



 University of  
Kentucky<sup>®</sup>

Research Foundation

2018 Financial Statements

**University of Kentucky**  
**Research Foundation**  
**A Component Unit of the University of Kentucky**  
**Financial Statements**  
**Years Ended June 30, 2018 and 2017**

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## 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, 2018 and 2017, 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, 2018 and 2017, and the changes in financial position and 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 5, 2018

**UNIVERSITY OF KENTUCKY  
RESEARCH FOUNDATION  
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEARS ENDED JUNE 30, 2018 AND 2017**

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, 2018 and 2017. 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 \$23,983,208 or 19.8%. The most significant components of the fluctuation were increases of \$23,122,657 in cash and cash equivalents and \$896,614 in other current assets, net.
- Total liabilities increased \$10,325,006 or 26.0%. The most significant component of the increase in total liabilities was \$8,307,406 in unearned revenue.
- Total net position increased \$13,658,202 or 16.7%. Unrestricted net position increased \$14,036,804 offset by decreases in net investment in capital assets of 330,273 and restricted net position of \$48,329.
- Operating revenues increased \$20,383,347 to \$305,661,691.
- Operating expenses increased \$10,772,342 to \$275,061,371.

**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)

KTI has a calendar-year basis fiscal year from January 1 through December 31. Therefore, the consolidated financial statements of KTI as of December 31, 2017 and 2016 are included in the Foundation's financial statements as of June 30, 2018 and 2017, respectively.

### 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, 2018, 2017 and 2016 is as follows:

#### Condensed Statements of Net Position

	2018	2017	2016
<b>ASSETS</b>			
Current assets	\$ 121,876,954	\$ 98,121,885	\$ 89,251,319
Capital assets, net	8,324,139	8,611,160	9,034,698
Other noncurrent assets	15,184,572	14,669,412	13,738,373
Total assets	145,385,665	121,402,457	112,024,390
<b>LIABILITIES</b>			
Current liabilities	49,633,901	39,403,010	43,220,257
Noncurrent liabilities	477,674	383,559	404,398
Total liabilities	50,111,575	39,786,569	43,624,655
<b>NET POSITION</b>			
Net investment in capital assets	8,280,887	8,611,160	9,034,698
Restricted			
Nonexpendable	838,913	839,843	832,043
Expendable	4,159,189	4,206,588	3,982,593
Unrestricted	81,995,101	67,958,297	54,550,401
Total net position	\$ 95,274,090	\$ 81,615,888	\$ 68,399,735

**Assets.** As of June 30, 2018, the Foundation's assets totaled \$145,385,665. Cash and cash equivalents represented the Foundation's largest asset, totaling \$86,099,794 or 59.2% of total assets. Accounts receivable, net, primarily from grant sponsors, totaled \$32,091,334 or 22.1% of total assets, endowment investments totaled \$14,477,944 or 10.0% of total assets, and capital assets, net, totaled \$8,324,139 or 5.7% of total assets.

Total assets increased \$23,983,208 during the year ended June 30, 2018. The most significant components of the increase in total assets were increases of \$23,122,657 in cash and cash equivalents and \$896,614 in other current 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. Other current assets, net increased primarily due to an increase in reference cigarettes inventory.

**Liabilities.** At June 30, 2018, the Foundation's liabilities totaled \$50,111,575. Unearned revenue amounted to \$41,232,902 or 82.3% of total liabilities. Unearned revenue reflects advance receipts from grant sponsors and other customers. Accounts payable and accrued liabilities and long-term liabilities of \$8,379,373 and \$499,300 respectively, accounted for the remainder of the Foundation's liabilities.

Total liabilities increased \$10,325,006 during the year ended June 30, 2018. The most significant component of the increase in total liabilities was \$8,307,406 in unearned revenue primarily in grants due to prepaid funding from sponsors this year.

**Net Position.** Net position at June 30, 2018 totaled \$95,274,090 or 65.5% of total assets. Net investment in capital assets totaled \$8,280,887 or 8.7% of total net position. Restricted net position totaled \$4,998,102 or 5.2% of total net position. Unrestricted net position accounted for \$81,995,101 or 86.1% of total net position.

Total net position increased \$13,658,202 during the year ended June 30, 2018. Unrestricted net position was the most significant component, increasing \$14,036,804 due to revenues from recoveries of facilities and administrative costs exceeding expenses in unrestricted funds. Restricted net position decreased \$48,329 primarily due to less gift income this year. Net investment in capital assets decreased \$330,273 primarily from current year depreciation offset by the addition of capital assets.

