



# **Research Foundation**

**UNIVERSITY OF KENTUCKY • 2023 FINANCIAL STATEMENTS**

**University of Kentucky**  
**Research Foundation**  
**A Component Unit of the University of Kentucky**  
**Financial Statements**  
**Year Ended June 30, 2023**

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## Independent Auditor's Report

Board of Directors  
University of Kentucky  
Research Foundation  
University of Kentucky  
Lexington, Kentucky

### ***Opinion***

We have audited the financial statements of the University of Kentucky Research Foundation (Foundation), a nonprofit corporation affiliated with and a component unit of the University of Kentucky, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Foundation, as of June 30, 2023, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 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***

Management is responsible for the other information included in the annual report. The other information comprises the board of directors listing but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

**FORVIS, LLP**

Louisville, Kentucky  
October 6, 2023

**UNIVERSITY OF KENTUCKY  
RESEARCH FOUNDATION  
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2023**

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 year ended June 30, 2023. 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 \$24,015,078 or 11.1%. The most significant components of the fluctuation were increases of \$12,592,002 in cash and cash equivalents, \$5,712,271 in capital assets, net, \$5,585,397 in notes and accounts receivable, net, \$1,339,248 in other current assets, net, \$994,133 in endowment investments and \$530,857 in subscription assets, net of offset by decreases of \$1,901,319 in lease assets, net and \$993,067 in other long-term investment.
- Total liabilities increased \$7,985,022 or 13.5%. The most significant components of the increase in total liabilities were increases of \$5,554,016 in other long-term liabilities, \$4,539,543 in unearned revenue and \$512,245 in subscription liabilities offset by decreases of \$1,930,544 in lease liabilities and \$690,238 in accounts payable and accrued liabilities.
- Total net position increased \$16,030,056 or 10.2%. Unrestricted net position increased \$15,975,140, restricted net position increased \$225,563 offset by a decrease in net investment in capital assets of \$170,647.
- Operating revenues increased \$16,243,914 to \$450,585,722.
- Operating expenses increased \$27,139,523 to \$411,540,774.

**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.

The Foundation implemented GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* in fiscal year 2023. The financial statements for fiscal year 2022 were not restated for this adoption.

**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, 2022 are included in the Foundation's financial statements as of June 30, 2023.

KTI adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)* and ASC 2018-11, *Leases (Topic 842): Targeted improvements* on January 1, 2022 (the effective date). KTI used the comparatives under ASC 840 transition method, which applies to 842 at the beginning of the period in which it is adopted. Prior period amounts have not been adjusted in adoption of the standard.

### **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, 2023 and 2022 is as follows:

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

	2023	2022
<b>ASSETS</b>		
Current assets	\$ 205,678,749	\$ 186,157,777
Capital, lease and subscription assets, net	13,345,750	9,003,941
Other noncurrent assets	21,781,630	21,629,333
Total assets	240,806,129	216,791,051
 <b>LIABILITIES</b>		
Current liabilities	59,403,592	54,142,769
Noncurrent liabilities	7,594,837	4,870,638
Total liabilities	66,998,429	59,013,407
 <b>NET POSITION</b>		
Net investment in capital assets	6,628,524	6,799,171
Restricted		
Nonexpendable	826,128	855,513
Expendable	5,353,629	5,098,681
Unrestricted	160,999,419	145,024,279
Total net position	\$ 173,807,700	\$ 157,777,644

**Assets.** As of June 30, 2023, the Foundation's assets totaled \$240,806,129. Cash and cash equivalents represented the Foundation's largest asset, totaling \$141,240,358 or 58.7% of total assets. Notes and accounts receivable, net, primarily from grant sponsors, totaled \$60,646,393 or 25.2% of total assets, endowment investments totaled \$19,063,002 or 7.9% of total assets and capital assets, net, totaled \$12,605,642 or 5.2% of total assets.

Total assets increased \$24,015,078 or 11.1%. The most significant components of the fluctuation were increases of \$12,592,002 in cash and cash equivalents, \$5,712,271 in capital assets, net, \$5,585,397 in notes and accounts receivable, net, \$1,339,248 in other current assets, net, \$994,133 in endowment investments and \$530,857 in subscription assets offset by decreases of \$1,901,319 in lease assets, net and \$993,067 in other long-term investment.

Cash and cash equivalents increased due to cash provided by operating activities and investing activities offset by cash used by noncapital financing activities and capital and related financing activities. Accounts receivable, net increased primarily due to the increase in grant funding and the timing of reimbursements from sponsors. Capital assets, net increased due to KTI's implementation of ASU No. 2016-02 and ASC 2018-11. Subscription assets increased due to the implementation of GASB Statement No. 96. Endowment investments increased due to favorable market conditions.

**Liabilities.** At June 30, 2023, the Foundation's liabilities totaled \$66,998,429. Unearned revenue totaled \$47,335,184 or 70.7% of total liabilities. Unearned revenue reflects advance receipts from grant sponsors and other customers. Accounts payable and accrued liabilities of \$12,862,393, other long-term liabilities of \$6,074,687, subscription liabilities of \$512,245 and lease liabilities of \$213,920 accounted for the remainder of the Foundation's liabilities.

Total liabilities increased \$7,985,022 during the year ended June 30, 2023. The components of the increase in total liabilities was an increase of \$5,554,016 in other long-term liabilities due mainly to KTI's implementation of FASB ASC 842 this year. Unearned revenue increased \$4,539,543 primarily in grants due to an increase in advanced funding from sponsors this year. Subscription liabilities increased \$512,245 due to the implementation of GASB Statement No. 96 this year. Lease liabilities decreased \$1,930,544 due primarily to principal payments and transfers to the University. Accounts payable and accrued liabilities decreased \$690,238 primarily in amounts owed to vendors from grants.

**Net Position.** Net position at June 30, 2023 totaled \$173,807,700 or 72.2% of total assets. Net investment in capital assets totaled \$6,628,524 or 3.8% of total net position. Restricted net position totaled \$6,179,757 or 3.6% of total net position. Unrestricted net position totaled \$160,999,419 or 92.6% of total net position.

