



Research Foundation

UNIVERSITY OF KENTUCKY • 2022 FINANCIAL STATEMENTS

University of Kentucky
Research Foundation
A Component Unit of the University of Kentucky
Financial Statements
Year Ended June 30, 2022

CONTENTS	PAGE
Independent Auditor's Report	1
Management's Discussion and Analysis	4
Financial Statements	
Statement of Net Position	12
Statement of Revenues, Expenses and Changes in Net Position	13
Statement of Cash Flows	14
Notes to Financial Statements	15
Board of Directors	31

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 (University), as of and for the year ended June 30, 2022, 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, 2022, 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 these 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 as listed in the table of contents 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.

Board of Directors
University of Kentucky
Research Foundation
Page 3

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 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 financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the 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 7, 2022

**UNIVERSITY OF KENTUCKY
RESEARCH FOUNDATION
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2022**

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, 2022. 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 \$27,249,887 or 14.4%. The most significant components of the fluctuation were increases of \$16,124,475 in cash and cash equivalents, \$10,867,610 in notes and accounts receivable, net, \$2,110,570 in lease assets, net offset by a decrease of \$1,368,649 in endowment investments.
- Total liabilities increased \$7,981,863 or 15.6%. The most significant components of the increase in total liabilities were increases of \$3,090,396 in unearned revenue, \$2,789,622 in accounts payable and accrued liabilities and \$2,144,464 in lease liabilities.
- Total net position increased \$19,268,024 or 13.9%. Unrestricted net position increased \$19,848,892 offset by decreases in restricted net position of \$392,008 and net investment in capital assets of \$188,860.
- Operating revenues increased \$74,560,329 to \$434,341,808.
- Operating expenses increased \$64,822,546 to \$384,401,251.

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. 87, *Leases* in fiscal year 2022. The financial statements for fiscal year 2021 were not restated for this implementation.

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, 2021 are included in the Foundation's financial statements as of June 30, 2022.

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, 2022 and 2021 is as follows:

Condensed Statements of Net Position

	2022	2021
ASSETS		
Current assets	\$ 186,157,777	\$ 159,634,606
Capital assets and lease assets, net	9,003,941	7,307,498
Other noncurrent assets	21,629,333	22,599,060
Total assets	216,791,051	189,541,164
 LIABILITIES		
Current liabilities	54,142,769	48,014,534
Noncurrent liabilities	4,870,638	3,017,010
Total liabilities	59,013,407	51,031,544
 NET POSITION		
Net investment in capital assets	6,799,171	6,988,031
Restricted		
Nonexpendable	855,513	855,513
Expendable	5,098,681	5,490,689
Unrestricted	145,024,279	125,175,387
Total net position	\$ 157,777,644	\$ 138,509,620

Assets. As of June 30, 2022, the Foundation's assets totaled \$216,791,051. Cash and cash equivalents represented the Foundation's largest asset, totaling \$128,648,356 or 59.3% of total assets. Notes and accounts receivable, net, primarily from grant sponsors, totaled \$55,060,996 or 25.4% of total assets, endowment investments totaled \$18,068,869 or 8.3% of total assets, capital assets, net, totaled \$6,893,371 or 3.2% of total assets and lease assets, net totaled \$2,110,570 or 1.0% of total assets.

Total assets increased \$27,249,887 during the year ended June 30, 2022. The most significant components of the increase in total assets were increases of \$16,124,475 in cash and cash equivalents, \$10,867,610 in

notes and accounts receivable, net and \$2,110,570 in lease assets, net offset by a decrease of \$1,368,649 in endowment investments.

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. Lease assets, net increased due to the implementation of GASB Statement No. 87. Endowment investments decreased due to unfavorable market conditions.

Liabilities. At June 30, 2022, the Foundation's liabilities totaled \$59,013,407. Unearned revenue totaled \$42,795,641 or 72.5% of total liabilities. Unearned revenue reflects advance receipts from grant sponsors and other customers. Accounts payable and accrued liabilities of \$13,552,631, lease liabilities of \$2,144,464 and other long-term liabilities of \$520,671 accounted for the remainder of the Foundation's liabilities.

Total liabilities increased \$7,981,863 during the year ended June 30, 2022. The most significant components of the increase in total liabilities was an increase of \$3,090,396 in unearned revenue primarily in grants due to an increase in advanced funding from sponsors this year. Accounts payable and accrued liabilities increased \$2,789,622 primarily in amounts owed to vendors from grants. Lease liabilities increased \$2,144,464 due to the implementation of GASB Statement No. 87 this year.

Net Position. Net position at June 30, 2022 totaled \$157,777,644 or 72.8% of total assets. Net investment in capital assets totaled \$6,799,171 or 4.3% of total net position. Restricted net position totaled \$5,954,194 or 3.8% of total net position. Unrestricted net position totaled \$145,024,279 or 91.9% of total net position.

