.9% of total net position. Unrestricted net position accounted for \$43,688,033 or 74.8% of total net position.

Total net position increased \$10,978,962 during the year ended June 30, 2015. Unrestricted net position was the most significant component, increasing \$14,710,813 primarily due to revenues from recoveries of facilities and administrative costs exceeding expenses in unrestricted funds. Net investment in capital assets decreased \$3,935,277 primarily due to the sale of CLI's stock and deletion of CLI assets.

2014 Versus 2013. During the year ended June 30, 2014:

- Total assets decreased \$9,537,707. 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.
- Total liabilities decreased \$7,397,801. 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. 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 decreased \$2,139,906. 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.

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.

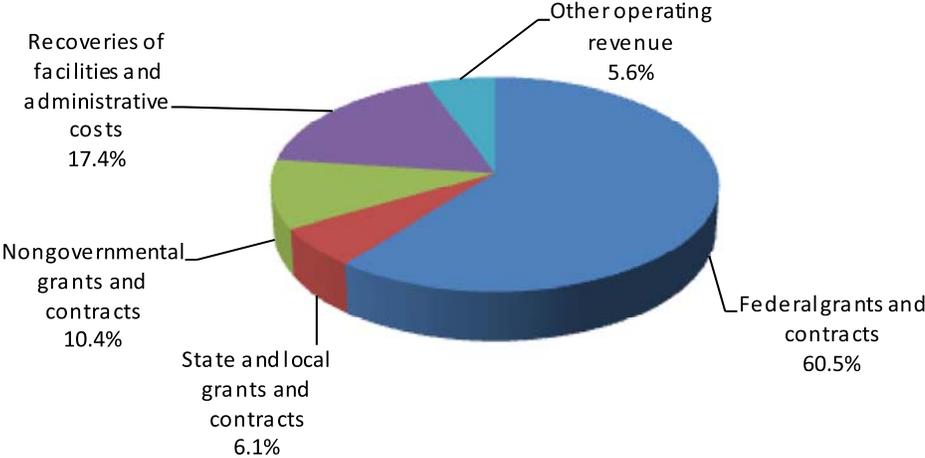
A summarized comparison of the Foundation's revenues, expenses and changes in net position for the years ended June 30, 2015, 2014 and 2013 is as follows:

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2015</u>	<u>2014</u>	<u>2013</u>
OPERATING REVENUES			
Federal grants and contracts	\$ 166,573,254	\$ 158,830,975	\$ 163,787,819
State and local grants and contracts	16,889,578	19,101,797	46,527,849
Nongovernmental grants and contracts	28,851,305	27,283,076	30,320,577
Recoveries of facilities and administrative costs	47,882,437	46,839,286	47,598,962
Other operating revenue	15,273,339	14,065,168	10,881,322
Total operating revenues	<u>275,469,913</u>	<u>266,120,302</u>	<u>299,116,529</u>
OPERATING EXPENSES			
Research	160,755,227	157,450,830	165,669,528
Other educational and general	88,623,788	86,324,821	114,908,366
Student financial aid	1,328,135	1,281,227	1,756,131
Depreciation	1,379,189	1,480,345	1,552,849
Total operating expenses	<u>252,086,339</u>	<u>246,537,223</u>	<u>283,886,874</u>
OPERATING INCOME	<u>23,383,574</u>	<u>19,583,079</u>	<u>15,229,655</u>
NONOPERATING REVENUES (EXPENSES)			
Gifts	460,763	191,350	115,500
Investment income	(80,397)	399,443	395,117
Gain on CLI sale	18,126,947	-	-
Patent income	1,403,172	2,563,738	1,957,457
Interest on capital asset-related debt	(48,529)	(14,304)	(61,381)
Other nonoperating revenues and expenses, net	439,618	367,926	611,230
Capital grants and gifts	6,423,827	3,599,180	5,369,516
Additions to permanent endowments	605	690	2,100
Grants to the University of Kentucky	(37,606,833)	(28,782,333)	(21,063,964)
Other	(1,523,785)	(48,675)	(257,399)
Total nonoperating revenues (expenses)	<u>(12,404,612)</u>	<u>(21,722,985)</u>	<u>(12,931,824)</u>
Total increase (decrease) in net position	10,978,962	(2,139,906)	2,297,831
Net position, beginning of year	<u>47,431,557</u>	<u>49,571,463</u>	<u>47,273,632</u>
Net position, end of year	<u>\$ 58,410,519</u>	<u>\$ 47,431,557</u>	<u>\$ 49,571,463</u>

