



UK University of
Kentucky

Research Foundation
2016 Financial Statements

University of Kentucky
Research Foundation
A Component Unit of the University of Kentucky
Financial Statements
Years Ended June 30, 2016 and 2015

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Independent Auditor's Report

Board of Directors
University of Kentucky
Research Foundation
Lexington, Kentucky

We have audited the accompanying basic financial statements, which are comprised of statements of net position as of June 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net position and of cash flows for the years then ended and the related notes to the basic financial statements, as listed in the table of contents, of the University of Kentucky Research Foundation (Foundation), a not-for-profit corporation affiliated with and a component unit of the University of Kentucky (University).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The board of directors listing, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Louisville, Kentucky
October 3, 2016

Management's Discussion and Analysis

The University of Kentucky Research Foundation's (the Foundation) Management's Discussion and Analysis (MD&A) of its financial condition provides an overview of the financial position and activities of the Foundation for the years ended June 30, 2016 and 2015. 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 \$12,861,968 or 13.0%. The most significant components of the fluctuation were an increase of \$8,521,301 in endowment investments and \$4,974,866 in cash and cash equivalents.
- Total liabilities increased \$2,872,752 or 7.0%. The most significant component of the increase in total liabilities was \$3,000,637 in unearned revenue.
- Total net position increased \$9,989,216 or 17.1%. Unrestricted net position increased \$10,862,368, offset by a decrease in net investment in capital assets of \$469,646 and restricted net position of \$403,506.
- Operating revenues decreased \$3,327,945 to \$272,141,968.
- Operating expenses increased \$1,122,097 to \$253,208,436.

Using the Financial Statements

This financial report consists of three financial statements: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*.

One of the most important questions asked about the Foundation's finances is whether the Foundation is better off as a result of the year's activities. One key to answering this question is the financial statements of the Foundation. The Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows present financial information on the Foundation in a format similar to that used by corporations and depict a long-term view of the Foundation's finances. The Foundation's net position (the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources) is one indication of the Foundation's financial health.

Reporting Entity

The University of Kentucky Research Foundation is a not-for-profit Kentucky corporation established to receive, invest and expend funds in promoting and implementing scientific, educational and developmental activities at the University of Kentucky (the University). The Foundation is considered to be an affiliate and component unit of the University because all Board members are related to the University as faculty, staff or trustees and/or are appointed by the Board of Trustees of the University, and certain officers of the Foundation are officers of the University.

The financial statements of the Foundation include the operations of the following entities:

- University of Kentucky Research Foundation
- Kentucky Technology, Inc. (KTI) (a 100% owned, for-profit subsidiary of the Foundation) and its for-profit subsidiary:
 - Secat, Inc. (100% ownership)
- Coldstream Laboratories, Inc. (CLI) (formerly a 100% owned, for-profit subsidiary of the Foundation)

KTI has a calendar-year basis fiscal year from January 1 through December 31. Therefore, the financial statements of KTI as of December 31, 2015 and 2014 are included in the Foundation's financial statements as of June 30, 2016 and 2015, respectively.

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

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, 2016, 2015 and 2014 is as follows:

Condensed Statements of Net Position

	2016	2015	2014
ASSETS			
Current assets	\$ 89,251,319	\$ 84,280,173	\$ 73,609,903
Capital assets, net	9,034,698	9,504,344	13,521,942
Other noncurrent assets	13,738,373	5,377,905	5,834,861
Total assets	112,024,390	99,162,422	92,966,706
LIABILITIES			
Current liabilities	43,220,257	40,272,268	44,473,783
Noncurrent liabilities	404,398	479,635	1,061,366
Total liabilities	43,624,655	40,751,903	45,535,149
NET POSITION			
Net investment in capital assets	9,034,698	9,504,344	13,439,621
Restricted			
Nonexpendable	832,043	823,405	822,801
Expendable	3,982,593	4,394,737	4,191,915
Unrestricted	54,550,401	43,688,033	28,977,220
Total net position	\$ 68,399,735	\$ 58,410,519	\$ 47,431,557

Assets. As of June 30, 2016, the Foundation's assets totaled \$112,024,390. Cash and cash equivalents represented the Foundation's largest asset, totaling \$54,566,352 or 48.7% of total assets. Accounts receivable, primarily from grant sponsors, totaled \$30,796,016 or 27.5% of total assets, endowment investments totaled \$12,816,860 or 11.4% of total assets, and capital assets, net, totaled \$9,034,698 or 8.1% of total assets.

Total assets increased \$12,861,968 during the year ended June 30, 2016. The most significant component of the increase in total assets was an increase of \$8,521,301 in endowment investments and \$4,974,866 in cash and cash equivalents.

Endowment investments increased primarily due to two new quasi endowments established by the Foundation's board this year. Cash and cash equivalents increased due to cash provided by operating activities, offset by cash used by noncapital financing activities, capital and related financing activities and investing activities.

Liabilities. At June 30, 2016, the Foundation's liabilities totaled \$43,624,655. Unearned revenue amounted to \$32,784,247 or 75.2% of total liabilities. Unearned revenue reflects advance receipts from grant sponsors and other customers. Accounts payable and accrued liabilities totaling \$10,436,010 and long-term liabilities of \$404,398 accounted for the remainder of the Foundation's liabilities.

Total liabilities increased \$2,872,752 during the year ended June 30, 2016. The most significant component of the increase in total liabilities was \$3,000,637 in unearned revenue due to additional prepaid funds received from sponsors for grants and contracts.

Net Position. Net position at June 30, 2016 totaled \$68,399,735 or 61.1% of total assets. Net investment in capital assets totaled \$9,034,698 or 13.2% of total net position. Restricted net position totaled \$4,814,636 or 7.0% of total net position. Unrestricted net position accounted for \$54,550,401 or 79.8% of total net position.

Total net position increased \$9,989,216 during the year ended June 30, 2016. Unrestricted net position was the most significant component, increasing \$10,862,368 due to revenues from recoveries of facilities and administrative costs exceeding expenses in unrestricted funds. Restricted net position decreased \$403,506 primarily due to less gift income this year and a decrease in endowments primarily from a \$158,076 increase in expenses for spending distribution and management fees and an investment loss of \$46,170. Net investment in capital assets decreased \$469,646 primarily from current year depreciation.