Total net position increased \$19,268,024 during the year ended June 30, 2022. Unrestricted net position was the most significant component, increasing \$19,848,892 due to revenues from recoveries of facilities and administrative costs exceeding expenses in unrestricted funds. Restricted net position decreased \$392,008 primarily due to realized and unrealized losses on endowment investments for the current year compared to prior year. Net investment in capital assets decreased \$188,860 primarily from current year depreciation offset by the addition 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 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.

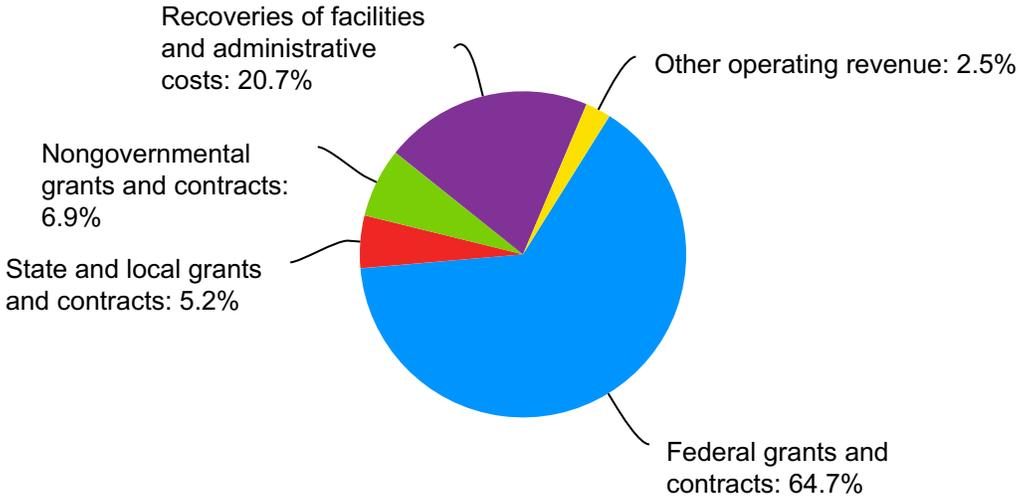
A summarized comparison of the Foundation's revenues, expenses and changes in net position for the years ended June 30, 2022 and, 2021 are as follows:

Condensed Statements of Revenues, Expenses and Changes in Net Position

	2022	2021
OPERATING REVENUES		
Federal grants and contracts	\$ 281,193,536	\$ 235,226,786
State and local grants and contracts	22,689,929	21,108,409
Nongovernmental grants and contracts	29,862,144	27,931,603
Recoveries of facilities and administrative costs	89,707,369	74,756,189
Other operating revenue	10,888,830	758,492
Total operating revenues	434,341,808	359,781,479
OPERATING EXPENSES		
Research	243,570,565	211,824,036
Other educational and general	137,342,617	105,190,685
Student financial aid	2,318,686	2,086,108
Depreciation and amortization	1,169,383	477,876
Total operating expenses	384,401,251	319,578,705
NET INCOME FROM OPERATIONS	49,940,557	40,202,774
NONOPERATING REVENUES (EXPENSES)		
COVID-19 funding	—	619,519
Gifts	230,569	446,348
Investment income (loss)	(647,209)	5,221,884
Interest on lease asset-related debt	(58,174)	—
License income	1,295,014	2,352,832
Capital grants and gifts	9,542,189	6,586,501
Grants to the University of Kentucky	(41,266,469)	(47,590,375)
Other, net	231,547	(51,618)
Total nonoperating revenues (expenses)	(30,672,533)	(32,414,909)
INCREASE IN NET POSITION	19,268,024	7,787,865
NET POSITION, beginning of year	138,509,620	130,721,755
NET POSITION, end of year	\$ 157,777,644	\$ 138,509,620

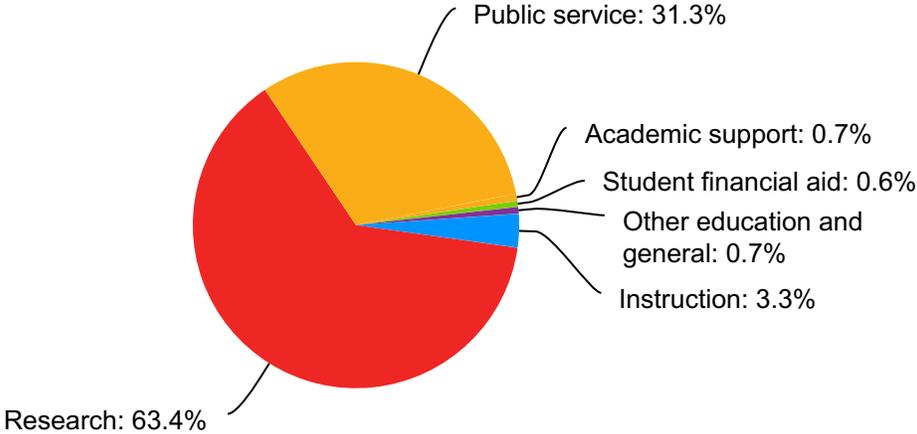
Total operating revenues, consisting primarily of grants and contracts, and related recoveries of facilities and administrative costs, were \$434,341,808 for the year ended June 30, 2022. Federal, state, local and nongovernmental grants and contracts and related recoveries of facilities and administrative costs, accounted for 97.5% of operating revenues. Operating revenues increased \$74,560,329 or 20.7%, primarily due to increases of \$45,966,750 or 19.5% in federal grants and contracts, \$14,951,180 or 20.0% in recoveries of facilities and administrative costs, \$10,130,338 or 1,335.6% in other operating revenues from grant program income, \$1,930,541 or 6.9% in nongovernmental grants and contracts and \$1,581,520 or 7.5% in state and local grants and contracts. These increases were due to fluctuations in numerous grants.