Total net position increased \$16,030,056 during the year ended June 30, 2023. Unrestricted net position was the most significant component increasing \$15,975,140 due to revenues from recoveries of facilities and administrative costs exceeding expenses in unrestricted funds. Restricted net position increased \$225,563 primarily due to realized and unrealized gains on endowment investments for the current year compared to prior year. Net investment in capital assets decreased \$170,647 primarily from current year depreciation exceeding additions of capital assets.

### **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 Statement No. 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.

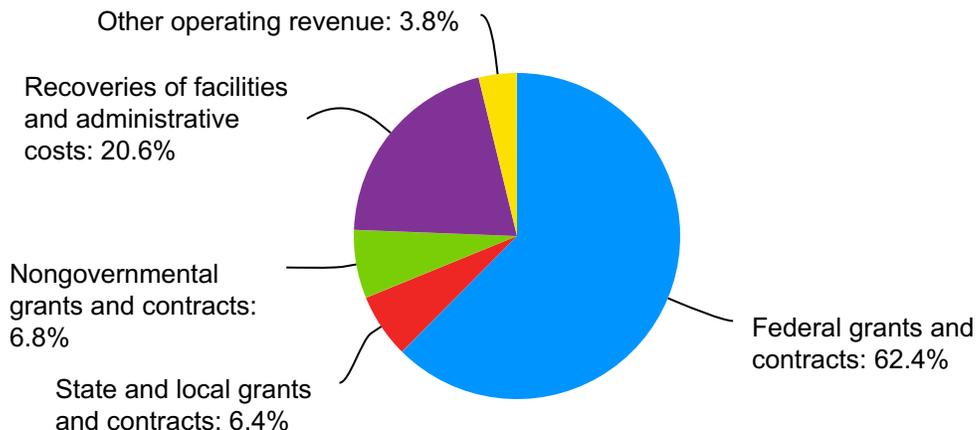
A summarized comparison of the Foundation's revenues, expenses and changes in net position for the years ended June 30, 2023 and, 2022 are as follows:

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

	2023	2022
<b>OPERATING REVENUES</b>		
Federal grants and contracts	\$ 281,156,626	\$ 281,193,536
State and local grants and contracts	28,690,319	22,689,929
Nongovernmental grants and contracts	30,466,783	29,862,144
Recoveries of facilities and administrative costs	93,255,754	89,707,369
Other operating revenue	17,016,240	10,888,830
Total operating revenues	450,585,722	434,341,808
<b>OPERATING EXPENSES</b>		
Research	258,433,147	243,570,565
Other educational and general	142,658,286	137,342,617
Student financial aid	8,226,627	2,318,686
Depreciation and amortization	2,222,714	1,169,383
Total operating expenses	411,540,774	384,401,251
<b>NET INCOME FROM OPERATIONS</b>	39,044,948	49,940,557
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Gifts	233,910	230,569
Investment income (loss)	5,466,219	(647,209)
License income	807,906	1,295,014
Interest on lease and subscription asset-related debt	(25,666)	(58,174)
Capital grants and gifts	6,873,533	9,542,189
Grants to the University of Kentucky	(36,560,588)	(41,266,469)
Other, net	189,794	231,547
Total nonoperating revenues (expenses)	(23,014,892)	(30,672,533)
<b>INCREASE IN NET POSITION</b>	16,030,056	19,268,024
<b>NET POSITION, beginning of year</b>	157,777,644	138,509,620
<b>NET POSITION, end of year</b>	\$ 173,807,700	\$ 157,777,644

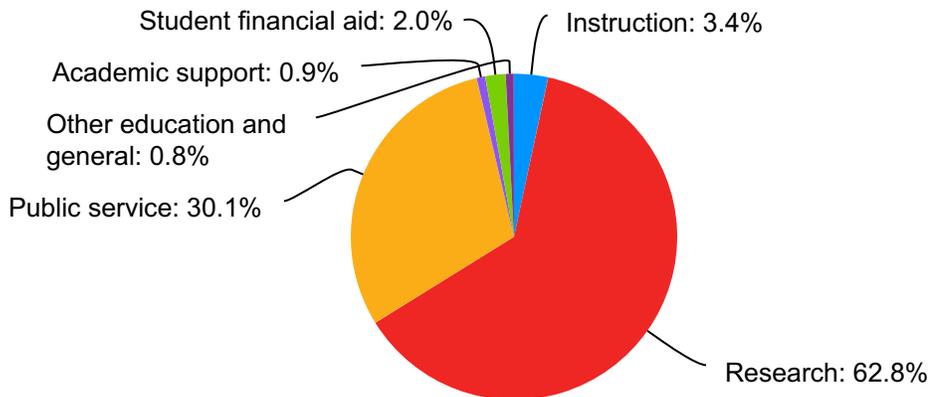
Total operating revenues, consisting primarily of grants and contracts, and related recoveries of facilities and administrative costs, were \$450,585,722 for the year ended June 30, 2023. Federal, state, local and nongovernmental grants and contracts and related recoveries of facilities and administrative costs accounted for 96.2% of operating revenues. Operating revenues increased \$16,243,914 or 3.7% primarily due to \$6,127,410 or 56.3% in other operating revenues from grant program income, \$6,000,390 or 26.4% in state and local grants and contracts, \$3,548,385 or 4.0% in recoveries of facilities and administrative costs and \$604,639 or 2.0% in nongovernmental grants and contracts. These increases were due to fluctuations in numerous grants.

**TOTAL OPERATING REVENUES**



Operating expenses totaled \$411,540,774. Of this amount, \$258,433,147 or 62.8% was used for research expenses, \$124,073,564 or 30.1% was used for public service expenses and \$13,889,000 or 3.4% was used for instruction expenses. Operating expenses increased \$27,139,523. This increase was primarily attributable to increases in research, student financial aid and public service expenses.