**2017 Versus 2016.** During the year ended June 30, 2017:

- Total assets increased \$9,378,067. The most significant component of the increase in total assets was an increase 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.
- Total liabilities decreased \$3,838,086. 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.
- Total net position increased \$13,216,153. 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. Net investment in capital assets decreased \$423,538 primarily from a loss on disposal of fixed assets along with current year 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, 2018, 2017 and 2016 is as follows:

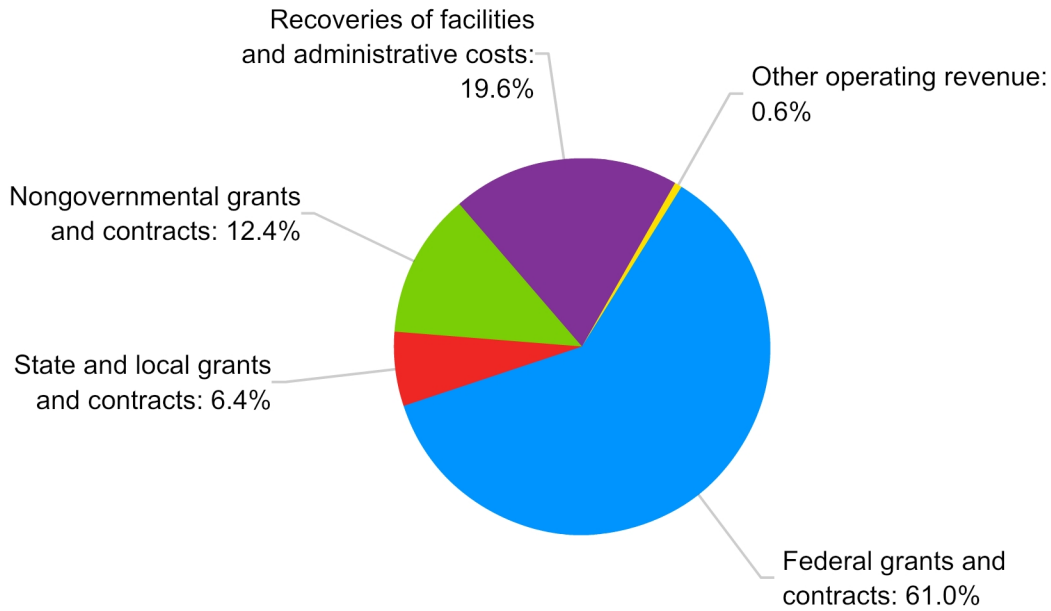
**Condensed Statements of Revenues, Expenses and Changes in Net Position**

	2018	2017	2016
<b>OPERATING REVENUES</b>			
Federal grants and contracts	\$ 186,384,990	\$ 180,423,608	\$ 167,832,272
State and local grants and contracts	19,478,799	16,880,801	16,458,887
Nongovernmental grants and contracts	37,960,872	32,078,358	33,803,354
Recoveries of facilities and administrative costs	59,780,793	54,179,381	50,887,589
Other operating revenue	2,056,237	1,716,196	3,159,866
Total operating revenues	<u>305,661,691</u>	<u>285,278,344</u>	<u>272,141,968</u>
<b>OPERATING EXPENSES</b>			
Research	178,004,325	176,409,303	166,755,694
Other educational and general	94,437,714	84,969,844	84,472,556
Student financial aid	2,180,639	2,489,023	1,494,365
Depreciation	438,693	420,859	485,821
Total operating expenses	<u>275,061,371</u>	<u>264,289,029</u>	<u>253,208,436</u>
<b>NET INCOME (LOSS) FROM OPERATIONS</b>	<u>30,600,320</u>	<u>20,989,315</u>	<u>18,933,532</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Gifts	173,852	239,921	245,126
Investment income (loss)	1,750,577	1,461,239	134,424
License income	2,345,029	4,547,906	8,157,314
Other nonoperating revenues and expenses, net	41,150	141,737	209,077
Capital grants and gifts	6,044,629	9,035,476	4,675,058
Additions to permanent endowments	6,570	7,800	7,971
Grants to the University of Kentucky	(27,353,507)	(22,690,861)	(22,352,347)
Other, net	49,582	(516,380)	(20,939)
Total nonoperating revenues (expenses)	<u>(16,942,118)</u>	<u>(7,773,162)</u>	<u>(8,944,316)</u>
<b>INCREASE IN NET POSITION</b>	13,658,202	13,216,153	9,989,216
<b>NET POSITION, beginning of year</b>	81,615,888	68,399,735	58,410,519
<b>NET POSITION, end of year</b>	<u>\$ 95,274,090</u>	<u>\$ 81,615,888</u>	<u>\$ 68,399,735</u>

**2018.** Total operating revenues, consisting primarily of grants and contracts, and related recoveries of facilities and administrative costs, were \$305,661,691 for the year ended June 30, 2018. Federal, state and nongovernmental grants and contracts, and related recoveries of facilities and administrative costs, accounted for 99.3% of operating revenues. Operating revenues increased \$20,383,347 or 7.1%, primarily caused by increases of \$5,961,382 or 3.3% in federal grants and contracts, \$5,882,514 or 18.3% in nongovernmental grants and contracts, \$5,601,412 or 10.3% in recoveries of facilities and administrative costs, \$2,597,998 or 15.4% in state and local grants and contracts and \$340,041 or 19.8% in other operating revenues. These increases were due to increases in numerous grants.