TOTAL OPERATING REVENUES



Operating expenses totaled \$384,401,251. Of this amount, \$243,570,565 or 63.4% was used for research expenses, \$120,410,522 or 31.3% was used for public service expenses and \$12,854,886 or 3.3% was used for instruction expenses. Operating expenses increased \$64,822,546. This increase was primarily attributable to increases in research 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, 2022 and 2021 are as follows:

Condensed Statements of Cash Flows

	2022	2021
CASH PROVIDED (USED) BY:		
Operating activities	\$ 46,576,614	\$ 33,077,622
Noncapital financing activities	(17,248,553)	(15,992,243)
Capital and related financing activities	(13,547,818)	(22,393,715)
Investing activities	344,232	(252,204)
Net increase (decrease) in cash and cash equivalents	16,124,475	(5,560,540)
CASH AND CASH EQUIVALENTS, beginning of year	112,523,881	118,084,421
CASH AND CASH EQUIVALENTS, end of year	\$ 128,648,356	\$ 112,523,881

Major sources of cash provided by operating activities were grants and contracts of \$328,267,218 and recoveries of facilities and administrative costs of \$88,048,132. The largest cash payments used for operating activities were made to the University as reimbursements for employee salaries and benefits of \$243,564,753 and payments to vendors and contractors of \$135,953,081.

The largest use of cash in the noncapital financing activities was grants to the University for noncapital purposes totaling \$18,723,836. Cash provided by this category is mostly from other receipts of \$1,242,638, primarily 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 \$22,498,190 offset by capital grants and gifts of \$9,542,189.

During the year ended June 30, 2022, cash provided by investing activities reflects proceeds from sales and maturities of investments, net of \$8,969,607 and interest and dividend on investments of \$602,677 offset by purchases of investments of \$9,228,052.

Capital and Lease Assets and Debt Administration

Capital Assets. Capital assets, net of accumulated depreciation, totaled \$6,893,371 at June 30, 2022, a decrease of \$414,127. The decrease is a result of current year depreciation expense exceeding new purchases of equipment. Capital assets as of June 30, 2022, and changes in capital assets during the year ended June 30, 2022 are as follows (in thousands):

	Balance June 30, 2021	Net Additions (Deletions)	Balance June 30, 2022
Land	\$ 2,336	\$ —	\$ 2,336
Land improvements	593	—	593
Buildings	1,090	—	1,090
Infrastructure	6,567	—	6,567
Equipment	3,122	66	3,188
Accumulated depreciation	(6,401)	(480)	(6,881)
Total	<u>\$ 7,307</u>	<u>\$ (414)</u>	<u>\$ 6,893</u>

Lease Assets. Lease assets, net of accumulated amortization, totaled \$2,110,570 at June 30, 2022, an increase of \$2,110,570 compared to prior year. The increase is the result of the implementation of GASB Statement No. 87 this year. Lease assets as of June 30, 2022 and changes in lease assets during the year ended June 30, 2022 are as follows (in thousands):

	Balance July 1, 2021	Net Additions (Deletions)	Balance June 30, 2022
Building	\$ 1,411	\$ 1,389	\$ 2,800
Accumulated amortization	—	(689)	(689)
Total	<u>\$ 1,411</u>	<u>\$ 700</u>	<u>\$ 2,111</u>

The Foundation adopted GASB Statement No. 87 in fiscal year 2022 resulting in the recognition of lease assets of \$1,411,218 as of July 1, 2021.