**TOTAL OPERATING EXPENSES**



## 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, 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, 2023 and 2022 is as follows:

### Condensed Statements of Cash Flows

	2023	2022
<b>CASH PROVIDED (USED) BY:</b>		
Operating activities	\$ 38,495,873	\$ 46,576,614
Noncapital financing activities	(14,855,999)	(17,248,553)
Capital and related financing activities	(15,555,512)	(13,547,818)
Investing activities	4,507,640	344,232
Net increase in cash and cash equivalents	12,592,002	16,124,475
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	128,648,356	112,523,881
<b>CASH AND CASH EQUIVALENTS, end of year</b>	\$ 141,240,358	\$ 128,648,356

Major sources of cash provided by operating activities were grants and contracts of \$337,940,111 and recoveries of facilities and administrative costs of \$93,044,536. The largest cash payments used for operating activities were made to the University as reimbursements for employee salaries and benefits of \$260,339,461 and payments to vendors and contractors of \$147,908,537.

The largest use of cash in the noncapital financing activities was grants to the University for noncapital purposes totaling \$16,163,868. Cash provided by this category is mostly from other receipts of \$1,069,634, primarily program income for the Cigar Reference Products program and license income.

Cash used by capital and related financing activities was primarily expended on grants to the University for capital purposes which included the new construction of the research building and the acquisition of capital assets totaling \$20,233,294 offset by capital grants and gifts of \$6,873,533.

During the year ended June 30, 2023, cash provided by investing activities reflects proceeds from sales and maturities of investments, net of \$7,414,144 and interest and dividend on investments of \$3,802,103 offset by purchases of investments of \$6,708,607.

## Capital, Lease and Subscription Assets and Debt Administration

**Capital Assets.** Capital assets, net of accumulated depreciation, totaled \$12,605,642 at June 30, 2023, an increase of \$5,712,271. The increase is a result of current year additions of building and equipment exceeding depreciation expenses. Capital assets as of June 30, 2023, and changes in capital assets during the year ended June 30, 2023 are as follows (in thousands):

	Balance June 30, 2022	Net Additions (Deletions)	Balance June 30, 2023
Land	\$ 2,336	\$ —	\$ 2,336
Land improvements	593	—	593
Buildings	1,090	6,526	7,616
Infrastructure	6,567	66	6,633
Equipment	3,188	391	3,579
Accumulated depreciation	(6,881)	(1,270)	(8,151)
Total	\$ 6,893	\$ 5,713	\$ 12,606

**Lease Assets.** Lease assets, net of accumulated amortization, totaled \$209,251 at June 30, 2023, a decrease of \$1,901,319 compared to prior year. The decrease is a result of current year amortization and lease expirations exceeding additions. Lease assets as of June 30, 2023 and changes in lease assets during the year ended June 30, 2023 are as follows (in thousands):

	Balance June 30, 2022	Net Additions (Deletions)	Balance June 30, 2023
Building	\$ 2,800	\$ (2,280)	\$ 520
Accumulated amortization	(689)	378	(311)
Total	\$ 2,111	\$ (1,902)	\$ 209

**Subscription Assets.** Subscription assets, net of accumulated amortization, totaled \$530,857 at June 30, 2023. Subscription assets as of June 30, 2023 and changes in subscription assets during the year ended June 30, 2023 are as follows (in thousands):

	Balance July 1, 2022	Net Additions (Deletions)	Balance June 30, 2023
Subscription assets	\$ 565	\$ 359	\$ 924
Accumulated amortization	—	(393)	(393)
Total	\$ 565	\$ (34)	\$ 531

The Foundation adopted GASB Statement No. 96 in fiscal year 2023 resulting in the recognition of subscription assets of \$564,538 as of July 1, 2022.

**Debt.** The Foundation had other long-term liabilities totaling \$6,074,687 at June 30, 2023 as well as \$512,245 in subscription liabilities and \$213,920 in lease liabilities.

## Factors Impacting Future Periods

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

- At June 30, 2023, grants and contracts of \$390,225,047 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 2023 and will remain the same until the new rate is approved.
- 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 \$479,308,380, a 5.8% increase over the previous year. Federal grant awards continue to comprise the majority of grant awards at \$252,588,189 or 52.7% of total awards. Changes in federal award funding are significant as these awards provide most of the recoveries of facilities and administrative costs.
- While inflation continues to impact the economy, the duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time. Management and staff anticipate increased costs to impact the upcoming year.

**UNIVERSITY OF KENTUCKY RESEARCH FOUNDATION  
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY  
STATEMENT OF NET POSITION  
JUNE 30, 2023**

**ASSETS**

**Current Assets**

Cash and cash equivalents	\$ 141,240,358
Notes and accounts receivable, net	60,646,393
Other current assets, net	3,791,998
Total current assets	<u>205,678,749</u>

**Noncurrent Assets**

Endowment investments	19,063,002
Other long-term investments	2,563,072
Other noncurrent assets	155,556
Capital assets, net	12,605,642
Lease assets, net	209,251
Subscription assets, net	530,857
Total noncurrent assets	<u>35,127,380</u>
Total assets	<u>240,806,129</u>

**LIABILITIES**

**Current Liabilities**

Accounts payable and accrued liabilities	12,862,393
Unearned revenue	45,322,214
Lease liabilities - current portion	158,257
Subscription liabilities - current portion	392,453
Other long-term liabilities - current portion	668,275
Total current liabilities	<u>59,403,592</u>

**Noncurrent Liabilities**

Unearned revenue	2,012,970
Lease liabilities	55,663
Subscription liabilities	119,792
Other long-term liabilities	5,406,412
Total noncurrent liabilities	<u>7,594,837</u>
Total liabilities	<u>66,998,429</u>

**NET POSITION**

**Net investment in capital assets**

6,628,524

**Restricted**

Nonexpendable	826,128
Expendable	5,353,629
Total restricted	<u>6,179,757</u>

**Unrestricted**

160,999,419

Total net position	<u><u>\$ 173,807,700</u></u>
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**UNIVERSITY OF KENTUCKY RESEARCH FOUNDATION  
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2023**