2015 Versus 2014. During the year ended June 30, 2015:

- Total assets increased \$6,195,716. The most significant component of the increase in total assets was an increase of \$12,476,772 in cash and cash equivalents, offset by a decrease of \$4,017,598 in capital assets, net. Cash and cash equivalents increased due to cash provided by operating activities and investing activities, offset by cash used by noncapital financing activities and capital and related financing activities. Capital assets, net, decreased mainly due to the sale of CLI's stock and deletion of CLI assets.
- Total liabilities decreased \$4,783,246. The most significant component of the decrease in total liabilities was \$3,532,995 in accounts payable and accrued liabilities caused by the sale of CLI.
- Total net position increased \$10,978,962. Unrestricted net position was the most significant component, increasing \$14,710,813 primarily due to revenues from recoveries of facilities and administrative costs exceeding expenses in unrestricted funds. Net investment in capital assets decreased \$3,935,277 primarily due to the sale of CLI's stock and deletion of CLI assets.

Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. GASB 35 requires certain revenue items, such as gifts, investment and endowment income, and patent income, to be classified as nonoperating revenues. The utilization of long-lived assets, referred to as capital assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

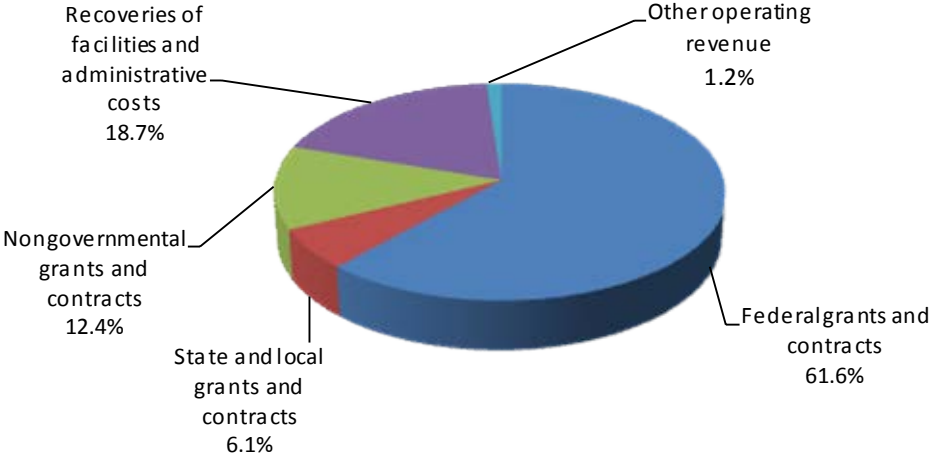
A summarized comparison of the Foundation's revenues, expenses and changes in net position for the years ended June 30, 2016, 2015 and 2014 is as follows:

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2016</u>	<u>2015</u>	<u>2014</u>
OPERATING REVENUES			
Federal grants and contracts	\$ 167,832,272	\$ 166,573,254	\$ 158,830,975
State and local grants and contracts	16,458,887	16,889,578	19,101,797
Nongovernmental grants and contracts	33,803,354	28,851,305	27,283,076
Recoveries of facilities and administrative costs	50,887,589	47,882,437	46,839,286
Other operating revenue	3,159,866	15,273,339	14,065,168
Total operating revenues	<u>272,141,968</u>	<u>275,469,913</u>	<u>266,120,302</u>
OPERATING EXPENSES			
Research	166,755,694	160,755,227	157,450,830
Other educational and general	84,472,556	88,623,788	86,324,821
Student financial aid	1,494,365	1,328,135	1,281,227
Depreciation	485,821	1,379,189	1,480,345
Total operating expenses	<u>253,208,436</u>	<u>252,086,339</u>	<u>246,537,223</u>
OPERATING INCOME	<u>18,933,532</u>	<u>23,383,574</u>	<u>19,583,079</u>
NONOPERATING REVENUES (EXPENSES)			
Gifts	245,126	460,763	191,350
Investment income	134,424	(80,397)	399,443
Gain on CLI sale	-	18,126,947	-
Patent income	8,157,314	1,403,172	2,563,738
Interest on capital asset-related debt	-	(48,529)	(14,304)
Other nonoperating revenues and expenses, net	209,077	439,618	367,926
Capital grants and gifts	4,675,058	6,423,827	3,599,180
Additions to permanent endowments	7,971	605	690
Grants to the University of Kentucky	(22,352,347)	(37,606,833)	(28,782,333)
Other	(20,939)	(1,523,785)	(48,675)
Total nonoperating revenues (expenses)	<u>(8,944,316)</u>	<u>(12,404,612)</u>	<u>(21,722,985)</u>
Total increase (decrease) in net position	9,989,216	10,978,962	(2,139,906)
Net position, beginning of year	<u>58,410,519</u>	<u>47,431,557</u>	<u>49,571,463</u>
Net position, end of year	<u>\$ 68,399,735</u>	<u>\$ 58,410,519</u>	<u>\$ 47,431,557</u>

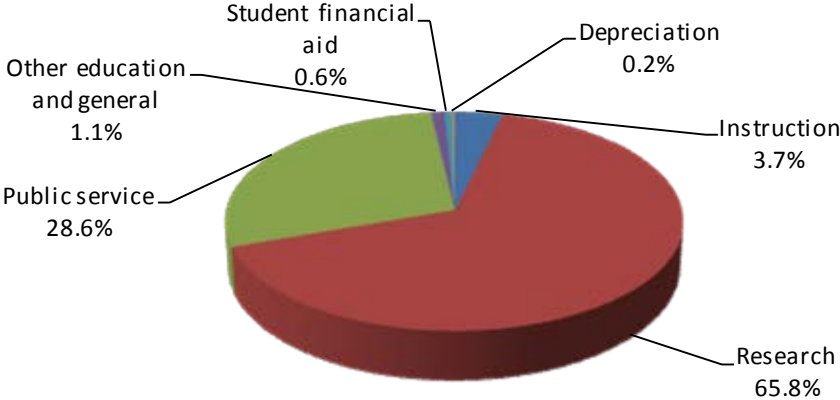
2016. Total operating revenues, consisting primarily of grants and contracts, and related recoveries of facilities and administrative costs, were \$272,141,968 for the year ended June 30, 2016. Federal, state and nongovernmental grants and contracts, and related recoveries of facilities and administrative costs, accounted for 98.8% of operating revenues. Operating revenues decreased \$3,327,945 or 1.2%, primarily caused by a \$12,113,473 or 79.3% decrease in other operating revenues, offset by an increase of \$4,952,049 or 17.2% in nongovernmental grants and contracts and an increase of \$3,005,152 or 6.3% in recoveries of facilities and administrative costs. The decrease in other operating revenues was caused by the sale of CLI last year. The increase in nongovernmental grants and contracts was due to individual sponsors deciding how much to prepay some large grants for the current year. The increase in recoveries of facilities and administrative costs was mainly due to an increase in the negotiated rate for recovery, which increased to 50.5% for the current fiscal year compared to 50.0% for last year.