Debt. The Foundation had long-term liabilities totaling \$2,665,135 at June 30, 2022 including \$2,144,464 in lease obligations and \$520,671 in 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, 2022, grants and contracts of \$359,481,612 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 2022 and will remain the same until amended.
- 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 \$452,929,023, a 3.2% decrease over the previous year. Federal grant awards continue to comprise the majority of grant awards at \$256,047,806 or

56.5% of total awards. Decreases 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, 2022**

ASSETS

Current Assets

Cash and cash equivalents	\$ 128,648,356
Notes and accounts receivable, net	55,056,671
Other current assets, net	2,452,750
Total current assets	<u>186,157,777</u>

Noncurrent Assets

Endowment investments	18,068,869
Other long-term investments	3,556,139
Notes and accounts receivable, net	4,325
Capital assets, net	6,893,371
Lease assets, net	2,110,570
Total noncurrent assets	<u>30,633,274</u>
Total assets	<u>216,791,051</u>

LIABILITIES

Current Liabilities

Accounts payable and accrued liabilities	13,552,631
Unearned revenue	39,843,081
Lease liabilities - current portion	747,057
Total current liabilities	<u>54,142,769</u>

Noncurrent Liabilities

Unearned revenue	2,952,560
Lease liabilities	1,397,407
Other long-term liabilities	520,671
Total noncurrent liabilities	<u>4,870,638</u>
Total liabilities	<u>59,013,407</u>

NET POSITION

Net investment in capital assets

6,799,171

Restricted

Nonexpendable	855,513
Expendable	5,098,681
Total restricted	<u>5,954,194</u>

Unrestricted

145,024,279

Total net position	<u>\$ 157,777,644</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, 2022**

OPERATING REVENUES

Federal grants and contracts	\$ 281,193,536
State and local grants and contracts	22,689,929
Nongovernmental grants and contracts	29,862,144
Recoveries of facilities and administrative costs	89,707,369
Other operating revenues	10,888,830
Total operating revenues	<u>434,341,808</u>

OPERATING EXPENSES

Educational and general:	
Instruction	12,854,886
Research	243,570,565
Public service	120,410,522
Academic support	2,668,530
Student services	336,824
Institutional support	863,669
Operations and maintenance of plant	208,186
Student financial aid	2,318,686
Depreciation and amortization	1,169,383
Total operating expenses	<u>384,401,251</u>
Net income from operations	<u>49,940,557</u>

NONOPERATING REVENUES (EXPENSES)

Gifts	230,569
Investment loss	(647,209)
License income	1,295,014
Grants to the University of Kentucky for noncapital purposes	(18,723,836)
Interest on lease asset-related debt	(58,174)
Other nonoperating revenues (expenses), net	59,691
Net nonoperating expenses	<u>(17,843,945)</u>
Net income before other revenues, expenses, gains, or losses	<u>32,096,612</u>
Capital grants and gifts	9,542,189
Grants to the University of Kentucky for capital purposes	(22,542,633)
Other, net	171,856
Total other expenses	<u>(12,828,588)</u>
INCREASE IN NET POSITION	<u>19,268,024</u>
NET POSITION, beginning of year	<u>138,509,620</u>
NET POSITION, end of year	<u>\$ 157,777,644</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, 2022**

CASH FLOWS FROM OPERATING ACTIVITIES

Grants and contracts	\$ 328,267,218
Recoveries of facilities and administrative costs	88,048,132
Payments to vendors and contractors	(135,953,081)
Salaries, wages and benefits reimbursement to the University of Kentucky	(243,564,753)
Salaries, wages and benefits	(1,082,359)
Other receipts	10,861,457
Net cash provided by operating activities	<u>46,576,614</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Private gifts for other purposes	232,645
Grants to the University of Kentucky	(18,723,836)
Other receipts	1,242,638
Net cash used by noncapital financing activities	<u>(17,248,553)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Grants to the University of Kentucky for capital purposes	(22,498,190)
Capital grants and gifts	9,542,189
Purchases of capital assets	(66,044)
Principal paid on leases payable	(655,318)
Interest paid on leases payable	(42,311)
Other receipts	171,856
Net cash used by capital and related financing activities	<u>(13,547,818)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sales and maturities of investments, net	8,969,607
Interest and dividends on investments	602,677
Purchase of investments	(9,228,052)
Net cash provided by investing activities	<u>344,232</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>16,124,475</u>

CASH AND CASH EQUIVALENTS, beginning of year

112,523,881

CASH AND CASH EQUIVALENTS, end of year

\$ 128,648,356

**Reconciliation of net income from operations
to net cash provided by operating activities:**

Net income from operations	\$ 49,940,557
Adjustments to reconcile net income from operations to net cash provided by operating activities:	
Depreciation and amortization expense	1,169,383
Change in assets and liabilities:	
Notes and accounts receivable, net	(10,875,686)
Other current and noncurrent assets	559,267
Accounts payable and accrued liabilities	2,735,316
Long-term liabilities	(42,619)
Unearned revenue	3,090,396
Net cash provided by operating activities	<u>\$ 46,576,614</u>

NONCASH CAPITAL AND INVESTING ACTIVITIES

Capital asset change in accounts payable	\$ 44,443
Unrealized investment loss	\$ (1,765,715)
Lease obligation incurred for lease assets	\$ 1,388,564

See notes to financial statements

**UNIVERSITY OF KENTUCKY
RESEARCH FOUNDATION
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

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, 2021 are included in the Foundation's financial statements as of June 30, 2022.

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.

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 and lease assets, net of accumulated depreciation and amortization, lease 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 more than 2,500 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, 2022. 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 \$582,467 for the year ending June 30, 2022.