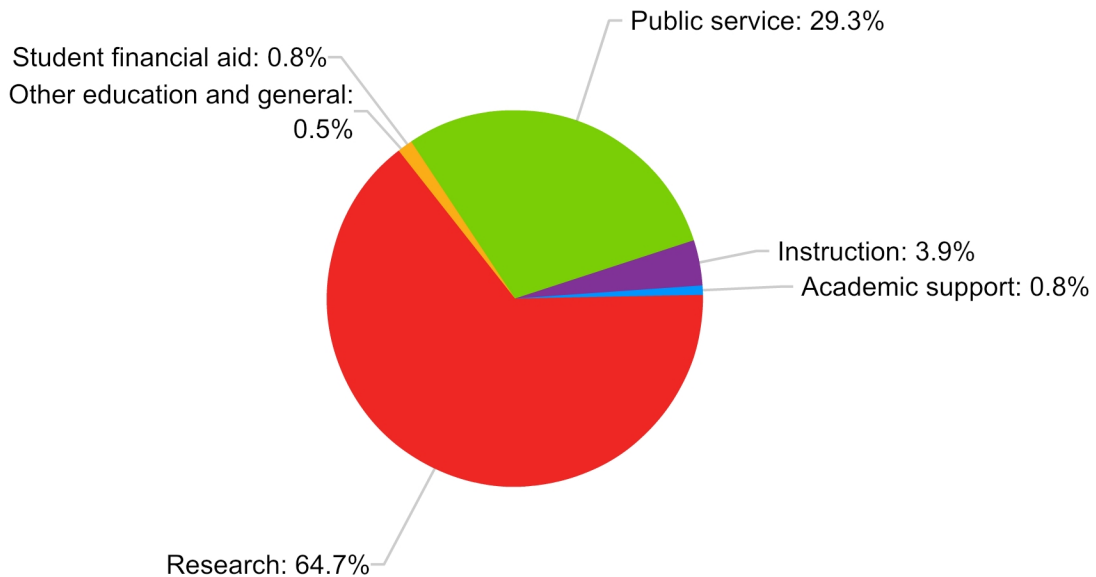


### TOTAL OPERATING REVENUES



Operating expenses totaled \$275,061,371. Of this amount, \$178,004,325 or 64.7% was used for research expenses, \$80,463,410 or 29.3% was used for public service expenses and \$10,703,323 or 3.9% was used for instruction. Operating expenses increased \$10,772,342. This increase was primarily attributable to an increase in public service and research activity, offset by a decrease in academic support.

### TOTAL OPERATING EXPENSES



**2017 Versus 2016.** Total operating revenues, consisting primarily of grants and contracts, and related recoveries of facilities and administrative costs, were \$285,278,344. 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, \$3,291,792 or 6.5% in recoveries of facilities and administrative costs and \$1,443,670 or 45.7% in other operating revenues, offset by a decrease of \$1,724,996 or 5.1% in nongovernmental grants and contracts. The increases in federal grants and contracts and recoveries of facilities and administrative costs were due to increases in numerous grants.

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 decreases in public service.

### **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, 2018, 2017 and 2016 is as follows:

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

	2018	2017	2016
<b>CASH PROVIDED (USED) BY:</b>			
Operating activities	\$ 40,652,006	\$ 18,576,807	\$ 23,829,164
Noncapital financing activities	(10,434,547)	(8,606,869)	(6,149,704)
Capital and related financing activities	(8,497,843)	(1,781,288)	(4,462,409)
Investing activities	1,403,041	222,135	(8,242,185)
Net increase in cash and cash equivalents	23,122,657	8,410,785	4,974,866
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	62,977,137	54,566,352	49,591,486
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b>\$ 86,099,794</b>	<b>\$ 62,977,137</b>	<b>\$ 54,566,352</b>

**2018.** Major sources of cash provided by operating activities were grants and contracts of \$250,094,113 and recoveries of facilities and administrative costs of \$61,516,551. The largest cash payments used for operating activities were made to the University as reimbursements for employee salaries and benefits of \$176,136,398 and to suppliers of \$96,267,589.

The largest use of cash in the noncapital financing activities related to grants to the University for noncapital purposes totaling \$12,691,987. Cash provided by this category is mostly from other receipts of \$2,077,018, 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 \$14,475,968, offset by capital grants and gifts of \$6,044,629.

During the year ended June 30, 2018, cash provided by investing activities reflects proceeds from sales and maturities of investments of \$9,698,829 and interest and dividend income on investments of \$886,433, net of cash used to purchase investments of \$9,182,221.

**2017 Versus 2016.** Cash and cash equivalents increased \$8,410,785 primarily due to an increase in cash provided by investing activities and less cash used by capital and related financing activities offset by an increase in cash used by noncapital financing 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 \$8,324,139 at June 30, 2018, a decrease of \$287,021. The decrease was primarily due to current year depreciation. Capital assets as of June 30, 2018, and significant changes in capital assets during the years ended June 30, 2018 and 2017 are as follows (in thousands):

	Balance	Net	Balance	Net	Balance
	June 30, 2016	Additions	June 30, 2017	Additions	June 30, 2018
		FY 16-17		FY 17-18	
Land	\$ 2,336	\$ —	\$ 2,336	\$ —	\$ 2,336
Land improvements	593	—	593	—	593
Buildings	2,480	(1,390)	1,090	—	1,090
Infrastructure	6,567	—	6,567	—	6,567
Equipment	2,233	463	2,696	100	2,796
Accumulated depreciation	(5,174)	503	(4,671)	(387)	(5,058)
<b>Total</b>	<b>\$ 9,035</b>	<b>\$ (424)</b>	<b>\$ 8,611</b>	<b>\$ (287)</b>	<b>\$ 8,324</b>