TOTAL OPERATING REVENUES



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

TOTAL OPERATING EXPENSES



2015 Versus 2014. Total operating revenues, consisting primarily of grants and contracts, and related recoveries of facilities and administrative costs, were \$275,469,913. Federal, state and nongovernmental grants and contracts, and related recoveries of facilities and administrative costs, accounted for 94.4% of operating revenues. Operating revenues increased \$9,349,611 or 3.5%, primarily caused by a \$7,742,279 or 4.9% increase in federal grants and contracts. The increase in federal grants and contracts was mainly caused by increases in numerous grants and also an increase in federal awards.

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

Statement of Cash Flows

The Statement of Cash Flows presents information related to the Foundation's cash inflows and outflows and is summarized by operating, capital financing, noncapital financing and investing activities. The primary purpose of the Statement of Cash Flows is to provide information about the cash receipts and cash payments made by the Foundation during the year that will allow financial statement readers to assess the entity's:

- ability to generate future net cash flows,
- ability to meet obligations as they become due, and
- the possible need for external financing.

A comparative summary of the Foundation's statement of cash flows for the years ended June 30, 2016, 2015 and 2014 is as follows:

Condensed Statements of Cash Flows

	2016	2015	2014
CASH PROVIDED (USED) BY:			
Operating activities	\$ 23,829,164	\$ 29,305,886	\$ 12,884,023
Noncapital financing activities	(6,149,704)	(23,824,976)	(8,578,913)
Capital and related financing activities	(4,462,409)	(5,979,143)	(13,882,333)
Investing activities	(8,242,185)	12,975,005	19,262
Net increase (decrease) in cash and cash equivalents	4,974,866	12,476,772	(9,557,961)
Cash and cash equivalents, beginning of year	49,591,486	37,114,714	46,672,675
Cash and cash equivalents, end of year	\$ 54,566,352	\$ 49,591,486	\$ 37,114,714

2016. Major sources of cash included in operating activities were grants and contracts of \$221,584,469 and recoveries of facilities and administrative costs of \$52,098,099. The largest cash payments for operating activities were made to the University as reimbursements for employee salaries and benefits of \$160,578,439 and to suppliers of \$91,899,959.

The largest use of cash in the noncapital financing activities group related to grants to the University totaling \$13,245,058. Cash provided in this category is mostly from other receipts of \$6,823,876, primarily patent income.

Cash used by capital and related financing activities was primarily expended on grants to the University for the construction and acquisition of capital assets totaling \$9,100,353, offset by capital grants and gifts of \$4,675,058.

During the year ended June 30, 2016, cash used by investing activities reflects proceeds from sales and maturities of investments of \$4,311,479 and interest and dividend income on investments of \$58,217, net of cash used to purchase investments of \$12,611,881.

2015 Versus 2014. Cash and cash equivalents increased \$12,476,772 in cash provided by operating activities and investing activities, offset by cash used by noncapital financing activities and capital and related financing activities. Investing activities increased \$23,219,367 by the sale of CLI, offset by \$3,522,076 to repay debt to affiliates and capital leases related to the sale of CLI and \$3,093,721 to repay stock options related to the sale of CLI.

Capital Asset and Debt Administration

Capital Assets. Capital assets, net of accumulated depreciation, totaled \$9,034,698 at June 30, 2016, a decrease of \$469,646. Capital assets as of June 30, 2016, and significant changes in capital assets during the years ended June 30, 2016 and 2015 are as follows (in thousands):

	Balance June 30, 2014	Net Additions FY 14-15	Balance June 30, 2015	Net Additions FY 15-16	Balance June 30, 2016
Land	\$ 2,336	\$ -	\$ 2,336	\$ -	\$ 2,336
Land improvements	-	593	593	-	593
Buildings	3,482	(1,002)	2,480	-	2,480
Infrastructure	6,567	-	6,567	-	6,567
Equipment	9,577	(7,361)	2,216	17	2,233
Vehicles	21	(21)	-	-	-
Software	79	(79)	-	-	-
Construction in progress	1,382	(1,382)	-	-	-
Accumulated depreciation	(9,922)	5,234	(4,688)	(486)	(5,174)
Total	\$ 13,522	\$ (4,018)	\$ 9,504	\$ (469)	\$ 9,035

Debt. The Foundation had long-term liabilities totaling \$404,398 and \$479,635 at June 30, 2016 and 2015, 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, 2016, grants and contracts of \$201,389,659 had been awarded to the Foundation, but not expended. These grants and contracts are available to provide revenue to future periods and will be recognized as expended.
- The Facilities and Administrative Cost Rates applicable to federal grants and contracts are negotiated with the Department of Health and Human Services. The rate applicable to organized research was 50.5% for fiscal year 2016. The rate for fiscal year 2017 is currently being negotiated and an increase has been requested. Should there be an increase in the rate, it will provide additional recoveries of facilities and administrative costs.
- The Foundation is funded primarily by grants and contracts funded by sponsors. Operating revenues in grants and contracts showed an increase this year due to increases in several grants and additional grant awards. Total grant awards were \$316.5 million, an 11.0% increase over the previous period. Federal grant awards continue to comprise the majority of grant awards at \$163.5 million or 51.7% of total awards. Funding has increased from the National Science Foundation, a major federal sponsor. Increases in federal award funding are significant as these awards provide most of the recoveries of facilities and administrative costs.