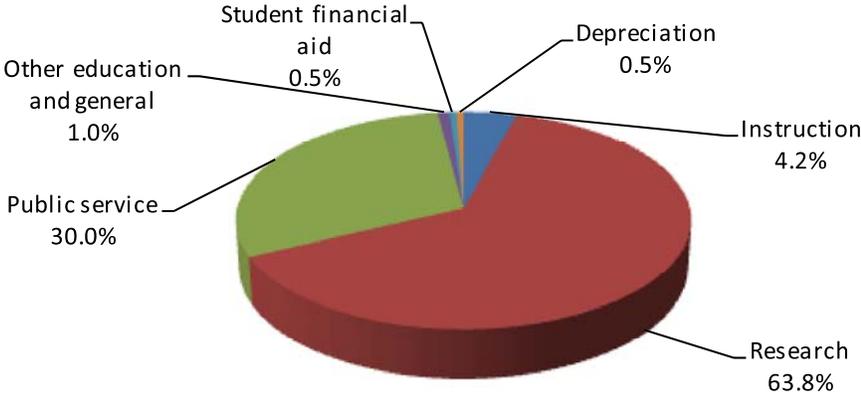
2015. Total operating revenues, consisting primarily of grants and contracts, and related recoveries of facilities and administrative costs, were \$275,469,913 for the year ended June 30, 2015. Federal, state and nongovernmental grants and contracts, and related recoveries of facilities and administrative costs, accounted for 94.4% of operating revenues. Operating revenues increased \$9,349,611 or 3.5%, primarily caused by a \$7,742,279 or 4.9% increase in federal grants and contracts. The increase in federal grants and contracts was mainly caused by increases in numerous grants and also an increase in federal awards this year.

TOTAL OPERATING REVENUES



Operating expenses totaled \$252,086,339. Of this amount, \$160,755,227 or 63.8% was used for research expenses, \$75,674,259 or 30.0% was used for public service expenses and \$10,554,607 or 4.2% was used for instruction. Operating expenses increased \$5,549,116. This increase was primarily attributable to an increase in public service and research activity.

TOTAL OPERATING EXPENSES



2014 Versus 2013. 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.

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.

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, 2015, 2014 and 2013 is as follows:

Condensed Statements of Cash Flows

	2015	2014	2013
CASH PROVIDED (USED) BY:			
Operating activities	\$ 29,185,423	\$ 12,884,023	\$ 22,260,891
Noncapital financing activities	(23,824,976)	(8,578,913)	(7,608,778)
Capital and related financing activities	(5,858,680)	(13,882,333)	(7,507,426)
Investing activities	12,975,005	19,262	520,574
Net increase (decrease) in cash and cash equivalents	12,476,772	(9,557,961)	7,665,261
Cash and cash equivalents, beginning of year	37,114,714	46,672,675	39,007,414
Cash and cash equivalents, end of year	\$ 49,591,486	\$ 37,114,714	\$ 46,672,675

2015. Major sources of cash included in operating activities were grants and contracts of \$213,631,150 and recoveries of facilities and administrative costs of \$48,181,824. The largest cash payments for operating activities were made to the University as reimbursements for employee salaries and benefits of \$154,077,716 and to suppliers of \$86,551,280.

The largest use of cash in the noncapital financing activities group related to grants to the University totaling \$27,994,674. Cash provided in this category is mostly from other receipts of \$3,726,711, 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 \$11,176,206 and purchases of capital assets of \$863,123, offset by capital grants and gifts of \$6,423,827.

The largest source of cash provided by investing activities was net proceeds from the sale of CLI stock, net of cash acquired of \$23,219,367. The largest uses of cash were repayment of debt to affiliates and capital leases related to sale of CLI of \$3,522,076 and repayment of stock options of \$3,093,721.

2014 Versus 2013. Cash and cash equivalents decreased \$9,557,961 due to cash used by capital and related financing activities and noncapital financing activities, offset by cash provided by operating activities and investing activities.

Capital Asset and Debt Administration

Capital Assets. Capital assets, net of accumulated depreciation, totaled \$9,504,344 at June 30, 2015, a decrease of \$4,017,598. Capital assets as of June 30, 2015, and significant changes in capital assets during the years ended June 30, 2015 and 2014 are as follows (in thousands):

	Balance June 30, 2013	Net Additions FY 13-14	Balance June 30, 2014	Net Additions FY 14-15	Balance June 30, 2015
Land	\$ 2,336	\$ -	\$ 2,336	\$ -	\$ 2,336
Buildings	3,460	22	3,482	(409)	3,073
Infrastructure	6,567	-	6,567	-	6,567
Equipment	9,247	330	9,577	(7,361)	2,216
Vehicles	21	-	21	(21)	-
Software	76	3	79	(79)	-
Construction in progress	1,459	(77)	1,382	(1,382)	-
Accumulated depreciation	(8,462)	(1,460)	(9,922)	5,234	(4,688)
Total	\$ 14,704	\$ (1,182)	\$ 13,522	\$ (4,018)	\$ 9,504

Debt. The Foundation had long-term liabilities totaling \$479,635 at June 30, 2015 for other long-term liabilities of KTI. 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.