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.

Capital and Lease Asset Impairment. The Foundation evaluates capital and lease assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital or lease assets has occurred. If a capital or lease 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 or lease asset impairment was recognized during the year ended June 30, 2022.

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. 87. In June 2017, GASB issued Statement No. 87, *Leases*, which provided guidance regarding lease accounting. It establishes a single model for lease accounting based on the foundational principle that a lease is financing of the right to use an underlying asset. It requires the Foundation to recognize lease liabilities and the intangible right-to-use lease assets as lessee, and lease receivables and deferred inflow of resources as lessor. The provisions of the statement were effective for fiscal years beginning after December 15, 2019 (fiscal year 2021). Due to the COVID-19 pandemic, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, extending the provisions of this statement by 18 months to fiscal year 2022.

GASB Statement No. 87 was adopted on July 1, 2021 resulting in recognition of lease assets of \$1,411,218 and lease liabilities of \$1,411,218 for lessee contracts, which were 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, 2022 is as follows:

Statement of Net Position classification

Cash and cash equivalents	\$ 128,648,356
Endowment investments	18,068,869
Other long-term investments	3,556,139
Total	<u>\$ 150,273,364</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, 2022:

	Fair Value Measurement Using					
	Total Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Measured at Fair Value	Amortized or Historical Cost
Cash and cash equivalents	\$ 128,648,356	\$ —	\$ —	\$ —	\$ —	\$ 128,648,356
Endowment deposits and investments	18,068,869	—	—	18,068,869	18,068,869	—
Global equity - international	327,350	327,350	—	—	327,350	—
Global equity - private	254,972	—	—	—	—	254,972
Global equity - U.S.	1,124,945	1,121,010	—	—	1,121,010	3,935
Global fixed income - public fixed income	1,799,733	872,889	926,844	—	1,799,733	—
Other	6	—	—	—	—	6
Real assets - public	49,133	49,133	—	—	49,133	—
Total	<u>\$ 150,273,364</u>	<u>\$ 2,370,382</u>	<u>\$ 926,844</u>	<u>\$ 18,068,869</u>	<u>\$ 21,366,095</u>	<u>\$ 128,907,269</u>

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, 2022.

The composition of the University's pooled endowment fund based upon fair value at June 30, 2022 is as follows:

Cash and cash equivalents	0.2 %
Diversifying strategies	14.9 %
Global equity - international	15.2 %
Global equity - private	21.6 %
Global equity - U.S.	20.3 %
Global fixed income - public fixed income	9.0 %
Global fixed income - private credit	3.3 %
Real assets - private	13.3 %
Real assets - public	2.2 %
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 based on the University's Operating Fund Investment Policy, established by the Treasurer of the University.

Endowment investments are managed within the 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 \$375,785 of SECAT and KTI investments, as of June 30, 2022, 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 possession

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

- Cash and cash equivalents on deposit with the University invested in deposits and money market funds are held in the University's name by various financial institutions. Deposits with the Commonwealth are held in the Commonwealth's name. The University maintains records evidencing the Foundation's ownership interest in such balances;
- Endowment investments are held in the University's name by the University's custodian. The University maintains records of the Foundation's ownership interest (units) in the University's pooled endowment fund.

Concentrations of Credit Risk. The Foundation's investments can be exposed to a concentration of credit risk if significant amounts are invested in any one issuer. As a means of limiting its exposure to concentrations of credit risk, the University's investment policies limit concentrations in various investment types, as follows:

- Cash and cash equivalents on deposit with the University are not limited as to the maximum amount that may be invested in one issuer. However, the University's cash deposits in 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 fixed income 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.

At June 30, 2022 the Foundation had no investments in any one issuer that represented five percent or more of total investments, other than U.S. Treasury and agency obligations.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from increasing interest rates, the University's investment policies limit the maturity of its various investment types, as follows:

- Cash and cash equivalents on deposit with the University have limited exposure to interest rate risk due to the short-term nature of the investment. The University requires that all deposits and money market funds be available for use on the next business day;
- Cash and cash equivalents on deposit with local banks and short-term investments in marketable securities have limited exposure to interest rate risk due to the short-term nature of the investments and deposits; and
- Endowment managers are permitted to use derivative instruments to limit interest rate risk. Additionally, endowment investments held by the University's actively managed intermediate-term fixed income manager are limited to a duration that is within two years of the duration of the Barclays U.S. Intermediate Aggregate Bond Index and unconstrained fixed income strategies have been implemented to further mitigate interest rate risk.

As of June 30, 2022, the Foundation had fixed income securities managed based on duration. The securities duration was 4.8 years as of June 30, 2022.

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 \$244,054,714 as of June 30, 2022.