UNIVERSITY OF KENTUCKY RESEARCH FOUNDATION
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY
STATEMENTS OF NET POSITION
JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 54,566,352	\$ 49,591,486
Accounts receivable, net	30,796,016	32,559,310
Other current assets, net	3,888,951	2,129,377
Total current assets	<u>89,251,319</u>	<u>84,280,173</u>
Noncurrent Assets		
Endowment investments	12,816,860	4,295,559
Other long-term investments	886,513	1,080,346
Notes receivable	35,000	2,000
Capital assets, net	9,034,698	9,504,344
Total noncurrent assets	<u>22,773,071</u>	<u>14,882,249</u>
Total assets	<u>112,024,390</u>	<u>99,162,422</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	10,436,010	10,488,658
Unearned revenue	32,784,247	29,783,610
Total current liabilities	<u>43,220,257</u>	<u>40,272,268</u>
Noncurrent Liabilities		
Long-term liabilities	404,398	479,635
Total noncurrent liabilities	<u>404,398</u>	<u>479,635</u>
Total liabilities	<u>43,624,655</u>	<u>40,751,903</u>
NET POSITION		
Net investment in capital assets	<u>9,034,698</u>	<u>9,504,344</u>
Restricted		
Nonexpendable	832,043	823,405
Expendable	3,982,593	4,394,737
Total restricted	<u>4,814,636</u>	<u>5,218,142</u>
Unrestricted		
Total net position	<u>\$ 68,399,735</u>	<u>\$ 58,410,519</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, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES		
Federal grants and contracts	\$ 167,832,272	\$ 166,573,254
State and local grants and contracts	16,458,887	16,889,578
Nongovernmental grants and contracts	33,803,354	28,851,305
Recoveries of facilities and administrative costs	50,887,589	47,882,437
Other operating revenues	<u>3,159,866</u>	<u>15,273,339</u>
Total operating revenues	<u>272,141,968</u>	<u>275,469,913</u>
OPERATING EXPENSES		
Educational and general:		
Instruction	9,482,355	10,554,607
Research	166,755,694	160,755,227
Public service	72,313,712	75,674,259
Academic support	1,803,421	1,825,187
Student services	5,181	-
Institutional support	856,730	568,985
Operations and maintenance of plant	11,157	750
Student financial aid	1,494,365	1,328,135
Depreciation	<u>485,821</u>	<u>1,379,189</u>
Total operating expenses	<u>253,208,436</u>	<u>252,086,339</u>
Net income (loss) from operations	<u>18,933,532</u>	<u>23,383,574</u>
NONOPERATING REVENUES (EXPENSES)		
Gifts	245,126	460,763
Investment income (loss)	134,424	(80,397)
Gain on CLI sale	-	18,126,947
Patent income	8,157,314	1,403,172
Grants (to) from the University of Kentucky for noncapital purposes	(13,245,058)	(26,430,627)
Interest on capital asset-related debt	-	(48,529)
Other nonoperating revenues and expenses	<u>209,077</u>	<u>439,618</u>
Net nonoperating revenues (expenses)	<u>(4,499,117)</u>	<u>(6,129,053)</u>
Net income (loss) before other revenues, expenses, gains, or losses	<u>14,434,415</u>	<u>17,254,521</u>
Capital grants and gifts	4,675,058	6,423,827
Additions to permanent endowments	7,971	605
Grants (to) from the University of Kentucky for capital purposes	(9,107,289)	(11,176,206)
Other, net	<u>(20,939)</u>	<u>(1,523,785)</u>
Total other revenues (expenses)	<u>(4,445,199)</u>	<u>(6,275,559)</u>
Increase (decrease) in net position	9,989,216	10,978,962
NET POSITION, beginning of year	<u>58,410,519</u>	<u>47,431,557</u>
NET POSITION, end of year	<u>\$ 68,399,735</u>	<u>\$ 58,410,519</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, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Grants and contracts	\$ 221,584,469	\$ 213,631,150
Recoveries of facilities and administrative costs	52,098,099	48,181,824
Payments to vendors and contractors	(91,899,959)	(86,430,817)
Salaries, wages and benefits reimbursement to the University of Kentucky	(160,578,439)	(154,077,716)
Salaries, wages and benefits	(560,327)	(8,165,312)
Other receipts (payments)	3,185,321	16,166,757
Net cash provided (used) by operating activities	<u>23,829,164</u>	<u>29,305,886</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Gifts and grants received for other than capital purposes:		
Private gifts for endowment purposes	7,971	605
Private gifts for other purposes	263,507	442,382
Grants (to) from the University of Kentucky	(13,245,058)	(27,994,674)
Other receipts (payments)	6,823,876	3,726,711
Net cash provided (used) by noncapital financing activities	<u>(6,149,704)</u>	<u>(23,824,976)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Grants (to) from the University of Kentucky for capital purposes	(9,100,353)	(11,121,382)
Capital grants and gifts	4,675,058	6,423,827
Purchases of capital assets	(16,175)	(1,038,410)
Principal paid on capital debt and leases	-	(194,241)
Interest paid on capital debt and leases	-	(48,529)
Other receipts (payments)	(20,939)	(408)
Net cash provided (used) by capital and related financing activities	<u>(4,462,409)</u>	<u>(5,979,143)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments, net	4,311,479	(2,947,208)
Interest and dividends on investments	58,217	97,376
Purchase of investments	(12,611,881)	(778,733)
Repayment of debt to affiliates and capital leases related to sale of CLI	-	(3,522,076)
Net proceeds from sale of CLI stock, net of cash acquired	-	23,219,367
Repayment of stock options related to sale of CLI	-	(3,093,721)
Net cash provided (used) by investing activities	<u>(8,242,185)</u>	<u>12,975,005</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>4,974,866</u>	<u>12,476,772</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>49,591,486</u>	<u>37,114,714</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 54,566,352</u>	<u>\$ 49,591,486</u>
Reconciliation of net income (loss) from operations to net cash provided (used) by operating activities:		
Net income (loss) from operations	\$ 18,933,532	\$ 23,383,574
Adjustments to reconcile net income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation expense	485,821	1,379,189
Change in assets and liabilities:		
Accounts receivable	1,711,913	(1,383,404)
Other current and noncurrent assets	(1,763,136)	(181,702)
Accounts payable and accrued liabilities	(59,584)	2,415,474
Long-term liabilities	(75,237)	(277,980)
Unearned revenue	4,595,855	3,970,735
Net cash provided (used) by operating activities	<u>\$ 23,829,164</u>	<u>\$ 29,305,886</u>
NONCASH TRANSACTIONS		
Equipment acquired through capital lease	\$ -	\$ 70,499
Capital asset transfer from the University of Kentucky	\$ -	\$ 592,993

See notes to financial statements

**UNIVERSITY OF KENTUCKY
RESEARCH FOUNDATION
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The University of Kentucky Research Foundation (the Foundation) is a not-for-profit Kentucky corporation established to receive, invest and expend funds in promoting and implementing scientific, educational and developmental activities at the University of Kentucky (the University). The Foundation is considered to be an affiliate and component unit of the University because all Board members are related to the University as faculty, staff or trustees and/or are appointed by the Board of Trustees of the University, and certain officers of the Foundation are officers of the University.

The financial statements of the Foundation include the operations of the following entities:

- University of Kentucky Research Foundation
- Kentucky Technology, Inc. (KTI) (a 100% owned, for-profit subsidiary of the Foundation) and its for-profit subsidiary, Secat, Inc. (100% ownership)
- Coldstream Laboratories, Inc. (CLI) (formerly a 100% owned, for-profit subsidiary of the Foundation)

KTI has a calendar-year basis fiscal year from January 1 through December 31. Therefore, the financial statements of KTI as of December 31, 2015 and December 31, 2014 are included in the Foundation's financial statements as of June 30, 2016 and 2015, respectively.