Factors Impacting Future Periods

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

- At June 30, 2015, grants and contracts of \$189,125,790 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 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 an increase this year due to increases in several grants and additional grant awards. Total grant awards were \$285.1 million, a 9.0% increase over the previous period. Federal grant awards continue to comprise the majority of grant awards at \$153.1 million or 53.7% of total awards. Funding has increased from the National Institutes of Health and the United States Department of Agriculture, major federal sponsors. 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, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 49,591,486	\$ 37,114,714
Accounts receivable, net	32,559,310	33,597,036
Other current assets, net	2,129,377	2,898,153
Total current assets	<u>84,280,173</u>	<u>73,609,903</u>
Noncurrent Assets		
Endowment investments	4,295,559	4,256,129
Other long-term investments	1,080,346	1,417,252
Notes receivable	2,000	-
Other noncurrent assets, net	-	161,480
Capital assets, net	9,504,344	13,521,942
Total noncurrent assets	<u>14,882,249</u>	<u>19,356,803</u>
Total assets	<u>99,162,422</u>	<u>92,966,706</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	10,488,658	14,021,653
Unearned revenue	29,783,610	28,709,672
Due to the University of Kentucky	-	1,564,047
Long-term liabilities - current portion	-	178,411
Total current liabilities	<u>40,272,268</u>	<u>44,473,783</u>
Noncurrent Liabilities		
Long-term liabilities	479,635	1,061,366
Total noncurrent liabilities	<u>479,635</u>	<u>1,061,366</u>
Total liabilities	<u>40,751,903</u>	<u>45,535,149</u>
NET POSITION		
Net investment in capital assets	<u>9,504,344</u>	<u>13,439,621</u>
Restricted		
Nonexpendable	823,405	822,801
Expendable	4,394,737	4,191,915
Total restricted	<u>5,218,142</u>	<u>5,014,716</u>
Unrestricted	<u>43,688,033</u>	<u>28,977,220</u>
Total net position	<u>\$ 58,410,519</u>	<u>\$ 47,431,557</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, 2015 AND 2014**

	2015	2014
OPERATING REVENUES		
Federal grants and contracts	\$ 166,573,254	\$ 158,830,975
State and local grants and contracts	16,889,578	19,101,797
Nongovernmental grants and contracts	28,851,305	27,283,076
Recoveries of facilities and administrative costs	47,882,437	46,839,286
Other operating revenues	15,273,339	14,065,168
Total operating revenues	<u>275,469,913</u>	<u>266,120,302</u>
OPERATING EXPENSES		
Educational and general:		
Instruction	10,554,607	11,545,662
Research	160,755,227	157,450,830
Public service	75,674,259	71,145,079
Academic support	1,825,187	2,882,577
Student services	-	24,239
Institutional support	568,985	720,328
Operations and maintenance of plant	750	6,936
Student financial aid	1,328,135	1,281,227
Depreciation	1,379,189	1,480,345
Total operating expenses	<u>252,086,339</u>	<u>246,537,223</u>
Net income (loss) from operations	<u>23,383,574</u>	<u>19,583,079</u>
NONOPERATING REVENUES (EXPENSES)		
Gifts	460,763	191,350
Investment income (loss)	(80,397)	399,443
Gain on CLI sale	18,126,947	-
Patent income	1,403,172	2,563,738
Grants (to) from the University of Kentucky for noncapital purposes	(26,430,627)	(11,838,785)
Interest on capital asset-related debt	(48,529)	(14,304)
Other nonoperating revenues and expenses	439,618	367,926
Net nonoperating revenues (expenses)	<u>(6,129,053)</u>	<u>(8,330,632)</u>
Net income (loss) before other revenues, expenses, gains, or losses	<u>17,254,521</u>	<u>11,252,447</u>
Capital grants and gifts	6,423,827	3,599,180
Additions to permanent endowments	605	690
Grants (to) from the University of Kentucky for capital purposes	(11,176,206)	(16,943,548)
Other, net	(1,523,785)	(48,675)
Total other revenues (expenses)	<u>(6,275,559)</u>	<u>(13,392,353)</u>
Increase (decrease) in net assets	10,978,962	(2,139,906)
NET POSITION, beginning of year	<u>47,431,557</u>	<u>49,571,463</u>
NET POSITION, end of year	<u>\$ 58,410,519</u>	<u>\$ 47,431,557</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, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Grants and contracts	\$ 213,631,150	\$ 198,982,797
Recoveries of facilities and administrative costs	48,181,824	45,407,796
Payments to vendors and contractors	(86,551,280)	(84,757,381)
Salaries, wages and benefits reimbursement to the University of Kentucky	(154,077,716)	(154,907,721)
Salaries, wages and benefits	(8,165,312)	(6,910,986)
Other receipts (payments)	16,166,757	15,069,518
Net cash provided (used) by operating activities	<u>29,185,423</u>	<u>12,884,023</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Gifts and grants received for other than capital purposes:		
Private gifts for endowment purposes	605	690
Private gifts for other purposes	442,382	191,350
Grants (to) from the University of Kentucky	(27,994,674)	(12,405,285)
Other receipts (payments)	3,726,711	3,634,332
Net cash provided (used) by noncapital financing activities	<u>(23,824,976)</u>	<u>(8,578,913)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Grants (to) from the University of Kentucky for capital purposes	(11,176,206)	(16,966,135)
Capital grants and gifts	6,423,827	3,599,180
Purchases of capital assets	(863,123)	(795,598)
Principal paid on capital debt and leases	(194,241)	(201,720)
Interest paid on capital debt and leases	(48,529)	(14,304)
Other receipts (payments)	(408)	496,244
Net cash provided (used) by capital and related financing activities	<u>(5,858,680)</u>	<u>(13,882,333)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments, net	(2,947,208)	2,432,447
Interest and dividends on investments	97,376	106,877
Purchase of investments	(778,733)	(2,520,062)
Repayment of debt to affiliates and capital leases related to sale of CLI	(3,522,076)	-
Net proceeds from sale of CLI stock, net of cash acquired	23,219,367	-
Repayment of stock options related to sale of CLI	(3,093,721)	-
Net cash provided (used) by investing activities	<u>12,975,005</u>	<u>19,262</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>12,476,772</u>	<u>(9,557,961)</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>37,114,714</u>	<u>46,672,675</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 49,591,486</u>	<u>\$ 37,114,714</u>
Reconciliation of net income (loss) from operations to net cash provided (used) by operating activities:		
Net income (loss) from operations	\$ 23,383,574	\$ 19,583,079
Adjustments to reconcile net income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation expense	1,379,189	1,480,345
Change in assets and liabilities:		
Accounts receivable	(1,383,404)	(265,415)
Other current and noncurrent assets	(181,702)	(508,945)
Accounts payable and accrued liabilities	2,295,011	(474,513)
Long-term liabilities	(277,980)	(329,183)
Unearned revenue	3,970,735	(6,601,345)
Net cash provided (used) by operating activities	<u>\$ 29,185,423</u>	<u>\$ 12,884,023</u>
NONCASH TRANSACTIONS		
Equipment acquired through capital lease	\$ 70,499	\$ 47,612
Capital asset transfer from the University of Kentucky	\$ 592,993	\$ -
Capital asset additions in accounts payable	\$ 175,286	\$ -
CPST building lease payments - CLI	\$ -	\$ (119,952)