**OPERATING REVENUES**

Federal grants and contracts	\$ 281,156,626
State and local grants and contracts	28,690,319
Nongovernmental grants and contracts	30,466,783
Recoveries of facilities and administrative costs	93,255,754
Other operating revenues	17,016,240
Total operating revenues	<u>450,585,722</u>

**OPERATING EXPENSES**

Educational and general:	
Instruction	13,889,000
Research	258,433,147
Public service	124,073,564
Academic support	3,558,138
Student services	3,468
Institutional support	817,429
Operations and maintenance of plant	316,687
Student financial aid	8,226,627
Depreciation and amortization	2,222,714
Total operating expenses	<u>411,540,774</u>
Net income from operations	<u>39,044,948</u>

**NONOPERATING REVENUES (EXPENSES)**

Gifts	233,910
Investment income	5,466,219
License income	807,906
Grants to the University of Kentucky for noncapital purposes	(16,163,868)
Interest on lease and subscription asset-related debt	(25,666)
Other nonoperating revenues (expenses), net	144,387
Net nonoperating expenses	<u>(9,537,112)</u>
Net income before other revenues, expenses, gains, or losses	<u>29,507,836</u>
Capital grants and gifts	6,873,533
Grants to the University of Kentucky for capital purposes	(20,396,720)
Other, net	45,407
Total other expenses	<u>(13,477,780)</u>
<b>INCREASE IN NET POSITION</b>	<u>16,030,056</u>
<b>NET POSITION, beginning of year</b>	<u>157,777,644</u>
<b>NET POSITION, end of year</b>	<u>\$ 173,807,700</u>

See notes to financial statements

**UNIVERSITY OF KENTUCKY RESEARCH FOUNDATION  
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2023**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Grants and contracts	\$ 337,940,111
Recoveries of facilities and administrative costs	93,044,536
Payments to vendors and contractors	(147,908,537)
Salaries, wages and benefits reimbursement to the University of Kentucky	(260,339,461)
Salaries, wages and benefits	(1,366,650)
Other receipts	17,125,874
Net cash provided by operating activities	<u>38,495,873</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Private gifts for other purposes	238,235
Grants to the University of Kentucky	(16,163,868)
Other receipts	1,069,634
Net cash used by noncapital financing activities	<u>(14,855,999)</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Grants to the University of Kentucky for capital purposes	(20,233,294)
Capital grants and gifts	6,873,533
Purchases of capital assets	(456,835)
Principal paid on leases payable	(1,946,704)
Interest paid on leases payable	(30,260)
Principal paid on subscriptions payable	(411,763)
Interest paid on subscriptions payable	(2,069)
Other receipts	651,880
Net cash used by capital and related financing activities	<u>(15,555,512)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from sales and maturities of investments, net	7,414,144
Interest and dividends on investments	3,802,103
Purchase of investments	(6,708,607)
Net cash provided by investing activities	<u>4,507,640</u>

**NET INCREASE IN CASH AND CASH EQUIVALENTS**

	<u>12,592,002</u>
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**CASH AND CASH EQUIVALENTS, beginning of year**

	<u>128,648,356</u>
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**CASH AND CASH EQUIVALENTS, end of year**

	<u>\$ 141,240,358</u>
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**Reconciliation of net income from operations to net cash provided by operating activities:**

Net income from operations	\$ 39,044,948
Adjustments to reconcile net income from operations to net cash provided by operating activities:	
Depreciation and amortization expense	2,222,714
Change in assets and liabilities:	
Notes and accounts receivable, net	(5,589,722)
Other current and noncurrent assets	(654,632)
Accounts payable and accrued liabilities	(846,999)
Other long-term liabilities	(219,979)
Unearned revenue	4,539,543

**Net cash provided by operating activities**

	<u>\$ 38,495,873</u>
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**NONCASH CAPITAL AND INVESTING ACTIVITIES**

Capital asset change in accounts payable	\$ 163,426
Unrealized investment gains	\$ 1,167,897
Lease obligations incurred for lease assets	\$ 8,421
Subscription obligations incurred for subscription assets	\$ 359,469
Other long-term liabilities incurred for KTI lease obligations	\$ 6,542,438
Lease liabilities transferred to the University	\$ 1,938,965

See notes to financial statements

**UNIVERSITY OF KENTUCKY  
RESEARCH FOUNDATION  
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2023**

**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, 2022 are included in the Foundation's financial statements as of June 30, 2023.

KTI is considered to be a component unit of the Foundation in the financial statements using the blending method because the officials are appointed by the Foundation and they are the employees of the University. Furthermore, there is a financial benefit or burden relationship between KTI and the Foundation, and it is the Foundation's responsibility to manage KTI's operation.

KTI adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)* and ASC 2018-11, *Leases (Topic 842): Targeted improvements* on January 1, 2022 (the effective date). KTI used the comparatives under ASC 840 transition method, which applies to 842 at the beginning of the period in which it is adopted. Prior period amounts have not been adjusted in adoption of the standard.

**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, lease and subscription assets: Capital, lease and subscription assets, net of accumulated depreciation and amortization, lease and subscription liabilities 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.

Noncurrent cash and cash equivalents include grant funds with restricted purposes and endowment fund cash pending transfer to the custodian for investment. Cash and cash equivalents held by the University's endowment fund managers are included in investments.

Notes and 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.

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

Pooled Endowment Funds. All endowments are managed in a consolidated investment pool, which consists of 2,564 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 and half percent, and not more than five 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. The University’s annual endowment management fee was 0.90% for the year ending June 30, 2023. 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 \$623,350 for the year ending June 30, 2023.

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 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 acquisition value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*.

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.

Lease Assets. Lease assets are initially recorded at the initial measurement of the lease liability, plus lease payment made at/or before the commencement of the lease term, less any lease incentives received from the lessor at/or before the commencement of the lease, plus initial direct costs that are ancillary to place the asset into service. Lease assets are amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

Subscription Assets. Subscription assets are initially recorded at the initial measurement of the subscription liability, plus subscription payments made at/or before the commencement of the subscription-based information technology arrangement (SBITA) term, less any SBITA vendor incentives received from the SBITA vendor at/or before the commencement of the SBITA term, plus capitalizable initial implementation costs. Subscription assets are amortized on a straight-line basis over the shorter of the SBITA term or the useful life of the underlying subscription asset.