4. NOTES AND ACCOUNTS RECEIVABLE, NET

Notes and accounts receivable, net as of June 30, 2022 is summarized as follows:

	Gross Receivable	Allowance	Net Receivable
Reimbursement receivable - grants and contracts	\$ 54,922,502	\$ (387,000)	\$ 54,535,502
Other	525,494	—	525,494
Total	<u>\$ 55,447,996</u>	<u>\$ (387,000)</u>	<u>\$ 55,060,996</u>
Current portion			\$ 55,056,671
Noncurrent portion			<u>4,325</u>
Total			<u>\$ 55,060,996</u>

5. OTHER CURRENT ASSETS

Other current assets as of June 30, 2022 is summarized as follows:

Unrecognized charges - patents, net	\$ 2,261,130
Inventories	125,050
Other	66,570
Total	<u>\$ 2,452,750</u>

6. CAPITAL AND LEASE ASSETS, NET

Capital assets as of June 30, 2022 is summarized as follows:

Capital Assets	Balance June 30, 2021	Additions	Deletions	Balance June 30, 2022
Land	\$ 2,336,455	\$ —	\$ —	\$ 2,336,455
Land improvements	592,993	—	—	592,993
Buildings	1,089,773	—	—	1,089,773
Infrastructure	6,567,248	—	—	6,567,248
Equipment	3,122,143	66,044	—	3,188,187
Total	<u>13,708,612</u>	<u>66,044</u>	<u>—</u>	<u>13,774,656</u>
Accumulated Depreciation				
Land improvements	370,621	59,299	—	429,920
Buildings	861,200	24,061	—	885,261
Infrastructure	2,666,434	262,690	—	2,929,124
Equipment	2,502,859	134,121	—	2,636,980
Total	<u>6,401,114</u>	<u>480,171</u>	<u>—</u>	<u>6,881,285</u>
Capital assets, net	<u>\$ 7,307,498</u>	<u>\$ (414,127)</u>	<u>\$ —</u>	<u>\$ 6,893,371</u>

Lease assets as of June 30, 2022 is summarized as follows:

	Balance July 1, 2021	Additions	Deletions	Balance June 30, 2022
Building	\$ 1,411,218	\$ 1,388,564		\$ 2,799,782
Accumulated amortization		(689,212)		(689,212)
Lease assets, net	<u>\$ 1,411,218</u>	<u>\$ 699,352</u>	<u>\$ —</u>	<u>\$ 2,110,570</u>

The Foundation adopted GASB Statement No.87 in fiscal year 2022 and recorded lease assets of \$1,411,218 as of July 1, 2021.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2022 is as follows:

Payable to vendors and contractors	\$ 11,078,518
Accrued interest payable	15,864
Due to the University of Kentucky for accrued payroll	2,396,579
Accrued payroll - KTI	61,670
Total	<u>\$ 13,552,631</u>

8. UNEARNED REVENUE

Unearned revenue as of June 30, 2022 is as follows:

	Balance June 30, 2021	Additions	Reductions	Balance June 30, 2022	Current Portion	Noncurrent Portion
Unearned grants and contracts revenue	\$ 39,698,500	\$ 93,394,051	\$ 90,308,411	\$ 42,784,140	\$ 39,831,580	\$ 2,952,560
Unearned revenue - KTI	6,745	4,756	—	11,501	11,501	—
Total unearned revenue	<u>\$ 39,705,245</u>	<u>\$ 93,398,807</u>	<u>\$ 90,308,411</u>	<u>\$ 42,795,641</u>	<u>\$ 39,843,081</u>	<u>\$ 2,952,560</u>

9. LONG TERM LIABILITIES

Long-term liabilities as of June 30, 2022 is summarized as follows:

	Balance July 1, 2021	Additions	Reductions	Balance June 30, 2022	Current Portion	Noncurrent Portion
Lease liabilities	\$ 1,411,218	\$1,388,564	\$ 655,318	\$ 2,144,464	\$ 747,057	\$1,397,407
Deferred tax liability - KTI	563,290	—	42,619	520,671	—	520,671
Total long-term liabilities	<u>\$ 1,974,508</u>	<u>\$1,388,564</u>	<u>\$ 697,937</u>	<u>\$ 2,665,135</u>	<u>\$ 747,057</u>	<u>\$1,918,078</u>

The Foundation leases buildings, the terms of which expire in various years through 2028. The Foundation adopted GASB Statement No. 87 and recorded lease liability of \$1,411,218 as of July 1, 2021.

Principal and interest on lease obligations for the next five fiscal years and in subsequent five-year fiscal periods as of June 30, 2022 are as follows:

	Principal	Interest	Total
2023	\$ 747,057	\$ 56,006	\$ 803,063
2024	465,005	36,824	501,829
2025	265,113	25,017	290,130
2026	215,817	17,613	233,430
2027	222,365	11,065	233,430
2028-2032	229,107	4,324	233,431
Total	<u>\$ 2,144,464</u>	<u>\$ 150,849</u>	<u>\$ 2,295,313</u>

10. INVESTMENT INCOME (LOSS)

Components of investment income (loss) for the years ended June 30, 2022 is as follows:

Interest and dividends earned on endowment investments	\$ 254,601
Realized and unrealized losses on endowment investments	(1,368,649)
Realized and unrealized gains, interest and dividends earned on non-endowment investments	445,867
Investment income from external trusts	20,972
Total	<u>\$ (647,209)</u>

11. GRANTS AND CONTRACTS AWARDED

At June 30, 2022 grants and contracts of \$359,481,612 had been awarded to the Foundation, but not expended. These contracts are available to provide grant revenue to future periods and will be recognized as expended.