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

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). GASB establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following net position categories:

- Net investment in capital assets: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Restricted:
 - Nonexpendable* – Net position subject to externally imposed stipulations that it be maintained permanently by the Foundation. Such positions include the principal of the Foundation's permanent endowment funds.
 - Expendable* – Net position whose use by the Foundation is subject to externally imposed stipulations that can be fulfilled by actions of the Foundation pursuant to those stipulations or that expire by the passage of time.
- Unrestricted: Net position whose use by the Foundation is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

The financial statement presentation is intended to provide a comprehensive, entity-wide perspective of the Foundation's assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, expenses, changes in net position and cash flows.

Summary of Significant Accounting Policies

Accrual Basis. The financial statements have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. The Foundation reports as a Business Type Activity (BTA) as defined by GASB Statement No. 35. BTA's are those activities that are financed in whole or part by fees charged to external parties for goods and services.

Cash and Cash Equivalents. The Foundation considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Pooled Endowment Funds. All endowments are managed in a consolidated investment pool, which consists of more than 2,100 named funds. All contributing endowments participate in the income and appreciation of the pool on a per unit basis commensurate with their contribution to the pool. New endowments purchase units in the pool at the current unit value, which is calculated each month based on the fair value of the pool investments divided by the number of pool units outstanding. The market value method of accounting for pooled endowment funds is employed to ensure proper distribution of market price changes, realized gains (losses) on sales, accrued income earned, and distribution of investment earnings for expenditure by participating funds.

In accordance with the Kentucky Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted by the Commonwealth of Kentucky (the Commonwealth) in July 2010, the University employs a total return method for establishing investment objectives and spending policies designed to achieve financial equilibrium for endowment funds over the long term. The University makes expenditure decisions in accordance with UPMIFA and donor gift agreements. UPMIFA prescribes guidelines for expenditure of a donor-restricted endowment fund (in the absence of overriding, explicit donor stipulations) and focuses on the entirety of a donor-restricted endowment fund, that is, both the original gift amount(s) and net appreciation. In accordance with the standard of prudence prescribed by UPMIFA and consistent with industry standards, the University has adopted a spending policy with the long-term objective to maintain the purchasing power of each endowment and provide a predictable and sustainable level of income to support current operations.

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, 2016 and 2015, the University's annual endowment management fee was 0.50% and 0.25%, respectively.

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 \$137,965 and \$144,938 for the years ended June 30, 2016 and 2015, 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 noncurrent assets. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the Statement of Revenues, Expenses and Changes in Net Position.

Capital Assets. Capital assets are stated at cost at date of acquisition or, in the case of gifts, at fair market value at date of gift.

Equipment with a unit cost of \$5,000 or more and having an estimated useful life of greater than one year is capitalized. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

Depreciation of capital assets is computed on a straight-line basis over the estimated useful lives of the respective assets, generally 40 years for buildings, 10 – 25 years for land and building improvements and infrastructure, and 5 – 20 years for equipment and vehicles.

Accounts Receivable. This classification consists of amounts due from sponsors and other customers for reimbursement of expenses made pursuant to contracts and grants. Also included are pledges that are verifiable, measurable and expected to be collected. Accounts receivable are recorded net of estimated uncollectible amounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. Allowances for uncollectible amounts are not significant in the current or previous fiscal years.

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

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

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

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

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

Reclassifications. Certain reclassifications have been made to the fiscal year 2015 financial statements to conform to the fiscal year 2016 financial statements presentation. These reclassifications had no effect on the change in net position.

2. DEPOSITS AND INVESTMENTS

The fair value of deposits and investments, by statement of net position classification, at June 30, 2016 and 2015 are as follows:

	2016	2015
Statement of Net Position classification		
Cash and cash equivalents	\$ 54,566,352	\$ 49,591,486
Endowment investments	12,816,860	4,295,559
Other long-term investments	886,513	1,080,346
Total	<u>\$ 68,269,725</u>	<u>\$ 54,967,391</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 Statement of Net Position.

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

	2016					
	Total Value	Fair Value Measurement Using			Total Measured at Fair Value	Amortized or Historical Cost
Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)			
Cash and cash equivalents	\$ 54,566,352	\$ -	\$ -	\$ -	\$ -	\$ 54,566,352
Common stocks	534,571	87,075	-	-	87,075	447,496
Government agency fixed income securities	34,939	-	34,939	-	34,939	-
Pooled private equity funds	222,187	-	-	-	-	222,187
Pooled fixed income funds	94,810	94,810	-	-	94,810	-
Endowed deposits and investments	12,816,860	-	-	12,816,860	12,816,860	-
Other	6	-	-	-	-	6
Total	<u>\$ 68,269,725</u>	<u>\$ 181,885</u>	<u>\$ 34,939</u>	<u>\$ 12,816,860</u>	<u>\$ 13,033,684</u>	<u>\$ 55,236,041</u>

The Foundation had the following valuation measurements, by type, at June 30, 2015:

	2015					Amortized or Historical Cost
	Fair Value Measurement Using				Total Measured at Fair Value	
Total Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)			
Cash and cash equivalents	\$ 49,591,486	\$ -	\$ -	\$ -	\$ -	\$ 49,591,486
Common stocks	719,583	164,817	-	-	164,817	554,766
Government agency fixed income securities	69,284	-	69,284	-	69,284	-
Pooled private equity funds	234,664	-	-	-	-	234,664
Pooled fixed income funds	56,809	56,809	-	-	56,809	-
Endowed deposits and investments	4,295,559	-	-	4,295,559	4,295,559	-
Other	6	-	-	-	-	6
Total	<u>\$ 54,967,391</u>	<u>\$ 221,626</u>	<u>\$ 69,284</u>	<u>\$ 4,295,559</u>	<u>\$ 4,586,469</u>	<u>\$ 50,380,922</u>

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, 2016.

The composition of the University's pooled endowment fund based upon fair value at June 30, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	0.7%	0.4%
Common and preferred stock	3.1%	3.5%
Corporate fixed income securities	0.5%	0.7%
Government agency fixed income securities	0.2%	0.2%
Pooled absolute return funds	11.5%	10.0%
Pooled diversified inflation strategies funds	7.5%	-
Pooled equity funds	24.3%	26.2%
Pooled fixed income funds	5.9%	7.3%
Pooled global tactical asset allocation funds	6.8%	7.2%
Pooled long/short equity funds	13.6%	14.2%
Pooled private equity funds	14.4%	12.8%
Pooled real estate funds	10.6%	8.5%
Pooled real return funds	-	8.3%
U.S. Treasury fixed income securities	0.9%	0.7%
Total	<u>100.0%</u>	<u>100.0%</u>

Deposit and Investment Policies. The Foundation follows the deposit and investment policies established by the University's Board of Trustees. Such policies are developed to establish and maintain sound financial management practices for the investment and management of the Foundation's funds.