Capital, Lease and Subscription Asset Impairment. The Foundation evaluates capital, lease and subscription assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital, lease or subscription assets has occurred. If a capital, lease or subscription asset is

tested for impairment and the magnitude of the decline in service utility is significant and unexpected, the accumulated depreciation or amortization will be accelerated. The amount of the impairment loss will be recorded as the net book value divided proportionately over its remaining years of useful life. No capital, lease or subscription asset impairment was recognized during the year ended June 30, 2023.

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. Unearned revenue related to capital grants and the portion of multi-year grants related to future years are classified as noncurrent.

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 depreciable lives, bad debt, accrued expenses and other liability accounts.

Adoption of GASB Statement No. 96. In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITA)*, which provided guidance regarding software subscription accounting. It established that a SBITA resulted in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability. The requirement of this statement is effective for fiscal years beginning after June 15, 2022.

GASB Statement No. 96 was adopted during fiscal year 2023 resulting in recognition of subscription assets of \$564,538 and subscription liabilities of \$564,538 at July 1, 2022 which are reported at present value using the University's incremental borrowing rate unless otherwise noted in the contract.

## 2. DEPOSITS AND INVESTMENTS

The fair value of deposits and investment, by Statement of Net Position classification at June 30, 2023 is as follows:

### Statement of Net Position classification

Cash and cash equivalents	\$ 141,240,358
Endowment investments	19,063,002
Other long-term investments	2,563,072
Total	<u>\$ 162,866,432</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 Foundation 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 Statement of Net Position.

The Foundation had the following valuation measurements, by type, at June 30, 2023:

	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	\$ 141,240,358	\$ —	\$ —	\$ —	\$ —	\$ 141,240,358
Endowment deposits and investments	19,063,002	—	—	19,063,002	19,063,002	—
Diversifying strategies	52,603	52,603	—	—	52,603	—
Global equity - international	153,403	153,403	—	—	153,403	—
Global equity - private	252,729	—	—	—	—	252,729
Global equity - U.S.	607,327	603,392	—	—	603,392	3,935
Global fixed income - public fixed income	1,469,735	433,673	1,036,062	—	1,469,735	—
Other	6	—	—	—	—	6
Real assets - public	27,269	27,269	—	—	27,269	—
<b>Total</b>	<b>\$ 162,866,432</b>	<b>\$ 1,270,340</b>	<b>\$ 1,036,062</b>	<b>\$ 19,063,002</b>	<b>\$ 21,369,404</b>	<b>\$ 141,497,028</b>

Where quoted market prices are available in an active market, securities are classified within level 1 of the evaluation 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, volatilities, 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, 2023.

The composition of the University's pooled endowment fund based upon fair value at June 30, 2023 is as follows:

Cash and cash equivalents	0.3 %
Diversifying strategies	12.8 %
Global equity - international	16.6 %
Global equity - private	20.6 %
Global equity - U.S.	23.9 %
Global fixed income - public fixed income	7.9 %
Global fixed income - private credit	3.8 %
Real assets - private	12.4 %
Real assets - public	1.7 %
Total	<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 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 within guidelines established by the University's Operating Fund Investment Policy, as approved by the Investment Committee of the University's Board of Trustees and maintained by the Operating Fund Investment Committee.

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 previously held an alternative investment in a limited liability company. The company distributed its portfolio holdings to its members in 2018. The Foundation received equity investment in those holdings effective as of January 1, 2018. More information regarding this investment and additional investments in early stage development companies can be found in the KTI and Subsidiary consolidated financial statements footnote 3.

Deposit and Investment Risks. The Foundation's deposits and investments are exposed to various risks, including credit, interest rate and foreign currency risk, as discussed in more detail below. 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 changes could affect the investment amounts in the Statement 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, therefore 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. The University invests a portion of its operating cash in a diversified pool of money market funds. Fund investments include U.S. Treasury and agency securities, certificates of deposit, commercial paper, repurchase agreements and other short-term fixed income securities;
- Short-term investments in marketable fixed income securities consist of investment grade rated securities, excluding \$194,593 of KTI investments, as of June 30, 2023, which were rated below investment grade; 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 the 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 are invested in deposits and money market funds which 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 excess of federal deposit insurance are required to be fully collateralized by U.S. Treasury and/or agency securities or other similar investments as provided by KRS 41.240;
- 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 five 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, 2023 the Foundation had no underlying investments in any one issuer which represented more than five percent 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, the University's actively managed core-plus fixed income portfolio manager is limited to a duration that is within two years of the duration of the Barclays U.S. Aggregate Bond Index. Unconstrained fixed income strategies have been implemented to further mitigate interest rate risk.

As of June 30, 2023, the Foundation had fixed income securities managed based on duration. The securities duration was 4.7 years as of June 30, 2023.

Foreign Currency Risk. Foreign currency risk is the risk that fluctuations 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. Salaries, wages, and benefits reimbursements were \$260,649,888 as of June 30, 2023.