**Debt.** The Foundation had long-term liabilities totaling \$499,300 and \$383,559 at June 30, 2018 and 2017, 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, 2018, grants and contracts of \$234,499,730 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 53.0% for fiscal year 2018 and will remain the same through fiscal year 2020.
- 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 \$333.8 million, an 0.8% increase over the previous period. Federal grant awards continue to comprise the majority of grant awards at \$199.9 million or 59.9% of total awards. Funding has increased from the Kentucky Department of Community Based Service, a major federal pass-through 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, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 86,099,794	\$ 62,974,784
Accounts receivable, net	32,091,334	32,357,889
Other current assets, net	3,685,826	2,789,212
Total current assets	<u>121,876,954</u>	<u>98,121,885</u>
<b>Noncurrent Assets</b>		
Restricted cash and cash equivalents	—	2,353
Endowment investments	14,477,944	13,867,494
Other long-term investments	501,651	764,565
Notes receivable	204,977	35,000
Capital assets, net	8,324,139	8,611,160
Total noncurrent assets	<u>23,508,711</u>	<u>23,280,572</u>
Total assets	<u>145,385,665</u>	<u>121,402,457</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	8,379,373	6,477,514
Unearned revenue	41,232,902	32,925,496
Long-term liabilities - current portion	21,626	—
Total current liabilities	<u>49,633,901</u>	<u>39,403,010</u>
<b>Noncurrent Liabilities</b>		
Long-term liabilities	477,674	383,559
Total noncurrent liabilities	<u>477,674</u>	<u>383,559</u>
Total liabilities	<u>50,111,575</u>	<u>39,786,569</u>
<b>NET POSITION</b>		
<b>Net investment in capital assets</b>	<u>8,280,887</u>	<u>8,611,160</u>
<b>Restricted</b>		
Nonexpendable	838,913	839,843
Expendable	4,159,189	4,206,588
Total restricted	<u>4,998,102</u>	<u>5,046,431</u>
<b>Unrestricted</b>	<u>81,995,101</u>	<u>67,958,297</u>
Total net position	<u>\$ 95,274,090</u>	<u>\$ 81,615,888</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, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
<b>OPERATING REVENUES</b>		
Federal grants and contracts	\$ 186,384,990	\$ 180,423,608
State and local grants and contracts	19,478,799	16,880,801
Nongovernmental grants and contracts	37,960,872	32,078,358
Recoveries of facilities and administrative costs	59,780,793	54,179,381
Other operating revenues	2,056,237	1,716,196
Total operating revenues	<u>305,661,691</u>	<u>285,278,344</u>
<b>OPERATING EXPENSES</b>		
Educational and general:		
Instruction	10,703,323	10,041,505
Research	178,004,325	176,409,303
Public service	80,463,410	70,618,096
Academic support	2,143,314	3,504,638
Student services	22,697	9,691
Institutional support	731,743	791,608
Operations and maintenance of plant	373,227	4,306
Student financial aid	2,180,639	2,489,023
Depreciation	438,693	420,859
Total operating expenses	<u>275,061,371</u>	<u>264,289,029</u>
Net income (loss) from operations	<u>30,600,320</u>	<u>20,989,315</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Gifts	173,852	239,921
Investment income (loss)	1,750,577	1,461,239
License income	2,345,029	4,547,906
Grants (to) from the University of Kentucky for noncapital purposes	(12,691,987)	(12,442,196)
Other nonoperating revenues and (expenses)	41,150	141,737
Net nonoperating revenues (expenses)	<u>(8,381,379)</u>	<u>(6,051,393)</u>
Net income (loss) before other revenues, expenses, gains, or losses	<u>22,218,941</u>	<u>14,937,922</u>
Capital grants and gifts	6,044,629	9,035,476
Additions to permanent endowments	6,570	7,800
Grants (to) from the University of Kentucky for capital purposes	(14,661,520)	(10,248,665)
Other, net	49,582	(516,380)
Total other revenues (expenses)	<u>(8,560,739)</u>	<u>(1,721,769)</u>
<b>INCREASE IN NET POSITION</b>	<u>13,658,202</u>	<u>13,216,153</u>
<b>NET POSITION, beginning of year</b>	<u>81,615,888</u>	<u>68,399,735</u>
<b>NET POSITION, end of year</b>	<u>\$ 95,274,090</u>	<u>\$ 81,615,888</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, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Grants and contracts	\$ 250,094,113	\$ 229,919,182
Recoveries of facilities and administrative costs	61,516,551	54,320,977
Payments to vendors and contractors	(96,267,589)	(96,700,860)
Salaries, wages and benefits reimbursement to the University of Kentucky	(176,136,398)	(169,958,777)
Salaries, wages and benefits	(451,385)	(569,146)
Other receipts (payments)	1,896,714	1,565,431
Net cash provided (used) by operating activities	<u>40,652,006</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	6,570	7,800
Private gifts for other purposes	173,852	239,921
Grants (to) from the University of Kentucky	(12,691,987)	(12,442,196)
Other receipts (payments)	2,077,018	3,587,606
Net cash provided (used) by noncapital financing activities	<u>(10,434,547)</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	(14,475,968)	(10,303,062)
Capital grants and gifts	6,044,629	9,035,476
Purchases of capital assets	(151,672)	(488,912)
Proceeds from capital debt	53,378	—
Principal paid on capital debt and leases	(17,792)	—
Other receipts (payments)	49,582	(24,790)
Net cash provided (used) by capital and related financing activities	<u>(8,497,843)</u>	<u>(1,781,288)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments, net	9,698,829	8,173,289
Interest and dividends on investments	886,433	147,189
Purchase of investments	(9,182,221)	(8,098,343)
Net cash provided (used) by investing activities	<u>1,403,041</u>	<u>222,135</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	23,122,657	8,410,785
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>62,977,137</u>	<u>54,566,352</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 86,099,794</u>	<u>\$ 62,977,137</u>
<b>Reconciliation of net income (loss) from operations to net cash provided (used) by operating activities:</b>		
Net income (loss) from operations	\$ 30,600,320	\$ 20,989,315
Adjustments to reconcile net income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation expense	438,693	420,859
Change in assets and liabilities:		
Accounts receivable	263,272	(1,561,874)
Other current and noncurrent assets	(771,481)	357,088
Accounts payable and accrued liabilities	1,716,307	(3,904,097)
Long-term liabilities	80,155	(20,839)
Unearned revenue	8,324,740	2,296,355
<b>Net cash provided (used) by operating activities</b>	<u>\$ 40,652,006</u>	<u>\$ 18,576,807</u>
<b>NONCASH TRANSACTIONS</b>		
Capital asset change in accounts payable	\$ —	\$ (54,397)