For purposes of investment management, the Foundation's deposits and investments can be grouped into three significant categories:

- Cash on deposit with the University, which the University invests in deposits with banks and the Commonwealth. During the fiscal year ended June 30, 2015, the University invested in repurchase agreements with banks and the Commonwealth.
- Cash on deposit with local banks, and
- Endowment investments in the University's pooled endowment fund.

Cash on deposit with the University is managed based on the University's Operating Fund Investment Policy, established by the Treasurer of the University.

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

Deposit and Investment Risks. The Foundation's deposits and investments are exposed to various risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could affect the investment amounts in the Statements of Net Position.

Credit Risk. Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligation, causing the Foundation to experience a loss of principal.

As a means of limiting its exposure to losses arising from credit risk, the University's investment policies limit the exposure of its various investment types, as follows:

- Cash on deposit with the University is governed by policy that minimizes risk in several ways. Deposits are governed by state law which requires full collateralization for balances exceeding amounts covered by the Federal Deposit Insurance Corporation (FDIC). The Foundation's deposits

are insured up to \$250,000 at each FDIC insured institution. Credit risk on deposits in local banks is minimized by the financial institutions' participation in the FDIC's insurance coverage.

- Credit risk on repurchase agreements was mitigated by requiring the issuing financial institution's pledge of specific U.S. Treasury or agency securities, held in the name of the University by the Federal Reserve Bank. Credit risk on repurchase agreements with the Commonwealth was mitigated by the Commonwealth's requirement that providers of overnight repurchase agreements collateralize these investments at 102% of face value with U.S. Treasury or agency securities, pledged in the name of the Commonwealth.
- Endowment managers are permitted to use derivative instruments to limit credit risk.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Foundation will not be able to recover the value of its investment or collateral securities that are in possession of an outside party.

As a means of limiting its exposure to losses arising from custodial credit risk, the University's investment policies limit the exposure of its various investment types, as follows:

- Cash on deposit with the University is invested in deposits and repurchase agreements and held in the University's name. Deposits and repurchase agreements with the Commonwealth are held in the Commonwealth's name. The University maintains records evidencing the Foundation's ownership interest in such balances.
- Custodial credit risk on deposits in local banks is minimized by the financial institutions' participation in the FDIC's insurance coverage.
- Endowment investments are held in the University's name by the University's custodian. The University maintains records of the Foundation's ownership interest (units) in the University's pooled endowment fund.

Concentrations of Credit Risk. Foundation investments can be exposed to a concentration of credit risk if significant amounts are invested in any one issuer.

As a means of limiting its exposure to concentrations of credit risk, the University's investment policies limit concentrations in various investment types, as follows:

- Cash on deposit with the University is not limited as to the maximum amount that may be invested in one issuer. However, all such deposits in excess of federal deposit insurance are required to be fully collateralized by U.S. Treasury and/or U.S. agency securities or other similar investments as provided by KRS 41.240.
- Cash on deposit with local banks is not limited to a maximum amount that may be invested in one issuer. However, all deposits are covered by the FDIC's insurance coverage.
- The University's endowment investment managers are limited to a maximum investment in any one issuer of no more than five percent of total investments excluding sovereign debt of governments belonging to the Organization for Economic Cooperation and Development and U.S. agencies.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

As a means of limiting its exposure to fair value losses arising from increasing interest rates, the University's investment policies limit the maturity of its various investment types, as follows:

- Cash on deposit with the University has limited exposure to interest rate risk due to the short-term nature of the investment. The University requires that all deposits and repurchase agreements be available for use on the next business day.
- Cash on deposit with local banks has limited exposure to interest rate risk due to the short-term nature of the investment.
- Endowment managers are permitted to use derivative instruments to limit interest rate risk. Additionally, endowment investments held by the University's core-plus fixed income managers are

limited to a duration that is within two years of the duration of the Barclays Aggregate Bond Index and unconstrained fixed income strategies have been implemented to further protect against interest rate risk.

As of June 30, 2016 and 2015, the Foundation had fixed income securities managed based on duration. The securities duration was 1.1 years as of June 30, 2016 and 2.3 years as of June 30, 2015.

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit.

The Foundation's exposure to foreign currency risk derives from certain endowment investments of the University's pooled endowment fund. The University's investment policy allows fixed-income managers to invest a portion of their portfolios in non-U.S. securities. Additionally, the investment policy allows various pooled fund managers to invest in accordance with the guidelines established in each individual fund's prospectus, which allows for investment in non-U.S. securities. Endowment managers are permitted to use derivative instruments to limit foreign currency risk.

3. TRANSACTIONS WITH RELATED PARTIES

Salaries, wages and benefits reimbursements represent charges for University employees. Grants to the University primarily consist of funds transferred in compliance with an agreement between the Foundation and the University, whereby the University provides general support of facilities, personnel and programs in exchange for an annual grant.

During fiscal year 2012, the Foundation's subsidiary, CLI, received a line of credit from the Foundation through amounts advanced by UK HealthCare Hospital System for \$3,000,000, with interest adjusted annually on March 1 to the two-year U.S. Treasury rate plus one percent (1.32% at January 15, 2015 and 1.38% at December 31, 2014). Interest began to accumulate upon initial transfer of funds. Payment term on the line of credit was five years from the date of the final cash transfer. The agreement had no set maturity date. The amount outstanding under this line of credit at June 30, 2015 was zero because repayment of it was recorded as part of the sale of CLI.

The Foundation sold its 650,000 shares of common stock of CLI to PH Kentucky, Inc. (the Buyer) on January 16, 2015, for a transaction price of \$25,000,000. The Stock Purchase Agreement (Agreement) established two separate escrow accounts from the gross proceeds. The ChaseGuard Escrow of \$2,500,000 was established to provide both parties protection for the successful use and testing of CLI's ChaseGuard Line integrated isolator-based filler stopper, capper system and related isolators, intended to be used to produce products to be sold to CLI's customers. The General Escrow account of \$1,300,000 will be used to pay claims that may arise from any breach of various representations or warranties in the Agreement, including any deficits in net working capital or unpaid taxes. The escrow agreements call for the remaining balances to be distributed in 24 months from closing for the ChaseGuard Escrow and 18 months from closing for the General Escrow account. Immediately prior to the January 16, 2015, closing, each former shareholder (other than the Foundation) and option holder received redemption payments payable from proceeds received from the Buyer at closing. During the year ended June 30, 2016, a portion of the escrow was released per an agreement between the Foundation and the Buyer. The escrow balance at June 30, 2016 and 2015 was \$1,109,545 and \$3,608,400, respectively, and was recorded within the Foundation's cash and cash equivalents. The Foundation has a liability of \$249,888 and \$797,457 as of June 30, 2016 and 2015, respectively, for the minority shareholders' proportionate share of the escrow balance. The remainder of the escrow was released and the remainder of the liability was resolved in July 2016.