See notes to financial statements

**UNIVERSITY OF KENTUCKY
RESEARCH FOUNDATION
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY
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) (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, 2014 and December 31, 2013 are included in the Foundation's financial statements as of June 30, 2015 and 2014, 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. CLI's final financial statements as a Foundation-held entity include financial information from the first 15 days of January 2015 included with financial data as of December 31, 2014 and financial statements as of December 31, 2013, which are included in the Foundation's financial statements as of June 30, 2015 and 2014, 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 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.

Effective for fiscal year 2015 and thereafter, 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 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. For fiscal year 2014, spending was based on four percent of the average endowment market value for the preceding 60 months.

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, 2015 and 2014, the University's annual endowment management fee was 0.25%.

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 \$144,938 and \$65,078 for the years ended June 30, 2015 and 2014, 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. Also included are pledges that are verifiable, measurable and expected to be collected. Accounts receivable are recorded net of estimated uncollectible amounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. Allowances for uncollectible amounts are not significant in the current or previous fiscal years.

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

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

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

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

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

2. DEPOSITS AND INVESTMENTS

The fair value of deposits and investments, by type, at June 30, 2015 and 2014 is as follows:

	2015	2014
Cash on deposit with local banks and the University	\$ 49,591,486	\$ 37,114,714
Common stocks	3,834	3,834
Government agency fixed income securities	69,284	76,486
Investment in pooled equity funds	56,809	51,788
Investment in private equity funds	950,313	1,285,038
Investment in University pooled endowment fund	4,295,559	4,256,129
Other	106	106
Total	<u>\$ 54,967,391</u>	<u>\$ 42,788,095</u>
	2015	2014
Statement of Net Position classification		
Cash and cash equivalents	\$ 49,591,486	\$ 37,114,714
Endowment investments	4,295,559	4,256,129
Other long-term investments	1,080,346	1,417,252
Total	<u>\$ 54,967,391</u>	<u>\$ 42,788,095</u>

The composition of the University's pooled endowment fund based upon fair value at June 30, 2015 and 2014 is as follows:

	2015	2014
Cash and cash equivalents	0.4%	0.4%
Common and preferred stock	3.5%	4.6%
Corporate fixed income funds	0.7%	0.5%
Government agency fixed income funds	0.2%	0.2%
Pooled absolute return funds	10.0%	11.6%
Pooled equity funds	26.2%	28.3%
Pooled fixed income funds	7.3%	7.5%
Pooled global tactical asset allocation funds	7.2%	7.6%
Pooled long/short equity funds	14.2%	12.1%
Pooled private equity funds	12.8%	9.9%
Pooled real estate funds	8.5%	6.7%
Pooled real return funds	8.3%	9.6%
U.S. Treasury fixed income	0.7%	1.0%
Total	<u>100.0%</u>	<u>100.0%</u>

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,
- 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, the Foundation's subsidiary, CLI, received a line of credit from the Foundation 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 (1.32% at January 15, 2015 and 1.38% at December 31, 2014). Interest began to accumulate upon initial transfer of funds. Payment term on the line of credit was five years from the date of the final cash transfer. The agreement had no set maturity date. The amount outstanding under this line of credit at June 30, 2015 was zero because repayment of it was recorded as part of the sale of CLI. At June 30, 2014 the amount outstanding was

\$2,709,925, which was recorded within the Foundation's other noncurrent assets, net and within CLI's noncurrent long-term liabilities as noted within footnote 15. The amounts recorded within other noncurrent assets, net and noncurrent long-term liabilities were further eliminated as reflected within footnote 15. Furthermore, additional amounts advanced from UK HealthCare Hospital System (an organizational unit of the University) to the Foundation, which were recorded by the Foundation within the financial statements in Due to the University of Kentucky, represented additional annual funding equal to the net losses of CLI. These additional advances were 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 June 30, 2014, \$4,000,000 had been transferred into CLI's additional paid in capital to fund operations and capital improvements.

