



Office of the Treasurer
301 Peterson Service Building
Lexington, KY 40506-0005
(859) 257-4758
Fax: (859) 257-4805
www.uky.edu

University of Kentucky Research Foundation
Board of Directors Meeting
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Report of the Treasurer

*INDEPENDENT AUDIT OF FINANCIAL STATEMENTS AND FEDERAL FUNDS FOR THE
YEAR ENDED JUNE 30, 2015*

The independent audit for the fiscal year ended June 30, 2015 was performed by BKD, Certified Public Accountants, who rendered an unmodified or “clean” opinion on the University of Kentucky Research Foundation (UKRF) Financial Statements. The financial statements are prepared in accordance with financial accounting and reporting standards established for public universities by the Governmental Accounting Standards Board (GASB) and include the financial activities of UKRF, Kentucky Technology, Inc., (KTI), Secat Inc., and Coldstream Laboratories, Inc. (CLI). The financial statements consist of a Statement of Net Position (Balance Sheet), a Statement of Revenues, Expenses, and Changes in Net Position (Income Statement), and a Statement of Cash Flows. The financial statements are preceded by a Management’s Discussion and Analysis that provides a summary overview of the financial condition and activities of the Foundation for the fiscal year 2014-15.

The Audited Financial Statements were previously distributed to the Board of Directors in February 2016. An additional copy is included in your Board packet.

In addition to the audit of the general purpose financial statements, BKD performed an audit of all federal funds received by the University for fiscal year ended June 30, 2015 under the provisions of OMB Circular A-133. The audit includes all research, instructional, public service and student financial aid grants and contracts sponsored by the federal government. A schedule of expenditures of all federal awards was tested for compliance with laws, regulations and provisions of individual grants and contracts. BKD issued an unmodified or “clean” opinion on the A-133 audit with no material or significant exceptions noted.

FINANCIAL HIGHLIGHTS

Fiscal Year Ended June 30, 2015

- Net income from operations was \$23.4 million. Operating revenues and expenses consist primarily of activity related to grants and contracts.
- Operating revenues were \$275.5 million, an increase of \$9.3 million or 4% more than the previous year. The increase in operating revenues was due to increases in federal grants and contracts of \$7.7 million, nongovernmental grants and contracts of \$1.6 million, other operating revenues of \$1.2 million and recoveries of facilities and administrative costs of \$1.0 million, offset by a decrease of \$2.2 million in state and local grants and contracts.
- Operating expenses were \$252.1 million, an increase of \$5.5 million or 2% more than the previous year. Public service expenses increased \$4.5 million and research expenses increased \$3.3 million, offset by a decrease of \$1.1 million in academic support expenses.
- Nonoperating revenues were \$26.9 million, consisting primarily of a gain on the sale of CLI of \$18.1 million and capital grants and gifts of \$6.4 million.
- Nonoperating expenses were \$39.3 million consisting of grants to the University of Kentucky (the University) for support of academic programs, administrative costs and capital projects totaling \$37.6 million.
- The above activities resulted in an overall increase in net position for the year of \$11.0 million, with unrestricted net position increasing \$14.7 million.
- The Statement of Net Position as of June 30, 2015 reported total assets of \$99.2 million, total liabilities of \$40.8 million and a total net position of \$58.4 million. The net position consisted of net investment in capital assets of \$9.5 million, restricted net position of \$5.2 million, and unrestricted net position of \$43.7 million.

Fiscal Year Ending June 30, 2016

- Budgeted current funds revenues for the current year total \$303.2 million which includes expected indirect cost recovery of \$44.0 million. For the nine months ended March 31, 2016, UKRF has realized \$210.1 million or 69% of the total revenue estimate.
- Current funds expenditures, including grants to the University, total \$203.1 million or 67% of the approved budget as of March 31, 2016.

- Unrestricted fund balances at June 30, 2016 are projected to be approximately \$48.1 million, an increase of \$4.4 million, for the 2015-16 fiscal year. This increase is due to an anticipated over-recovery of Facilities and Administrative Cost (F&A).
- Contract and grant awards received from July 1, 2015 to March 31, 2016 total \$256.3 million compared to \$223.6 million for the same period last fiscal year or an increase of \$32.7 million, a 15% increase. Federal awards were \$119.9 million for the current year compared to \$106.0 million for the same period last year, a 13% increase.

BKD will conduct the independent audit of the general-purpose financial statements of the Foundation for fiscal year 2015-16 at a cost of \$7,700. The audited financial statements will be distributed to the Board of Directors in late 2016/early 2017. BKD will perform an audit of all federal funds received by the University for fiscal year ended June 30, 2016 under the provisions of the Uniform Guidance at a cost of \$19,000. The quoted fee is for the testing of the research and development cluster and one other program. Additional fees will result if additional programs meet criteria as a major program cluster. Related printing costs for these statements will be approximately \$450.

Negotiated Facilities and Administrative Cost Rates

The Facilities and Administrative Cost (F&A) Rates applicable to federal contracts and grants are negotiated with the Department of Health and Human Services (DHHS). The rate applicable to organized research is 50.5% for fiscal year 2015-16. Huron Consultants were hired to assist with an updated F&A rate calculation based upon June 30, 2015 data and the filing was completed in early 2016 with a proposed rate of 54.67%. The rate is expected to be negotiated during calendar year 2016.

GENERAL INFORMATION

UKRF is a separate legal entity established by the University to receive, invest and expend funds in promoting scientific, educational, and developmental activities on behalf of the University. UKRF is classified as a 501(c)(3) entity by the Internal Revenue Service.

UKRF operates as an integral part of the University and is designated to receive, manage, and account for externally sponsored grants and contracts for research, education, public service, and other activities.

UKRF is fully accountable to the University for all resources received and used in its operations, particularly indirect cost recoveries representing reimbursement of the facilities and administrative costs of conducting sponsored programs. UKRF transfers a major portion of indirect cost recoveries to the University in the form of “grants to UK” for capital projects, support of academic programs, and support of indirect costs.