In connection with the January 16, 2015 closing, the Buyer repaid on behalf of CLI all amounts necessary to discharge the outstanding balance of all indebtedness and all transaction expenses. Total debt of \$6,236,468 was paid, including the University past due rent of \$2,851,737 and leveled lease liability of \$279,889, the Foundation's line of credit of \$2,714,392 (including interest) and UK College of Pharmacy debt of \$143,519. Total transaction fees were \$1,523,377. After the sale of CLI, the Foundation

transferred \$1,931,302 and \$12,362,742 during the years ended June 30, 2016 and 2015, respectively, to UK HealthCare Hospital System, which was reported in grants to the University for noncapital purposes.

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

4. NOTES AND ACCOUNTS RECEIVABLE, NET

Notes and accounts receivable, net as of June 30, 2016 and 2015 are summarized as follows:

	2016		
	Gross Receivable	Allowance	Net Receivable
Reimbursement receivable - grants and contracts	\$ 30,911,160	\$ (325,000)	\$ 30,586,160
Other	244,856	-	244,856
Total	<u>\$ 31,156,016</u>	<u>\$ (325,000)</u>	<u>\$ 30,831,016</u>
Current portion			\$ 30,796,016
Noncurrent portion			35,000
Total			<u>\$ 30,831,016</u>
	2015		
	Gross Receivable	Allowance	Net Receivable
Reimbursement receivable - grants and contracts	\$ 32,792,984	\$ (400,000)	\$ 32,392,984
Pledges receivable (less discount of \$492)	24,508	(6,127)	18,381
Other	149,945	-	149,945
Total	<u>\$ 32,967,437</u>	<u>\$ (406,127)</u>	<u>\$ 32,561,310</u>
Current portion			\$ 32,559,310
Noncurrent portion			2,000
Total			<u>\$ 32,561,310</u>

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

5. OTHER CURRENT ASSETS

Other current assets as of June 30, 2016 and 2015 are summarized as follows:

	2016	2015
Unrecognized charges - patents	\$ 2,053,732	\$ 2,095,510
Inventories	1,714,794	-
Other	120,425	33,867
Total	<u>\$ 3,888,951</u>	<u>\$ 2,129,377</u>

6. CAPITAL ASSETS, NET

Capital assets as of June 30, 2016 and 2015 are summarized as follows:

	2016			
<u>Capital Assets</u>	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 2,336,455	\$ -	\$ -	\$ 2,336,455
Land improvements	592,993	-	-	592,993
Buildings	2,479,939	-	-	2,479,939
Infrastructure	6,567,248	-	-	6,567,248
Equipment	2,216,350	16,175	-	2,232,525
	<u>14,192,985</u>	<u>16,175</u>	<u>-</u>	<u>14,209,160</u>
 <u>Accumulated Depreciation</u>				
Land improvements	14,825	59,300	-	74,125
Buildings	1,479,415	140,652	-	1,620,067
Infrastructure	1,090,295	262,690	-	1,352,985
Equipment	2,104,106	23,179	-	2,127,285
	<u>4,688,641</u>	<u>485,821</u>	<u>-</u>	<u>5,174,462</u>
Net capital assets	<u>\$ 9,504,344</u>	<u>\$ (469,646)</u>	<u>\$ -</u>	<u>\$ 9,034,698</u>
	2015			
<u>Capital Assets</u>	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 2,336,455	\$ -	\$ -	\$ 2,336,455
Land improvements	-	592,993	-	592,993
Buildings	3,481,414	49,833	1,051,308	2,479,939
Infrastructure	6,567,248	-	-	6,567,248
Equipment	9,577,083	132,790	7,493,523	2,216,350
Vehicles	21,034	-	21,034	-
Software	78,842	72,456	151,298	-
Construction in process	1,381,888	464,225	1,846,113	-
	<u>23,443,964</u>	<u>1,312,297</u>	<u>10,563,276</u>	<u>14,192,985</u>
 <u>Accumulated Depreciation</u>				
Land improvements	-	14,825	-	14,825
Buildings	1,937,194	244,317	702,096	1,479,415
Infrastructure	827,606	262,689	-	1,090,295
Equipment	7,064,529	844,524	5,804,947	2,104,106
Vehicles	71,659	-	71,659	-
Software	21,034	12,834	33,868	-
	<u>9,922,022</u>	<u>1,379,189</u>	<u>6,612,570</u>	<u>4,688,641</u>
Net capital assets	<u>\$ 13,521,942</u>	<u>\$ (66,892)</u>	<u>\$ 3,950,706</u>	<u>\$ 9,504,344</u>

The net book value of capitalized leased equipment for CLI was zero as of December 31, 2015.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Payable to vendors and contractors	\$ 7,625,746	\$ 8,079,588
Due to the University of Kentucky	24,000	22,000
Due to the University of Kentucky for accrued payroll	2,755,500	2,357,562
Accrued payroll	<u>30,764</u>	<u>29,508</u>
Total	<u>\$ 10,436,010</u>	<u>\$ 10,488,658</u>

8. UNEARNED REVENUE

Unearned revenue as of June 30, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Unearned grants and contracts revenue	\$ 30,611,807	\$ 26,015,952
Unearned patent intellectual property	<u>2,172,440</u>	<u>3,767,658</u>
Total	<u>\$ 32,784,247</u>	<u>\$ 29,783,610</u>

9. LONG TERM LIABILITIES

Long-term liabilities as of June 30, 2016 and 2015 are summarized as follows:

	<u>2016</u>					
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Noncurrent Portion</u>
Deferred tax liability - KTI	\$ 479,635	\$ -	\$ 75,237	\$ 404,398	\$ -	\$ 404,398
Total long-term liabilities	<u>\$ 479,635</u>	<u>\$ -</u>	<u>\$ 75,237</u>	<u>\$ 404,398</u>	<u>\$ -</u>	<u>\$ 404,398</u>
	<u>2015</u>					
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Noncurrent Portion</u>
Capital leases	\$ 82,321	\$ 70,499	\$ 152,820	\$ -	\$ -	\$ -
Deferred tax liability - KTI	757,615	-	277,980	479,635	-	479,635
Other long-term liabilities	399,841	-	399,841	-	-	-
Total long-term liabilities	<u>\$ 1,239,777</u>	<u>\$ 70,499</u>	<u>\$ 830,641</u>	<u>\$ 479,635</u>	<u>\$ -</u>	<u>\$ 479,635</u>

10. INVESTMENT INCOME (LOSS)

Components of investment income (loss) for the years ended June 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Interest and dividends earned on endowment investments	\$ 47,109	\$ 44,551
Realized and unrealized gains and (losses) on endowment investments	(93,279)	39,430
Realized and unrealized gains and (losses) on non-endowment investments	165,281	(178,717)
Investment income from external trusts	<u>15,313</u>	<u>14,339</u>
Total	<u>\$ 134,424</u>	<u>\$ (80,397)</u>

11. GRANTS AND CONTRACTS AWARDED

At June 30, 2016 and 2015, grants and contracts of \$201,389,659 and \$189,125,790 had been awarded to the Foundation, but not expended. These contracts are available to provide grant revenue to future periods and will be recognized as expended.