The Foundation sold its 650,000 shares of common stock of CLI to PH Kentucky, Inc. (the Buyer) on January 16, 2015, for a transaction price of \$25,000,000. The Stock Purchase Agreement (Agreement) established two separate escrow accounts from the gross proceeds. The ChaseGuard Escrow of \$2,500,000 was established to provide both parties protection for the successful use and testing of CLI's ChaseGuard Line integrated isolator-based filler stopper, capper system and related isolators, intended to be used to produce products to be sold to CLI's customers. The General Escrow account of \$1,300,000 will be used to pay claims that may arise from any breach of various representations or warranties in the Agreement, including any deficits in net working capital or unpaid taxes. The escrow agreements call for the remaining balances to be distributed in 24 months from closing for the ChaseGuard Escrow and 18 months from closing for the General Escrow account. Immediately prior to the January 16, 2015, closing, each former shareholder (other than the Foundation) and option holder received redemption payments payable from proceeds received from the Buyer at closing. The escrow balance at June 30, 2015 was \$3,608,400 and was recorded within the Foundation's cash and cash equivalents. The Foundation has recorded a liability of \$797,457 for the minority shareholders' proportionate share of the escrow balance. The Buyer repaid on behalf of CLI all amounts necessary to discharge outstanding balance of all indebtedness and all transaction expenses. Total debt of \$6,236,468 was paid, including the University past due rent of \$2,851,737 and levelized lease liability of \$279,889, the Foundation's line of credit of \$2,714,392 (including interest) and UK College of Pharmacy debt of \$143,519. Total transaction fees were \$1,523,377. After the sale of CLI, the Foundation transferred \$12,362,742 to UK HealthCare Hospital System, which was reported in grants to the University for noncapital purposes.

Prior to January 16, 2015, CLI leased its manufacturing facility from the University under an operating lease. CLI purchased the manufacturing facility and a new ground lease with the University was executed at the date of sale, January 16, 2015.

4. ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2015 and 2014, totaling \$32,559,310 and \$33,597,036, respectively, primarily represent net reimbursements receivable from sponsors for funds expended on grants and contracts and current pledges receivable. Allowances for uncollectible amounts were \$406,127 and \$575,000 as of June 30, 2015 and 2014, respectively.

5. OTHER CURRENT ASSETS

Other current assets as of June 30, 2015 and 2014 are summarized as follows:

	2015	2014
Unrecognized charges - patents	\$ 2,095,510	\$ 1,673,491
Inventories	-	908,739
Deferred income taxes	-	22,689
Other	33,867	293,234
Total	<u>\$ 2,129,377</u>	<u>\$ 2,898,153</u>

6. CAPITAL ASSETS, NET

Capital assets as of June 30, 2015 and 2014 are summarized as follows:

	2015			
	Beginning Balance	Additions	Deletions	Ending Balance
<u>Capital Assets</u>				
Land	\$ 2,336,455	\$ -	\$ -	\$ 2,336,455
Buildings	3,481,414	642,826	1,051,308	3,072,932
Infrastructure	6,567,248	-	-	6,567,248
Equipment	9,577,083	132,790	7,493,523	2,216,350
Vehicles	21,034	-	21,034	-
Software	78,842	72,456	151,298	-
Construction in process	1,381,888	464,225	1,846,113	-
	<u>23,443,964</u>	<u>1,312,297</u>	<u>10,563,276</u>	<u>14,192,985</u>
<u>Accumulated Depreciation</u>				
Buildings	1,937,194	259,142	702,096	1,494,240
Infrastructure	827,606	262,689	-	1,090,295
Equipment	7,064,529	844,524	5,804,947	2,104,106
Vehicles	71,659	-	71,659	-
Software	21,034	12,834	33,868	-
	<u>9,922,022</u>	<u>1,379,189</u>	<u>6,612,570</u>	<u>4,688,641</u>
Net capital assets	<u>\$ 13,521,942</u>	<u>\$ (66,892)</u>	<u>\$ 3,950,706</u>	<u>\$ 9,504,344</u>
	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 was zero and \$171,024 as of December 31, 2014 and 2013, respectively.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Payable to vendors and contractors	\$ 8,079,588	\$ 8,549,237
Due to the University of Kentucky	22,000	2,483,447
Due to the University of Kentucky for accrued payroll	2,357,562	2,208,390
Accrued payroll	29,508	768,378
Accrued interest	-	12,201
Total	<u>\$ 10,488,658</u>	<u>\$ 14,021,653</u>