See notes to financial statements

**UNIVERSITY OF KENTUCKY  
RESEARCH FOUNDATION  
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**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, 2017 and December 31, 2016 are included in the Foundation's financial statements as of June 30, 2018 and 2017, 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.

Inventories. Inventories are stated principally at the lower of average cost or market.

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, 2018 and 2017, 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 \$488,274 and \$462,425 for the years ended June 30, 2018 and 2017, 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.

## 2. DEPOSITS AND INVESTMENTS

The fair value of deposits and investments, by Statements of Net Position classification, at June 30, 2018 and 2017 are as follows:

	2018	2017
<u>Statement of Net Position classification</u>		
Cash and cash equivalents	\$ 86,099,794	\$ 62,974,784
Restricted cash and cash equivalents	—	2,353
Total cash and cash equivalents	86,099,794	62,977,137
Endowment investments	14,477,944	13,867,494
Other long-term investments	501,651	764,565
Total	<u>\$ 101,079,389</u>	<u>\$ 77,609,196</u>

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, 2018:

	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	\$ 86,099,794	\$ —	\$ —	\$ —	\$ —	\$ 86,099,794
Global equity - private	403,328	59,953	—	—	59,953	343,375
Global equity - U.S.	10,961	7,026	—	—	7,026	3,935
Global fixed income - high quality/rate sensitive	67,184	32,959	34,225	—	67,184	—
Global fixed income - public credit	20,172	—	20,172	—	20,172	—
Endowed deposits and investments	14,477,944	—	—	14,477,944	14,477,944	—
Other	6	—	—	—	—	6
Total	<u>\$ 101,079,389</u>	<u>\$ 99,938</u>	<u>\$ 54,397</u>	<u>\$ 14,477,944</u>	<u>\$ 14,632,279</u>	<u>\$ 86,447,110</u>

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

	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	\$ 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
<b>Total</b>	<b>\$ 77,606,196</b>	<b>\$ 90,613</b>	<b>\$ 51,113</b>	<b>\$ 13,867,494</b>	<b>\$ 14,009,220</b>	<b>\$ 63,596,976</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, 2018.

The composition of the University's pooled endowment fund based upon fair value at June 30, 2018 and 2017 is as follows:

	2018	2017
Cash and cash equivalents	0.3%	0.4%
Diversifying strategies - fund of hedge funds	19.0%	18.8%
Global equity - hedged fund	6.0%	8.3%
Global equity - international	14.6%	13.8%
Global equity - private	15.0%	14.2%
Global equity - U.S.	9.3%	9.6%
Global fixed income - high quality/rate sensitive	7.6%	8.2%
Global fixed income - private credit	2.9%	3.0%
Global fixed income - public credit	6.1%	4.9%
Real assets - private	8.2%	9.6%
Real assets - public	11.0%	9.2%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</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 and cash equivalents 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 and cash equivalents on deposit with the University are 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 \$160,267 and \$171,553 as of December 31, 2017 and 2016, 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 and cash equivalents on deposit with the University are 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 and cash equivalents 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 and cash equivalents on deposit with the University are 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 and cash equivalents on deposit with local banks are 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, 2018 and 2017, 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 and cash equivalents on deposit with the University have 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 and cash equivalents on deposit with local banks and short-term investments in marketable securities have 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, 2018 and 2017, the Foundation had fixed income securities managed based on duration. The securities duration was 3.0 years as of June 30, 2018 and June 30, 2017, respectively.