12. RISK MANAGEMENT

The Foundation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; and natural disasters. These risks are covered by the State Fire and Tornado Insurance Fund (the Fund), commercial insurance, extension of coverage by the University's participation in an insurance risk retention group and self-insurance.

The Fund covers losses to property from fire, wind, earthquake, flood and other named perils between \$5,000 and \$1,000,000 per occurrence. Losses in excess of \$1,000,000 are insured by commercial carriers up to \$1.50 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 2021 to 2022. 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 \$117,321 for the period ended December 31, 2021. KTI subleases the ASTeCC building to developing industries in advanced technology, with renewal options and escalation clauses. Sublease rental income was \$256,446 for the period ended December 31, 2021.

KTI also offers virtual offices at the Coldstream Center. In the period ended December 31, 2021 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, 2021:

Years ending December 31,	
2022	\$ 151,323
2023	38,695
2024	30,916
Total	<u>\$ 220,934</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, 2021 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.

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.

The following schedule presents estimated future minimum lease payments for the new building on the Coldstream Research Campus at December 31, 2021:

Years ending December 31,	
2022	\$ 354,541
2023	709,085
2024	709,085
2025	709,085
2026	709,085
Thereafter	3,545,425
Total	<u>\$ 6,736,306</u>

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, 2022:

UNIVERSITY OF KENTUCKY RESEARCH FOUNDATION
A COMPONENT UNIT OF THE UNIVERSITY OF KENTUCKY
COMBINED STATEMENT OF NET POSITION
AS OF JUNE 30, 2022

	University of Kentucky Research Foundation	Kentucky Technology, Inc.	Eliminations	Total
ASSETS				
Current Assets				
Cash and cash equivalents	\$ 127,707,638	\$ 940,718	\$ —	\$ 128,648,356
Notes and accounts receivable, net	54,551,782	510,889	(6,000)	55,056,671
Other current assets, net	2,386,180	66,570	—	2,452,750
Total current assets	<u>184,645,600</u>	<u>1,518,177</u>	<u>(6,000)</u>	<u>186,157,777</u>
Noncurrent Assets				
Endowment investments	18,068,869	—	—	18,068,869
Other long-term investments	8,566,595	3,552,198	(8,562,654)	3,556,139
Notes and accounts receivable, net	4,325	—	—	4,325
Capital assets, net	2,704,042	4,189,329	—	6,893,371
Lease assets, net	2,110,570	—	—	2,110,570
Total noncurrent assets	<u>31,454,401</u>	<u>7,741,527</u>	<u>(8,562,654)</u>	<u>30,633,274</u>
Total assets	<u>216,100,001</u>	<u>9,259,704</u>	<u>(8,568,654)</u>	<u>216,791,051</u>
LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	13,393,753	164,878	(6,000)	13,552,631
Unearned revenue	39,831,580	11,501	—	39,843,081
Lease liabilities - current portion	747,057	—	—	747,057
Total current liabilities	<u>53,972,390</u>	<u>176,379</u>	<u>(6,000)</u>	<u>54,142,769</u>
Noncurrent Liabilities				
Unearned revenue	2,952,560	—	—	2,952,560
Lease liabilities	1,397,407	—	—	1,397,407
Other long-term liabilities	—	520,671	—	520,671
Total noncurrent liabilities	<u>4,349,967</u>	<u>520,671</u>	<u>—</u>	<u>4,870,638</u>
Total liabilities	<u>58,322,357</u>	<u>697,050</u>	<u>(6,000)</u>	<u>59,013,407</u>
NET POSITION				
Net investment in capital assets				
Restricted	2,609,842	4,189,329	—	6,799,171
Nonexpendable	855,513	—	—	855,513
Expendable	5,098,681	—	—	5,098,681
Total restricted	<u>5,954,194</u>	<u>—</u>	<u>—</u>	<u>5,954,194</u>
Unrestricted	149,213,608	4,373,325	(8,562,654)	145,024,279
Total net position	<u>\$ 157,777,644</u>	<u>\$ 8,562,654</u>	<u>\$ (8,562,654)</u>	<u>\$ 157,777,644</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, 2022