8. UNEARNED REVENUE

Unearned revenue as of June 30, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Unearned grants and contracts revenue	\$ 26,015,952	\$ 23,178,643
Unearned patent intellectual property	3,767,658	4,163,200
Other	-	1,367,829
Total	<u>\$ 29,783,610</u>	<u>\$ 28,709,672</u>

9. LONG TERM LIABILITIES

Long-term liabilities as of June 30, 2015 and 2014 are summarized as follows:

	<u>2015</u>					
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Noncurrent Portion
Capital leases	\$ 82,321	\$ 70,499	\$ 152,820	\$ -	\$ -	\$ -
Deferred tax liability - KTI	757,615	-	277,980	479,635	-	479,635
Other long-term liabilities	399,841	-	399,841	-	-	-
Total long-term liabilities	<u>\$ 1,239,777</u>	<u>\$ 70,499</u>	<u>\$ 830,641</u>	<u>\$ 479,635</u>	<u>\$ -</u>	<u>\$ 479,635</u>
	<u>2014</u>					
	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 - KTI	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	<u>\$ 1,723,068</u>	<u>\$ 47,612</u>	<u>\$ 530,903</u>	<u>\$ 1,239,777</u>	<u>\$ 178,411</u>	<u>\$ 1,061,366</u>

Included in the other long-term liabilities ending balance as of June 30, 2015 and 2014 were amounts owed to the University of Kentucky from CLI of zero and \$399,841, respectively.

10. INVESTMENT INCOME

Components of investment income for the years ended June 30, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Interest and dividends earned on endowment investments	\$ 44,551	\$ 54,160
Realized and unrealized gains and losses on endowment investments	39,430	531,655
Realized and unrealized gains and losses on non-endowment investments	(178,717)	(200,544)
Investment income from external trusts	<u>14,339</u>	<u>14,172</u>
Total	<u>\$ (80,397)</u>	<u>\$ 399,443</u>

11. PLEDGES AND DEFERRED GIFTS

At June 30, 2015, pledges, which are included in accounts receivable, net are expected to be collected primarily over the next year, are as follows:

	<u>2015</u>	<u>2014</u>
Operating purposes	<u>\$ 24,508</u>	<u>\$ -</u>
Total gross pledges receivable	24,508	-
Less discounts and allowances	<u>(6,127)</u>	<u>-</u>
Total net pledges receivable	<u>\$ 18,381</u>	<u>\$ -</u>

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, the Foundation is required to record operating pledges as revenue when all eligibility requirements have been met. For the year ended June 30, 2015, the Foundation recorded the discounted value of operating pledges using a rate of two percent.

12. GRANTS AND CONTRACTS AWARDED

At June 30, 2015, grants and contracts of \$189,125,790 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.

13. 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 2014 to 2015. Settlements have not exceeded insurance coverage during the past three years.

14. LEASING ARRANGEMENTS

KTI

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 \$114,529 and \$87,306 for the periods ended December 31, 2014 and 2013, respectively. KTI subleases the ASTeCC and AgTeCC buildings to developing industries in advanced technology, with renewal options and escalation clauses. Sublease rental income was \$226,567 and \$171,957 for the periods ended December 31, 2014 and 2013, respectively. Future minimum rental revenue at December 31, 2014 is \$123,493 for the year ending December 31, 2015.

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 \$310,098 and \$317,263 for the periods ended December 31, 2014 and 2013, respectively. KTI negotiated a reduced lease rate effective March 1, 2014. Following is a schedule of minimum lease payments related to this lease for future fiscal years:

Year ending December 31,	
2015	\$ 308,665
2016	51,444
	<hr/>
Total minimum lease payments	\$ 360,109
	<hr/>

As of December 31, 2014 and 2013, KTI was also responsible for 24.33% per year of actual expenses related to common area maintenance, utilities and property taxes. This amounted to \$242,961 and \$219,142 during the periods ended December 31, 2014 and 2013, 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 \$436,026 (including \$218,296 from CLI and \$47,610 from UK Coldstream Research Center Administration) and \$569,952 (including \$224,244 from CLI and \$50,490 from UK Coldstream Research Center Administration) for the periods ended December 31, 2014 and 2013, respectively. In February 2013, KTI began offering virtual offices at the Coldstream Center. In the periods ended December 31, 2014 and 2013, rental income from virtual offices was \$2,550 and \$925, 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, 2014:

Year ending December 31,	
2015	\$ 461,966
2016	109,405
2017	24,745
	<hr/>
Total minimum rental receipts	\$ 596,116
	<hr/>

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

CLI leased 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 \$452,326 as of December 2014, including the first 15 days of January 2015, and \$433,674 for the period ended December 31, 2013. CLI purchased the manufacturing facility from the University on January 16, 2015. CLI also leased its labs in the Coldstream Center Building from KTI and 150 Bull Lea, an unrelated third party. The lease terms ranged from two to five years, with monthly rent ranging from \$1,073 to \$7,068.