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.

### 4. NOTES AND ACCOUNTS RECEIVABLE, NET

Notes and accounts receivable, net as of June 30, 2018 and 2017 are summarized as follows:

	2018		
	Gross Receivable	Allowance	Net Receivable
Reimbursement receivable - grants and contracts	\$ 31,944,252	\$ (185,000)	\$ 31,759,252
Patent receivable	166,694	—	166,694
Other	370,365	—	370,365
Total	<u>\$ 32,481,311</u>	<u>\$ (185,000)</u>	<u>\$ 32,296,311</u>
Current portion			\$ 32,091,334
Noncurrent portion			204,977
Total			<u>\$ 32,296,311</u>
	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>

### 5. OTHER CURRENT ASSETS

Other current assets as of June 30, 2018 and 2017 are summarized as follows:

	2018	2017
Unrecognized charges - patents	\$ 1,126,305	\$ 1,000,663
Inventories	2,533,421	1,773,271
Other	26,100	15,278
Total	<u>\$ 3,685,826</u>	<u>\$ 2,789,212</u>

## 6. CAPITAL ASSETS, NET

Capital assets as of June 30, 2018 and 2017 are summarized as follows:

2018				
<u>Capital Assets</u>	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 2,336,455	\$ —	\$ —	\$ 2,336,455
Land improvements	592,993	—	—	592,993
Buildings	1,089,773	—	—	1,089,773
Infrastructure	6,567,248	—	—	6,567,248
Equipment	2,695,257	151,672	51,379	2,795,550
	<u>13,281,726</u>	<u>151,672</u>	<u>51,379</u>	<u>13,382,019</u>
 <u>Accumulated Depreciation</u>				
Land improvements	133,424	59,299	—	192,723
Buildings	764,958	24,061	—	789,019
Infrastructure	1,615,675	262,690	—	1,878,365
Equipment	2,156,509	92,643	51,379	2,197,773
	<u>4,670,566</u>	<u>438,693</u>	<u>51,379</u>	<u>5,057,880</u>
Capital assets, net	<u>\$ 8,611,160</u>	<u>\$ (287,021)</u>	<u>\$ —</u>	<u>\$ 8,324,139</u>
 2017				
Capital Assets	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>
 Accumulated Depreciation				
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>

## 7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Payable to vendors and contractors	\$ 7,230,633	\$ 5,404,606
Due to the University of Kentucky	33,000	32,000
Due to the University of Kentucky for accrued payroll	1,086,891	1,014,251
Accrued payroll	28,849	26,657
Total	<u>\$ 8,379,373</u>	<u>\$ 6,477,514</u>

## 8. UNEARNED REVENUE

Unearned revenue as of June 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Unearned grants and contracts revenue	\$ 41,232,902	\$ 32,908,162
Unearned license income	—	17,334
Total	<u>\$ 41,232,902</u>	<u>\$ 32,925,496</u>

## 9. LONG TERM LIABILITIES

Long-term liabilities as of June 30, 2018 and 2017 are summarized as follows:

	<u>2018</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	\$ 383,559	\$ 72,489	\$ —	\$ 456,048	\$ —	\$ 456,048
Other long-term liabilities	—	64,878	21,626	43,252	21,626	21,626
Total long-term liabilities	<u>\$ 383,559</u>	<u>\$ 137,367</u>	<u>\$ 21,626</u>	<u>\$ 499,300</u>	<u>\$ 21,626</u>	<u>\$ 477,674</u>
	<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>



## 10. INVESTMENT INCOME (LOSS)

Components of investment income (loss) for the years ended June 30, 2018 and 2017 are as follows:

	2018	2017
Interest and dividends earned on endowment investments	\$ 226,916	\$ 190,045
Realized and unrealized gains and (losses) on endowment investments	610,451	1,050,634
Realized and unrealized gains and (losses), interest and dividends earned on non-endowment investments	899,008	206,116
Investment income from external trusts	14,202	14,444
Total	<u>\$ 1,750,577</u>	<u>\$ 1,461,239</u>

## 11. GRANTS AND CONTRACTS AWARDED

At June 30, 2018 and 2017, grants and contracts of \$234,499,730 and \$226,490,359 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 2017 to 2018. 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 \$114,543 and \$108,191 for the periods ended December 31, 2017 and 2016, respectively. KTI subleases the ASTeCC building to developing industries in advanced technology, with renewal options and escalation clauses. Sublease rental income was \$233,021 and \$219,030 for the periods ended December 31, 2017 and 2016, respectively. Future minimum rental revenue at December 31, 2017 is \$186,944 for the year ending December 31, 2018.

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 \$0 and \$51,444 for the periods ended December 31, 2017 and 2016, respectively.

As of December 31, 2016, 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 during the period ended December

31, 2016. As of December 31, 2017, KTI was not responsible for any of these expenses due to the termination of the lease.