### 4. NOTES AND ACCOUNTS RECEIVABLE, NET

Notes and accounts receivable, net as of June 30, 2023 is summarized as follows:

	Gross Receivable	Allowance	Net Receivable
Reimbursement receivable - grants and contracts	\$ 60,361,243	\$ (370,000)	\$ 59,991,243
Other	655,150	—	655,150
Total	<u>\$ 61,016,393</u>	<u>\$ (370,000)</u>	<u>\$ 60,646,393</u>
Current portion			\$ 60,646,393
Noncurrent portion			—
Total			<u>\$ 60,646,393</u>

### 5. OTHER CURRENT ASSETS

Other current assets as of June 30, 2023 is summarized as follows:

Unrecognized charges - patents, net	\$ 1,963,318
Inventories	1,733,448
Other	95,232
Total	<u>\$ 3,791,998</u>

## 6. CAPITAL, LEASE AND SUBSCRIPTION ASSETS, NET

Capital assets as of June 30, 2023 is summarized as follows:

Capital Assets	Balance June 30, 2022	Additions	Deletions	Balance June 30, 2023
Land	\$ 2,336,455	\$ —	\$ —	\$ 2,336,455
Land improvements	592,993	—	—	592,993
Buildings	1,089,773	6,526,413	—	7,616,186
Infrastructure	6,567,248	66,170	—	6,633,418
Equipment	3,188,187	390,665	—	3,578,852
Total	<u>13,774,656</u>	<u>6,983,248</u>	<u>—</u>	<u>20,757,904</u>
<b>Accumulated Depreciation</b>				
Land improvements	429,920	59,299	—	489,219
Buildings	885,261	792,337	—	1,677,598
Infrastructure	2,929,124	264,614	—	3,193,738
Equipment	2,636,980	154,727	—	2,791,707
Total	<u>6,881,285</u>	<u>1,270,977</u>	<u>—</u>	<u>8,152,262</u>
Capital assets, net	<u>\$ 6,893,371</u>	<u>\$ 5,712,271</u>	<u>\$ —</u>	<u>\$ 12,605,642</u>

Lease assets as of June 30, 2023 is summarized as follows:

	Balance June 30, 2022	Additions	Deletions	Balance June 30, 2023
Building	\$ 2,799,782	\$ 16,621	\$ 2,295,979	\$ 520,424
Accumulated amortization	689,212	558,587	936,626	311,173
Lease assets, net	<u>\$ 2,110,570</u>	<u>\$ (541,966)</u>	<u>\$ 1,359,353</u>	<u>\$ 209,251</u>

Subscription assets as of June 30, 2023 is summarized as follows:

	Balance July 1, 2022	Additions	Deletions	Balance June 30, 2023
Subscription assets	\$ 564,538	\$ 359,469	\$ —	\$ 924,007
Accumulated amortization	—	393,150	—	393,150
Subscription assets, net	<u>\$ 564,538</u>	<u>\$ (33,681)</u>	<u>\$ —</u>	<u>\$ 530,857</u>

The Foundation adopted GASB Statement No. 96 in fiscal year 2023 and recorded subscription assets of \$564,538 at July 1, 2022.

## 7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2023 is as follows:

Payable to vendors and contractors	\$ 10,079,215
Accrued interest payable	9,200
Due to the University of Kentucky for accrued payroll	2,707,006
Accrued payroll - KTI	66,972
Total	<u><u>\$ 12,862,393</u></u>

## 8. UNEARNED REVENUE

Unearned revenue as of June 30, 2023 is as follows:

	Balance June 30, 2022	Additions	Reductions	Balance June 30, 2023	Current Portion	Noncurrent Portion
Unearned grants and contracts revenue	\$ 42,784,140	\$ 101,911,672	\$ 97,432,368	\$ 47,263,444	\$ 45,250,474	\$ 2,012,970
Unearned revenue - KTI	11,501	60,239	—	71,740	71,740	—
Total unearned revenue	<u><u>\$ 42,795,641</u></u>	<u><u>\$ 101,971,911</u></u>	<u><u>\$ 97,432,368</u></u>	<u><u>\$ 47,335,184</u></u>	<u><u>\$ 45,322,214</u></u>	<u><u>\$ 2,012,970</u></u>

## 9. LONG TERM LIABILITIES

Long-term liabilities as of June 30, 2023 is summarized as follows:

	Balance July 1, 2022	Additions	Reductions	Balance June 30, 2023	Current Portion	Noncurrent Portion
Lease liabilities	\$ 2,144,464	\$ 8,421	\$ 1,938,965	\$ 213,920	\$ 158,257	\$ 55,663
Subscription liabilities	564,538	359,470	411,763	512,245	392,453	119,792
Deferred tax liability - KTI	520,671	—	219,979	300,692	—	300,692
Other liabilities - KTI	—	6,542,438	768,443	5,773,995	668,275	5,105,720
Total long-term liabilities	<u><u>\$ 3,229,673</u></u>	<u><u>\$ 6,910,329</u></u>	<u><u>\$ 3,339,150</u></u>	<u><u>\$ 6,800,852</u></u>	<u><u>\$ 1,218,985</u></u>	<u><u>\$ 5,581,867</u></u>

The Foundation leases buildings, the terms of which expire in various years through 2025.

Principal and interest on lease obligations for the next two-year fiscal periods of June 30, 2023 are as follows:

	Principal	Interest	Total
2024	\$ 158,257	\$ 4,672	\$ 162,929
2025	55,663	1,052	56,715
Total	<u><u>\$ 213,920</u></u>	<u><u>\$ 5,724</u></u>	<u><u>\$ 219,644</u></u>

The Foundation adopted GASB Statement No. 96 and recorded subscription liabilities of \$564,538 at July 1, 2022.

Principal and interest on subscription obligations for the next two-year fiscal periods as of June 30, 2023 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 392,453	\$ 11,775	\$ 404,228
2025	119,792	3,099	122,891
Total	<u>\$ 512,245</u>	<u>\$ 14,874</u>	<u>\$ 527,119</u>

KTI adopted FASB ASC 842 and recorded lease asset-related liabilities of \$5,773,995 at January 1, 2022 which are recorded as other liabilities above.

On September 17, 2020, KTI entered into a facilities lease with Bull Lea Run LLC to lease the first floor consisting of approximately 22,640 square feet of the new two-story building. The lease ends on December 31, 2031. During the lease term, base rent will be \$31.32 per square foot. KTI will be responsible for utilities furnished to the leased premises during the lease term. Beginning in year two of the lease, KTI will also pay any increases in the cost of common area maintenance, taxes, and insurance over the cost of such expenses in the first year of the term, including a management fee of 3.5%. KTI will sublease the premises to small startup companies and at least two University departments.