15. COMBINED STATEMENTS

The Foundation and its blended component units statements were summarized as follows for the years ended June 30, 2015 and 2014:

UNIVERSITY OF KENTUCKY RESEARCH FOUNDATION
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY
COMBINED CONDENSED STATEMENT OF NET POSITION
AS OF JUNE 30, 2015

	University of Kentucky Research Foundation	Kentucky Technology, Inc.	Coldstream Laboratories, Inc.	Elimination Entries	Total
ASSETS					
Current Assets					
Cash and cash equivalents	\$ 48,833,344	\$ 758,142	\$ -	\$ -	\$ 49,591,486
Accounts receivable, net	32,411,365	147,945	-	-	32,559,310
Other current assets, net	2,110,601	18,776	-	-	2,129,377
Total current assets	83,355,310	924,863	-	-	84,280,173
Noncurrent Assets					
Endowment investments	4,295,559	-	-	-	4,295,559
Other long-term investments	7,549,671	1,076,405	-	(7,545,730)	1,080,346
Notes receivable	-	2,000	-	-	2,000
Capital assets, net	3,287,559	6,216,785	-	-	9,504,344
Total noncurrent assets	15,132,789	7,295,190	-	(7,545,730)	14,882,249
Total assets	98,488,099	8,220,053	-	(7,545,730)	99,162,422
LIABILITIES					
Current Liabilities					
Accounts payable and accrued liabilities	10,364,324	124,334	-	-	10,488,658
Unearned revenue	29,713,256	70,354	-	-	29,783,610
Total current liabilities	40,077,580	194,688	-	-	40,272,268
Noncurrent Liabilities					
Long-term liabilities	-	479,635	-	-	479,635
Total noncurrent liabilities	-	479,635	-	-	479,635
Total liabilities	40,077,580	674,323	-	-	40,751,903
NET POSITION					
Net investment in capital assets					
Restricted	3,287,559	6,216,785	-	-	9,504,344
Nonexpendable	823,405	-	-	-	823,405
Expendable	4,394,737	-	-	-	4,394,737
Total restricted	5,218,142	-	-	-	5,218,142
Unrestricted	49,904,818	1,328,945	-	(7,545,730)	43,688,033
Total net position	\$ 58,410,519	\$ 7,545,730	\$ -	(7,545,730)	\$ 58,410,519

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, net	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 REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015

	University of Kentucky Research Foundation	Kentucky Technology, Inc.	Coldstream Laboratories, Inc.	Elimination Entries	Total
OPERATING REVENUES					
Federal grants and contracts	\$ 166,573,254	-	-	-	\$ 166,573,254
State and local grants and contracts	16,889,578	-	-	-	16,889,578
Nongovernmental grants and contracts	27,316,925	1,534,380	-	-	28,851,305
Recoveries of facilities and administrative costs	47,882,437	-	-	-	47,882,437
Other operating revenues	495,285	993,540	14,028,155	(243,641)	15,273,339
Total operating revenues	259,157,479	2,527,920	14,028,155	(243,641)	275,469,913
OPERATING EXPENSES					
Educational and general:					
Instruction	10,554,607	-	-	-	10,554,607
Research	158,181,887	2,632,390	-	(59,050)	160,755,227
Public service	60,220,226	-	15,672,329	(218,296)	75,674,259
Academic support	1,825,187	-	-	-	1,825,187
Institutional support	568,985	-	-	-	568,985
Operations and maintenance of plant	1,328,135	-	-	-	1,328,135
Student financial aid	750	-	-	-	750
Depreciation	38,885	408,594	931,710	-	1,379,189
Total operating expenses	232,718,662	3,040,984	16,604,039	(277,346)	252,086,339
Net income (loss) from operations	26,438,817	(513,064)	(2,575,884)	33,705	23,383,574
NONOPERATING REVENUES (EXPENSES)					
Gifts	460,763	-	-	-	460,763
Investment income (loss)	(2,746,114)	(85,330)	(132,868)	2,883,915	(80,397)
Gain on CLI sale	18,126,947	-	-	-	18,126,947
Patent income	1,403,172	-	-	-	1,403,172
Grant (to) from the University of Kentucky for noncapital purposes	(26,430,627)	-	-	-	(26,430,627)
Interest on capital asset-related debt	-	-	(48,529)	-	(48,529)
Other nonoperating revenues and expenses, net	1,155	432,988	39,180	(33,705)	439,618
Net nonoperating revenues (expenses)	(9,184,704)	347,658	(142,217)	2,850,210	(6,129,053)
Net income (loss) before other revenues, expenses, gains, or losses	17,254,113	(165,406)	(2,718,101)	2,883,915	17,254,521
Capital grants and gifts	6,423,827	-	-	-	6,423,827
Additions to permanent endowments	605	-	-	-	605
Grant (to) from the University of Kentucky for capital purposes	(11,176,206)	-	-	-	(11,176,206)
Capital contributions from the Foundation	-	-	161,480	(161,480)	-
Other, net	(1,523,377)	-	(408)	-	(1,523,785)
Total other revenues (expenses)	(6,275,151)	-	161,072	(161,480)	(6,275,559)
INCREASE (DECREASE) IN NET POSITION	10,978,962	(165,406)	(2,557,029)	2,722,435	10,978,962
NET POSITION, beginning of year	47,431,557	7,711,136	160,731	(7,871,867)	47,431,557
Sale of CLI	-	-	2,396,298	(2,396,298)	-
NET POSITION, end of year	\$ 58,410,519	\$ 7,545,730	-	\$ (7,545,730)	\$ 58,410,519