KTI subleased office and laboratory space to tenants in the Coldstream Center. Rental income was \$0 (including \$0 from UK Coldstream Research Center Administration) and \$61,199 (including \$7,935 from UK Coldstream Research Center Administration) for the periods ended December 31, 2017 and 2016, respectively. KTI also offers virtual offices at the Coldstream Center. In the periods ended December 31, 2017 and 2016, rental income from virtual offices was \$900 and \$1,350, 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, 2017:

Years ending December 31,	
2018	\$ 187,019
2019	64,380
2020	38,549
Total minimum rental receipts	<u>\$ 289,948</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, 2017 and 2016, 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, 2018 and 2017:

UNIVERSITY OF KENTUCKY RESEARCH FOUNDATION  
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY  
COMBINED STATEMENT OF NET POSITION  
AS OF JUNE 30, 2018

	University of Kentucky Research Foundation	Kentucky Technology, Inc.	Eliminations	Total
<b>ASSETS</b>				
Current Assets				
Cash and cash equivalents	\$ 83,989,137	\$ 2,110,657	\$ —	\$ 86,099,794
Accounts receivable, net	31,759,672	331,662	—	32,091,334
Other current assets, net	3,659,726	26,100	—	3,685,826
Total current assets	119,408,535	2,468,419	—	121,876,954
Noncurrent Assets				
Endowment investments	14,477,944	—	—	14,477,944
Other long-term investments	7,666,095	497,710	(7,662,154)	501,651
Notes receivable	166,694	38,283	—	204,977
Capital assets, net	3,037,480	5,286,659	—	8,324,139
Total noncurrent assets	25,348,213	5,822,652	(7,662,154)	23,508,711
Total assets	144,756,748	8,291,071	(7,662,154)	145,385,665
<b>LIABILITIES</b>				
Current Liabilities				
Accounts payable and accrued liabilities	8,257,341	122,032	—	8,379,373
Unearned revenue	41,225,317	7,585	—	41,232,902
Long-term liabilities - current portion	—	21,626	—	21,626
Total current liabilities	49,482,658	151,243	—	49,633,901
Noncurrent Liabilities				
Long-term liabilities	—	477,674	—	477,674
Total noncurrent liabilities	—	477,674	—	477,674
Total liabilities	49,482,658	628,917	—	50,111,575
<b>NET POSITION</b>				
Net investment in capital assets	3,029,814	5,251,073	—	8,280,887
Restricted				
Nonexpendable	838,913	—	—	838,913
Expendable	4,159,189	—	—	4,159,189
Total restricted	4,998,102	—	—	4,998,102
Unrestricted	87,246,174	2,411,081	(7,662,154)	81,995,101
Total net position	\$ 95,274,090	\$ 7,662,154	\$ (7,662,154)	\$ 95,274,090

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	96,706,824	1,415,061	—	98,121,885
<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	24,180,799	6,285,944	(7,186,171)	23,280,572
Total assets	120,887,623	7,701,005	(7,186,171)	121,402,457
<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	39,271,735	131,275	—	39,403,010
<b>Noncurrent Liabilities</b>				
Long-term liabilities	—	383,559	—	383,559
Total noncurrent liabilities	—	383,559	—	383,559
Total liabilities	39,271,735	514,834	—	39,786,569
<b>NET POSITION</b>				
Net investment in capital assets	3,120,840	5,490,320	—	8,611,160
<b>Restricted</b>				
Nonexpendable	839,843	—	—	839,843
Expendable	4,206,588	—	—	4,206,588
Total restricted	5,046,431	—	—	5,046,431
Unrestricted	73,448,617	1,695,851	(7,186,171)	67,958,297
Total net position	\$ 81,615,888	\$ 7,186,171	\$ (7,186,171)	\$ 81,615,888