Principal and interest on capital asset obligations for the next five fiscal years and subsequent five-year fiscal periods as of June 30, 2023, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 668,275	\$ 156,188	\$ 824,463
2025	593,205	138,393	731,598
2026	607,846	121,610	729,456
2027	606,139	104,465	710,604
2028	622,495	86,820	709,315
2029-2033	2,676,035	160,967	2,837,002
Total	<u>\$ 5,773,995</u>	<u>\$ 768,443</u>	<u>\$ 6,542,438</u>

## 10. INVESTMENT INCOME

Components of investment income for the year ended June 30, 2023 is as follows:

Interest and dividends earned on endowment investments	\$ 236,110
Realized and unrealized gains on endowment investments	1,154,500
Realized and unrealized gains, interest and dividends earned on non-endowment investments	4,053,267
Investment income from external trusts	22,342
Total	<u>\$ 5,466,219</u>

## 11. GRANTS AND CONTRACTS AWARDED

At June 30, 2023 grants and contracts of \$390,225,047 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 up to \$5,000,000 per occurrence. A \$10,000 deductible is applied per occurrence. Losses in excess of \$5,000,000 are insured by commercial carriers up to \$1.0 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 2022 to 2023. Settlements have not exceeded insurance coverage during the past three years.

The Foundation is subject to claims and lawsuits that arose primarily in the ordinary course of its activities. Some of these allegations are in areas not covered by the University's self-insurance program or by commercial insurance; for example performance of contracts. The University evaluates such allegations by conducting investigations to determine the validity of each potential claim. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the statements of net position, change in net position and cash flows of the Foundation. Due to the inherent uncertainties of claims and lawsuits, it is reasonably possible that events could occur that would change this estimate materially in the near term.

The Foundation is currently participating in numerous grants from various departments and agencies of the federal and state governments. The expenditures of grant proceeds must be for allowable and eligible purposes. Single audits and audits by the granting department or agency may result in requests for reimbursement of unused grant proceeds or disallowed expenditures. Upon notification of final approval by the granting department or agency, the grants are considered closed.

## 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 \$118,671 for the period ended December 31, 2022. KTI subleases the ASTeCC building to developing industries in advanced technology, with renewal options and escalation clauses. Sublease rental income was \$264,945 for the period ended December 31, 2022.

KTI also offers virtual offices at the Coldstream Center. In the period ended December 31, 2022 no rental income from virtual offices was recognized. The following is a schedule of future minimum rental receipts to be received under the leases at all locations at December 31, 2022:

Years ending December 31,	
2023	\$ 606,206
2024	486,430
2025	429,726
2026	405,127
Total	<u>\$ 1,927,489</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 the year ended December 31, 2022 which has been included as both in-kind revenue and expense on the Foundation's Statement of Revenues, Expenses, and Changes in Net Position.

On February 21, 2020, the University Board of Trustees approved the construction of a research/incubator facility on the Coldstream Research Campus to house early stage high-tech companies. The new building was completed in July 2022 and contains 20,000 square feet that KTI is in the process of subleasing to appropriate high-tech companies.

#### **14. CURRENT ECONOMIC UNCERTAINTIES**

While inflation continues to impact the economy, the duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time. Management and staff anticipate increased costs to impact the upcoming year.

#### **15. COMBINED STATEMENTS**

The Foundation and its blended component unit's statements were summarized as follows for the year ended June 30, 2023:

UNIVERSITY OF KENTUCKY RESEARCH FOUNDATION  
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY  
COMBINED STATEMENT OF NET POSITION AS OF JUNE 30, 2023

	University of Kentucky Research Foundation	Kentucky Technology, Inc.	Eliminations	Total
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 140,552,392	\$ 687,966	\$ —	\$ 141,240,358
Notes and accounts receivable, net	60,005,198	641,195	—	60,646,393
Other current assets, net	3,721,681	70,317	—	3,791,998
Total current assets	<u>204,279,271</u>	<u>1,399,478</u>	<u>—</u>	<u>205,678,749</u>
<b>Noncurrent Assets</b>				
Endowment investments	19,063,002	—	—	19,063,002
Other long-term investments	7,609,082	2,559,131	(7,605,141)	2,563,072
Other noncurrent assets	—	155,556	—	155,556
Capital assets, net	2,620,683	9,984,959	—	12,605,642
Lease assets, net	209,251	—	—	209,251
Subscription assets, net	530,857	—	—	530,857
Total noncurrent assets	<u>30,032,875</u>	<u>12,699,646</u>	<u>(7,605,141)</u>	<u>35,127,380</u>
Total assets	<u>234,312,146</u>	<u>14,099,124</u>	<u>(7,605,141)</u>	<u>240,806,129</u>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Accounts payable and accrued liabilities	12,514,837	347,556	—	12,862,393
Unearned revenue	45,250,474	71,740	—	45,322,214
Lease liabilities - current portion	158,257	—	—	158,257
Subscription liabilities - current portion	392,453	—	—	392,453
Long-term liabilities - current portion	—	668,275	—	668,275
Total current liabilities	<u>58,316,021</u>	<u>1,087,571</u>	<u>—</u>	<u>59,403,592</u>
<b>Noncurrent Liabilities</b>				
Unearned revenue	2,012,970	—	—	2,012,970
Lease liabilities	55,663	—	—	55,663
Subscription liabilities	119,792	—	—	119,792
Other long-term liabilities	—	5,406,412	—	5,406,412
Total noncurrent liabilities	<u>2,188,425</u>	<u>5,406,412</u>	<u>—</u>	<u>7,594,837</u>
Total liabilities	<u>60,504,446</u>	<u>6,493,983</u>	<u>—</u>	<u>66,998,429</u>
<b>NET POSITION</b>				
Net investment in capital assets	<u>2,417,560</u>	<u>4,210,964</u>	<u>—</u>	<u>6,628,524</u>
<b>Restricted</b>				
Nonexpendable	826,128	—	—	826,128
Expendable	5,353,629	—	—	5,353,629
Total restricted	<u>6,179,757</u>	<u>—</u>	<u>—</u>	<u>6,179,757</u>
Unrestricted	165,210,383	3,394,177	(7,605,141)	160,999,419
Total net position	<u>\$ 173,807,700</u>	<u>\$ 7,605,141</u>	<u>\$ (7,605,141)</u>	<u>\$ 173,807,700</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, 2023