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	<u>250,867,123</u>	<u>2,442,428</u>	<u>13,067,395</u>	<u>(256,644)</u>	<u>266,120,302</u>
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	<u>229,869,110</u>	<u>2,875,041</u>	<u>14,072,972</u>	<u>(279,900)</u>	<u>246,537,223</u>
Net income (loss) from operations	<u>20,998,013</u>	<u>(432,613)</u>	<u>(1,005,577)</u>	<u>23,256</u>	<u>19,583,079</u>
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)	<u>(9,794,241)</u>	<u>104,709</u>	<u>41,652</u>	<u>1,317,248</u>	<u>(8,330,632)</u>
Net income (loss) before other revenues, expenses, gains, or losses	<u>11,203,772</u>	<u>(327,904)</u>	<u>(963,925)</u>	<u>1,340,504</u>	<u>11,252,447</u>
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)	<u>(13,343,678)</u>	<u>-</u>	<u>398,135</u>	<u>(446,810)</u>	<u>(13,392,353)</u>
INCREASE (DECREASE) IN NET POSITION	<u>(2,139,906)</u>	<u>(327,904)</u>	<u>(565,790)</u>	<u>893,694</u>	<u>(2,139,906)</u>
NET POSITION, beginning of year	49,571,463	8,039,040	726,521	(8,765,561)	49,571,463
NET POSITION, end of year	<u>\$ 47,431,557</u>	<u>\$ 7,711,136</u>	<u>\$ 160,731</u>	<u>\$ (7,871,867)</u>	<u>\$ 47,431,557</u>

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, 2015

	University of Kentucky Research Foundation	Kentucky Technology, Inc.	Coldstream Laboratories, Inc.	Elimination Entries	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Grants and contracts	\$ 212,096,770	\$ 1,534,380	\$ -	\$ -	\$ 213,631,150
Recoveries of facilities and administrative costs	48,181,824	-	-	-	48,181,824
Payments to vendors and contractors	(77,635,363)	(2,262,457)	(6,604,669)	(48,791)	(86,551,280)
Salaries, wages and benefits reimbursement to the University of Kentucky	(154,077,716)	-	-	-	(154,077,716)
Salaries, wages and benefits	-	(620,177)	(7,545,135)	-	(8,165,312)
Other receipts (payments)	496,650	843,931	15,069,817	(243,641)	16,166,757
Net cash provided (used) by operating activities	29,062,165	(504,323)	920,013	(292,432)	29,185,423
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Gifts and grants received for other than capital purposes:					
Private gifts for endowment purposes	605	-	-	-	605
Private gifts for other purposes	442,382	-	-	-	442,382
Grants (to) from the University of Kentucky	(27,994,674)	-	-	-	(27,994,674)
Other receipts (payments)	3,288,248	432,988	39,180	(33,705)	3,726,711
Net cash provided (used) by noncapital financing activities	(24,263,439)	432,988	39,180	(33,705)	(23,824,976)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Grants (to) from the University of Kentucky for capital purposes	(11,176,206)	-	-	-	(11,176,206)
Capital grants and gifts	6,423,827	-	-	-	6,423,827
Purchases of capital assets	(417,706)	(84,553)	(360,864)	-	(863,123)
Principal paid on capital debt and leases	-	-	(194,241)	-	(194,241)
Interest paid on capital debt and leases	-	-	(48,529)	-	(48,529)
Capital contributions from the Foundation	-	-	161,480	(161,480)	-
Other receipts (payments)	-	-	(408)	-	(408)
Net cash provided (used) by capital and related financing activities	(5,170,085)	(84,553)	(442,562)	(161,480)	(5,858,680)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sales and maturities of investments, net	(2,120,680)	59,092	(1,373,237)	487,617	(2,947,208)
Interest and dividends on investments	89,394	7,982	-	-	97,376
Purchase of investments	(763,235)	(15,498)	-	-	(778,733)
Repayment of debt to affiliates and capital leases related to sale of CLI	(3,522,076)	-	-	-	(3,522,076)
Net proceeds from sale of CLI stock, net of cash acquired	23,219,367	-	-	-	23,219,367
Repayment of stock options related to sale of CLI	(3,093,721)	-	-	-	(3,093,721)
Net cash provided (used) by investing activities	13,809,049	51,576	(1,373,237)	487,617	12,975,005
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	13,437,690	(104,312)	(856,606)	-	12,476,772
CASH AND CASH EQUIVALENTS, beginning of year	35,395,654	862,454	856,606	-	37,114,714
CASH AND CASH EQUIVALENTS, end of year	\$ 48,833,344	\$ 758,142	\$ -	\$ -	\$ 49,591,486

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 noncapital 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

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