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, 2018

	University of Kentucky Research Foundation	Kentucky Technology, Inc.	Eliminations	Total
<b>OPERATING REVENUES</b>				
Federal grants and contracts	\$ 186,384,990	\$ —	\$ —	\$ 186,384,990
State and local grants and contracts	19,478,799	—	—	19,478,799
Nongovernmental grants and contracts	36,240,944	1,719,928	—	37,960,872
Recoveries of facilities and administrative costs	59,780,793	—	—	59,780,793
Other operating revenues	1,472,362	583,875	—	2,056,237
Total operating revenues	<u>303,357,888</u>	<u>2,303,803</u>	<u>—</u>	<u>305,661,691</u>
<b>OPERATING EXPENSES</b>				
Educational and general:				
Instruction	10,703,323	—	—	10,703,323
Research	176,261,358	1,774,581	(31,614)	178,004,325
Public service	80,463,410	—	—	80,463,410
Academic support	2,143,314	—	—	2,143,314
Student services	22,697	—	—	22,697
Institutional support	731,743	—	—	731,743
Operations and maintenance of plant	373,227	—	—	373,227
Student financial aid	2,180,639	—	—	2,180,639
Depreciation	83,360	355,333	—	438,693
Total operating expenses	<u>272,963,071</u>	<u>2,129,914</u>	<u>(31,614)</u>	<u>275,061,371</u>
Net income (loss) from operations	<u>30,394,817</u>	<u>173,889</u>	<u>31,614</u>	<u>30,600,320</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Gifts	173,852	—	—	173,852
Investment income (loss)	1,991,542	235,018	(475,983)	1,750,577
License income	2,345,029	—	—	2,345,029
Grant (to) from the University of Kentucky for noncapital purposes	(12,691,987)	—	—	(12,691,987)
Other nonoperating revenues and expenses, net	5,688	67,076	(31,614)	41,150
Net nonoperating revenues (expenses)	<u>(8,175,876)</u>	<u>302,094</u>	<u>(507,597)</u>	<u>(8,381,379)</u>
Net income (loss) before other revenues, expenses, gains, or losses	<u>22,218,941</u>	<u>475,983</u>	<u>(475,983)</u>	<u>22,218,941</u>
Capital grants and gifts	6,044,629	—	—	6,044,629
Additions to permanent endowments	6,570	—	—	6,570
Grant (to) from the University of Kentucky for capital purposes	(14,661,520)	—	—	(14,661,520)
Other, net	49,582	—	—	49,582
Total other revenues (expenses)	<u>(8,560,739)</u>	<u>—</u>	<u>—</u>	<u>(8,560,739)</u>
<b>INCREASE (DECREASE) IN NET POSITION</b>	<u>13,658,202</u>	<u>475,983</u>	<u>(475,983)</u>	<u>13,658,202</u>
<b>NET POSITION, beginning of year</b>	<u>81,615,888</u>	<u>7,186,171</u>	<u>(7,186,171)</u>	<u>81,615,888</u>
<b>NET POSITION, end of year</b>	<u>\$ 95,274,090</u>	<u>\$ 7,662,154</u>	<u>\$ (7,662,154)</u>	<u>\$ 95,274,090</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>
<b>INCREASE (DECREASE) IN NET POSITION</b>	<u>13,216,153</u>	<u>(310,418)</u>	<u>310,418</u>	<u>13,216,153</u>
<b>NET POSITION, beginning of year</b>	<u>68,399,735</u>	<u>7,496,589</u>	<u>(7,496,589)</u>	<u>68,399,735</u>
<b>NET POSITION, end of year</b>	<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 CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2018

	University of Kentucky Research Foundation	Kentucky Technology, Inc.	Eliminations	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Grants and contracts	\$ 248,374,185	\$ 1,719,928	\$ —	\$ 250,094,113
Recoveries of facilities and administrative costs	61,516,551	—	—	61,516,551
Payments to vendors and contractors	(95,523,007)	(1,252,179)	507,597	(96,267,589)
Salaries, wages and benefits reimbursement to the University of Kentucky	(176,136,398)	—	—	(176,136,398)
Salaries, wages and benefits	—	(451,385)	—	(451,385)
Other receipts (payments)	1,481,150	415,564	—	1,896,714
Net cash provided (used) by operating activities	39,712,481	431,928	507,597	40,652,006
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Gifts and grants received for other than capital purposes:				
Private gifts for endowment purposes	6,570	—	—	6,570
Private gifts for other purposes	173,852	—	—	173,852
Grants (to) from the University of Kentucky	(12,691,987)	—	—	(12,691,987)
Other receipts (payments)	2,041,556	67,076	(31,614)	2,077,018
Net cash provided (used) by noncapital financing activities	(10,470,009)	67,076	(31,614)	(10,434,547)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Grants (to) from the University of Kentucky for capital purposes	(14,475,968)	—	—	(14,475,968)
Capital grants and gifts	6,044,629	—	—	6,044,629
Purchases of capital assets	—	(151,672)	—	(151,672)
Proceeds from capital debt	—	53,378	—	53,378
Principal paid on capital debt and leases	—	(17,792)	—	(17,792)
Other receipts (payments)	49,582	—	—	49,582
Net cash provided (used) by capital and related financing activities	(8,381,757)	(116,086)	—	(8,497,843)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from sales and maturities of investments	9,174,283	524,546	—	9,698,829
Interest and dividends on investments	1,381,093	(18,677)	(475,983)	886,433
Purchase of investments	(9,174,284)	(7,937)	—	(9,182,221)
Net cash provided (used) by investing activities	1,381,092	497,932	(475,983)	1,403,041
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	22,241,807	880,850	—	23,122,657
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	61,747,330	1,229,807	—	62,977,137
<b>CASH AND CASH EQUIVALENTS, end of year</b>	\$ 83,989,137	\$ 2,110,657	\$ —	\$ 86,099,794

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	18,217,093	331,185	28,529	18,576,807
<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	(8,747,822)	169,482	(28,529)	(8,606,869)
<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	(1,292,376)	(488,912)	—	(1,781,288)
<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	152,354	69,781	—	222,135
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>8,329,249</b>	<b>81,536</b>	<b>—</b>	<b>8,410,785</b>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<b>53,418,081</b>	<b>1,148,271</b>	<b>—</b>	<b>54,566,352</b>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b>\$ 61,747,330</b>	<b>\$ 1,229,807</b>	<b>\$ —</b>	<b>\$ 62,977,137</b>



## BOARD OF DIRECTORS

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