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 \$1,000 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 2015 to 2016. 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 \$111,091 and \$114,529 for the periods ended December 31, 2015 and 2014, respectively. KTI subleases the ASTeCC building to developing industries in advanced technology, with renewal options and escalation clauses. Sublease rental income was \$222,350 and \$226,567 for the periods ended December 31, 2015 and 2014, respectively. Future minimum rental revenue at December 31, 2015 is \$120,439 for the year ending December 31, 2016.

KTI leases space in the Coldstream Center on the Coldstream Research Campus under a long-term lease, which terminated on February 29, 2016. KTI management did not renew the lease. Rental expense was \$308,665 and \$310,098 for the periods ended December 31, 2015 and 2014, respectively.

As of December 31, 2015 and 2014, KTI was also responsible for 24.33% per year of actual expenses related to common area maintenance, utilities and property taxes. This amounted to \$255,352 and \$242,961 during the periods ended December 31, 2015 and 2014, respectively.

KTI subleases office and laboratory space to tenants in the Coldstream Center with leases running from monthly to five years, with options to renew for one to three years. Rental income was \$386,406

(including \$47,610 from UK Coldstream Research Center Administration) and \$436,026 (including \$218,296 from CLI and \$47,610 from UK Coldstream Research Center Administration) for the periods ended December 31, 2015 and 2014, respectively. KTI also offers virtual offices at the Coldstream Center. In the periods ended December 31, 2015 and 2014, rental income from virtual offices was \$3,600 and \$2,550, 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, 2015:

Year ending December 31,	
2016	\$ 183,220
2017	<u>14,867</u>
Total minimum rental receipts	<u>\$ 198,087</u>

KTI's wholly owned subsidiary, Secat, Inc., leases property from the University at no charge. The fair market value of this lease is approximately \$250,000 per year, which has been included as both in-kind revenue and expense on the Foundation's Statement of Revenues, Expenses, and Changes in Net Position.

CLI

CLI leased its manufacturing facility from the University under an operating lease with an initial term of ten years, having two additional five-year renewal options. Recognized rent expense was \$452,326 as of December 2014, including the first 15 days of January 2015. CLI purchased the manufacturing facility from the University on January 16, 2015. CLI also leased its labs in the Coldstream Center Building from KTI and 150 Bull Lea, an unrelated third party. The lease terms ranged from two to five years, with monthly rent ranging from \$1,073 to \$7,068.

14. SUBSEQUENT EVENTS

In July 2016, the remaining amount of \$1,109,545 as of June 30, 2016 in escrow related to the sale of CLI was released as per an agreement between the Foundation and the Buyer. The remaining amount of \$249,888 as of June 30, 2016 in accounts payable and accrued liabilities for the minority shareholders' proportionate share of the CLI escrow balance was also paid.

15. COMBINED STATEMENTS

The Foundation and its blended component units' statements were summarized as follows for the years ended June 30, 2016 and 2015:

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

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

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

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

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

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

UNIVERSITY OF KENTUCKY RESEARCH FOUNDATION
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015

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

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

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

UNIVERSITY OF KENTUCKY RESEARCH FOUNDATION
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY
COMBINED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

	University of Kentucky Research Foundation	Kentucky Technology, Inc.	Coldstream Laboratories, Inc.	Elimination Entries	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Grants and contracts	\$ 212,096,770	\$ 1,534,380	\$ -	\$ -	\$ 213,631,150
Recoveries of facilities and administrative costs	48,181,824	-	-	-	48,181,824
Payments to vendors and contractors	(77,514,900)	(2,262,457)	(6,604,669)	(48,791)	(86,430,817)
Salaries, wages and benefits reimbursement to the University of Kentucky	(154,077,716)	-	-	-	(154,077,716)
Salaries, wages and benefits	-	(620,177)	(7,545,135)	-	(8,165,312)
Other receipts (payments)	496,650	843,931	15,069,817	(243,641)	16,166,757
Net cash provided (used) by operating activities	29,182,628	(504,323)	920,013	(292,432)	29,305,886
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Gifts and grants received for other than capital purposes:					
Private gifts for endowment purposes	605	-	-	-	605
Private gifts for other purposes	442,382	-	-	-	442,382
Grants (to) from the University of Kentucky	(27,994,674)	-	-	-	(27,994,674)
Other receipts (payments)	3,288,248	432,988	39,180	(33,705)	3,726,711
Net cash provided (used) by noncapital financing activities	(24,263,439)	432,988	39,180	(33,705)	(23,824,976)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Grants (to) from the University of Kentucky for capital purposes	(11,121,382)	-	-	-	(11,121,382)
Capital grants and gifts	6,423,827	-	-	-	6,423,827
Purchases of capital assets	(592,993)	(84,553)	(360,864)	-	(1,038,410)
Principal paid on capital debt and leases	-	-	(194,241)	-	(194,241)
Interest paid on capital debt and leases	-	-	(48,529)	-	(48,529)
Capital contributions from the Foundation	-	-	161,480	(161,480)	-
Other receipts (payments)	-	-	(408)	-	(408)
Net cash provided (used) by capital and related financing activities	(5,290,548)	(84,553)	(442,562)	(161,480)	(5,979,143)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sales and maturities of investments, net	(2,120,680)	59,092	(1,373,237)	487,617	(2,947,208)
Interest and dividends on investments	89,394	7,982	-	-	97,376
Purchase of investments	(763,235)	(15,498)	-	-	(778,733)
Repayment of debt to affiliates and capital leases related to sale of CLI	(3,522,076)	-	-	-	(3,522,076)
Net proceeds from sale of CLI stock, net of cash acquired	23,219,367	-	-	-	23,219,367
Repayment of stock options related to sale of CLI	(3,093,721)	-	-	-	(3,093,721)
Net cash provided (used) by investing activities	13,809,049	51,576	(1,373,237)	487,617	12,975,005
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	13,437,690	(104,312)	(856,606)	-	12,476,772
CASH AND CASH EQUIVALENTS, beginning of year	35,395,654	862,454	856,606	-	37,114,714
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 48,833,344</u>	<u>\$ 758,142</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 49,591,486</u>

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