	University of Kentucky Research Foundation	Kentucky Technology, Inc.	Eliminations	Total
<b>OPERATING REVENUES</b>				
Federal grants and contracts	\$ 281,078,205	\$ 78,421	\$ —	\$ 281,156,626
State and local grants and contracts	28,690,319	—	—	28,690,319
Nongovernmental grants and contracts	28,085,956	2,380,827	—	30,466,783
Recoveries of facilities and administrative costs	93,255,754	—	—	93,255,754
Other operating revenues	16,434,477	581,763	—	17,016,240
Total operating revenues	<u>447,544,711</u>	<u>3,041,011</u>	<u>—</u>	<u>450,585,722</u>
<b>OPERATING EXPENSES</b>				
Educational and general:				
Instruction	13,889,000	—	—	13,889,000
Research	255,784,614	2,652,958	(4,425)	258,433,147
Public service	124,073,564	—	—	124,073,564
Academic support	3,558,138	—	—	3,558,138
Student services	3,468	—	—	3,468
Institutional support	817,429	—	—	817,429
Operations and maintenance of plant	316,687	—	—	316,687
Student financial aid	8,226,627	—	—	8,226,627
Depreciation and amortization	1,035,096	1,187,618	—	2,222,714
Total operating expenses	<u>407,704,623</u>	<u>3,840,576</u>	<u>(4,425)</u>	<u>411,540,774</u>
Net income (loss) from operations	<u>39,840,088</u>	<u>(799,565)</u>	<u>4,425</u>	<u>39,044,948</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Gifts	233,910	—	—	233,910
Investment income (loss)	4,814,435	(305,729)	957,513	5,466,219
License income	807,906	—	—	807,906
Grants to the University of Kentucky for noncapital purposes	(16,163,868)	—	—	(16,163,868)
Interest on lease and subscription asset-related debt	(25,666)	—	—	(25,666)
Other nonoperating revenues and expenses, net	1,031	147,781	(4,425)	144,387
Net nonoperating revenues (expenses)	<u>(10,332,252)</u>	<u>(157,948)</u>	<u>953,088</u>	<u>(9,537,112)</u>
Net income (loss) before other revenues, expenses, gains, or losses	<u>29,507,836</u>	<u>(957,513)</u>	<u>957,513</u>	<u>29,507,836</u>
Capital grants and gifts	6,873,533	—	—	6,873,533
Grants to the University of Kentucky for capital purposes	(20,396,720)	—	—	(20,396,720)
Other, net	45,407	—	—	45,407
Total other expenses	<u>(13,477,780)</u>	<u>—</u>	<u>—</u>	<u>(13,477,780)</u>
<b>INCREASE (DECREASE) IN NET POSITION</b>	<u>16,030,056</u>	<u>(957,513)</u>	<u>957,513</u>	<u>16,030,056</u>
<b>NET POSITION, beginning of year</b>	<u>157,777,644</u>	<u>8,562,654</u>	<u>(8,562,654)</u>	<u>157,777,644</u>
<b>NET POSITION, end of year</b>	<u>\$ 173,807,700</u>	<u>\$ 7,605,141</u>	<u>\$ (7,605,141)</u>	<u>\$ 173,807,700</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, 2023

	University of Kentucky Research Foundation	Kentucky Technology, Inc.	Eliminations	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Grants and contracts	\$ 335,480,863	\$ 2,459,248	\$ —	\$ 337,940,111
Recoveries of facilities and administrative costs	93,044,536	—	—	93,044,536
Payments to vendors and contractors	(147,365,743)	(1,504,732)	961,938	(147,908,537)
Salaries, wages and benefits reimbursement to the University of Kentucky	(260,339,461)	—	—	(260,339,461)
Salaries, wages and benefits	—	(1,366,650)	—	(1,366,650)
Other receipts	16,436,802	689,072	—	17,125,874
Net cash provided (used) by operating activities	<u>37,256,997</u>	<u>276,938</u>	<u>961,938</u>	<u>38,495,873</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Gifts and grants received for other than capital purposes:				
Private gifts for other purposes	238,235	—	—	238,235
Grants to the University of Kentucky	(16,163,868)	—	—	(16,163,868)
Other receipts	1,081,834	(7,775)	(4,425)	1,069,634
Net cash provided (used) by noncapital financing activities	<u>(14,843,799)</u>	<u>(7,775)</u>	<u>(4,425)</u>	<u>(14,855,999)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Grants to the University of Kentucky for capital purposes	(20,233,294)	—	—	(20,233,294)
Capital grants and gifts	6,873,533	—	—	6,873,533
Purchases of capital assets	—	(456,835)	—	(456,835)
Principal paid on leases payable	(1,946,704)	—	—	(1,946,704)
Interest paid on leases payable	(30,260)	—	—	(30,260)
Principal paid on subscriptions payable	(411,763)	—	—	(411,763)
Interest paid on subscriptions payable	(2,069)	—	—	(2,069)
Other receipts	1,404,298	(752,418)	—	651,880
Net cash used by capital and related financing activities	<u>(14,346,259)</u>	<u>(1,209,253)</u>	<u>—</u>	<u>(15,555,512)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Proceeds from sales and maturities of investments	5,382,751	2,031,393	—	7,414,144
Interest and dividends on investments	4,617,448	142,168	(957,513)	3,802,103
Purchase of investments	(5,222,384)	(1,486,223)	—	(6,708,607)
Net cash provided (used) by investing activities	<u>4,777,815</u>	<u>687,338</u>	<u>(957,513)</u>	<u>4,507,640</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	12,844,754	(252,752)	—	12,592,002
CASH AND CASH EQUIVALENTS, beginning of year	127,707,638	940,718	—	128,648,356
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 140,552,392</u>	<u>\$ 687,966</u>	<u>\$ —</u>	<u>\$ 141,240,358</u>

## BOARD OF DIRECTORS

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