	University of Kentucky Research Foundation	Kentucky Technology, Inc.	Eliminations	Total
OPERATING REVENUES				
Federal grants and contracts	\$ 281,193,536	\$ —	\$ —	\$ 281,193,536
State and local grants and contracts	22,689,929	—	—	22,689,929
Nongovernmental grants and contracts	27,794,124	2,068,020	—	29,862,144
Recoveries of facilities and administrative costs	89,707,369	—	—	89,707,369
Other operating revenues	10,277,433	611,397	—	10,888,830
Total operating revenues	<u>431,662,391</u>	<u>2,679,417</u>	<u>—</u>	<u>434,341,808</u>
OPERATING EXPENSES				
Educational and general:				
Instruction	12,854,886	—	—	12,854,886
Research	241,070,338	2,512,785	(12,558)	243,570,565
Public service	120,410,522	—	—	120,410,522
Academic support	2,668,530	—	—	2,668,530
Student services	336,824	—	—	336,824
Institutional support	863,669	—	—	863,669
Operations and maintenance of plant	208,186	—	—	208,186
Student financial aid	2,318,686	—	—	2,318,686
Depreciation and amortization	772,572	396,811	—	1,169,383
Total operating expenses	<u>381,504,213</u>	<u>2,909,596</u>	<u>(12,558)</u>	<u>384,401,251</u>
Net income (loss) from operations	<u>50,158,178</u>	<u>(230,179)</u>	<u>12,558</u>	<u>49,940,557</u>
NONOPERATING REVENUES (EXPENSES)				
Gifts	230,569	—	—	230,569
Investment income (loss)	(806,047)	250,894	(92,056)	(647,209)
License income	1,295,014	—	—	1,295,014
Grants to the University of Kentucky for noncapital purposes	(18,723,836)	—	—	(18,723,836)
Interest on lease asset-related debt	(58,174)	—	—	(58,174)
Other nonoperating revenues and expenses, net	908	71,341	(12,558)	59,691
Net nonoperating revenues (expenses)	<u>(18,061,566)</u>	<u>322,235</u>	<u>(104,614)</u>	<u>(17,843,945)</u>
Net income (loss) before other revenues, expenses, gains, or losses	<u>32,096,612</u>	<u>92,056</u>	<u>(92,056)</u>	<u>32,096,612</u>
Capital grants and gifts	9,542,189	—	—	9,542,189
Grants to the University of Kentucky for capital purposes	(22,542,633)	—	—	(22,542,633)
Other, net	171,856	—	—	171,856
Total other expenses	<u>(12,828,588)</u>	<u>—</u>	<u>—</u>	<u>(12,828,588)</u>
INCREASE (DECREASE) IN NET POSITION	<u>19,268,024</u>	<u>92,056</u>	<u>(92,056)</u>	<u>19,268,024</u>
NET POSITION, beginning of year	<u>138,509,620</u>	<u>8,470,598</u>	<u>(8,470,598)</u>	<u>138,509,620</u>
NET POSITION, end of year	<u>\$ 157,777,644</u>	<u>\$ 8,562,654</u>	<u>\$ (8,562,654)</u>	<u>\$ 157,777,644</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, 2022

	University of Kentucky Research Foundation	Kentucky Technology, Inc.	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Grants and contracts	\$ 326,199,198	\$ 2,068,020	\$ —	\$ 328,267,218
Recoveries of facilities and administrative costs	88,048,132	—	—	88,048,132
Payments to vendors and contractors	(134,400,493)	(1,460,532)	(92,056)	(135,953,081)
Salaries, wages and benefits reimbursement to the University of Kentucky	(243,564,753)	—	—	(243,564,753)
Salaries, wages and benefits	—	(1,082,359)	—	(1,082,359)
Other receipts	10,277,361	584,096	—	10,861,457
Net cash provided (used) by operating activities	46,559,445	109,225	(92,056)	46,576,614
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Gifts and grants received for other than capital purposes:				
Private gifts for other purposes	232,645	—	—	232,645
Grants to the University of Kentucky	(18,723,836)	—	—	(18,723,836)
Other receipts	1,171,297	71,341	—	1,242,638
Net cash provided (used) by noncapital financing activities	(17,319,894)	71,341	—	(17,248,553)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Grants to the University of Kentucky for capital purposes	(22,498,190)	—	—	(22,498,190)
Capital grants and gifts	9,542,189	—	—	9,542,189
Purchases of capital assets	(655,318)	(66,044)	—	(66,044)
Principal paid on leases payable	(42,311)	—	—	(655,318)
Interest paid on leases payable	171,856	—	—	(42,311)
Other receipts	(13,481,774)	(66,044)	—	171,856
Net cash used by capital and related financing activities	(13,481,774)	(66,044)	—	(13,547,818)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments	7,917,544	1,052,063	—	8,969,607
Interest and dividends on investments	470,546	40,075	92,056	602,677
Purchase of investments	(7,917,544)	(1,310,508)	—	(9,228,052)
Net cash provided (used) by investing activities	470,546	(218,370)	92,056	344,232
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	16,228,323	(103,848)	—	16,124,475
CASH AND CASH EQUIVALENTS, beginning of year	111,479,315	1,044,566	—	112,523,881
CASH AND CASH EQUIVALENTS, end of year	\$ 127,707,638	\$ 940,718	\$ —	\$ 128,648,356

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